TAKING STOCK

WHY IT'S TIME FOR A NEW
GLOBAL EXCHANGE MODEL

WEOWN

Contents

For centuries, the stock exchange model has remained virtually unchanged.
But companies and investors are now realising the limitations of this complex, expensive format, bound by national borders and reliant on intermediaries. And they want something better.

This paper is a vision for the future stock exchange; how we can build a model that simplifies fundraising, to offer greater flexibility and value for money for all those involved. WeOwn is excited to present our plans for a truly global, decentralised stock exchange.

Sascha Ragtschaa,
CEO & Co-Founder, WeOwn

It's the year 1602.

William Shakespeare recently debuted his new comedy, Twelfth Night. Italian philosopher, Giordano Bruno, has been burned at the stake for suggesting the Earth is round.

Many countries are still using the Julian calendar. And the Dutch East India Company has just formed, establishing the new Amsterdam Stock Exchange to manage its printed stocks and bonds.

A lot has changed in the world since then – except, surprisingly, the stock exchange.

Exchanges still remain national projects, bound by borders and regions and relying on layers of intermediaries.At the same time, technology has evolved in leaps and bounds, breaking down geographical barriers and building an increasingly globalised world.

So why has the stock exchange been allowed to fall behind?

What's wrong with the current stock exchange model?

In a world that never stands still, a virtually unchanging stock exchange model is now at odds with the way businesses want to raise capital, and the needs of a changing investor base and there are some particular areas in which the market falls short of expectations:

It doesn't help SMEs

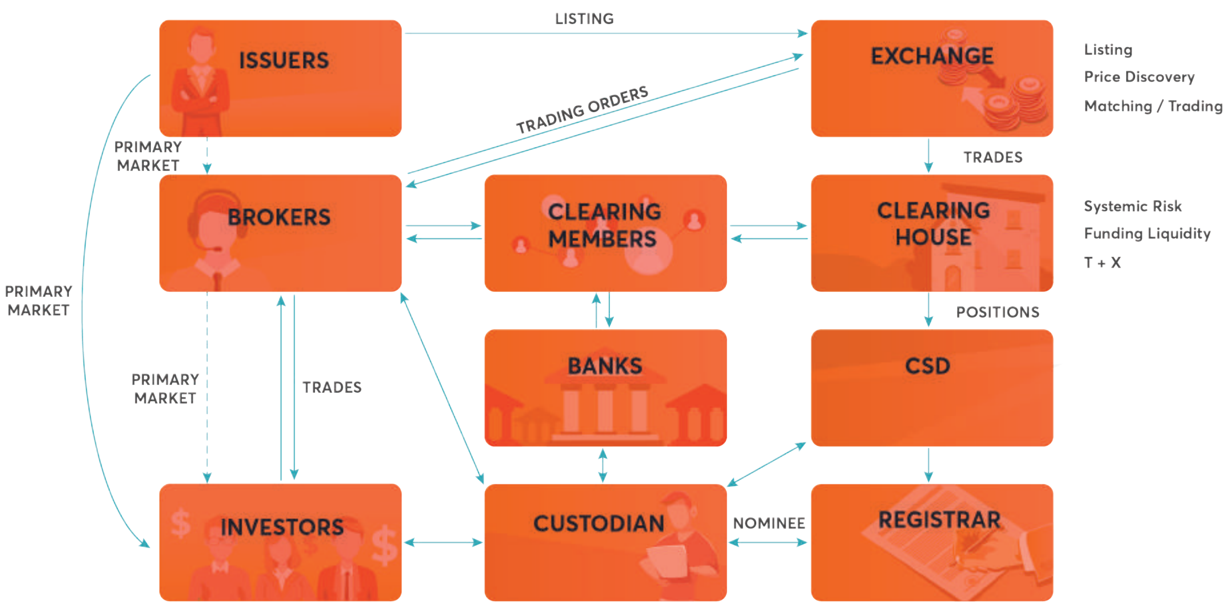
The current investment model ties SMEs to a network of intermediaries, making the process incredibly complex and inefficient.

SMEs account for 99% of all businesses, according to the Organisation for Economic Co-operation and Development (OECD). They are driving job creation, with start-up enterprises doubling in countries such as vhe UK and France since the early 2000s but despite being the backbone of the global economy, SMEs face a huge challenge:

They struggle to access capital.

This is because they are too small for traditional stock exchanges to deal with. The current model ties SMEs to a network of intermediaries – brokers, advisors, lawyers, custodians and nominees – making the process incredibly complex and inefficient, with a significant level of risk.

Today's capital market structure looks something like this:



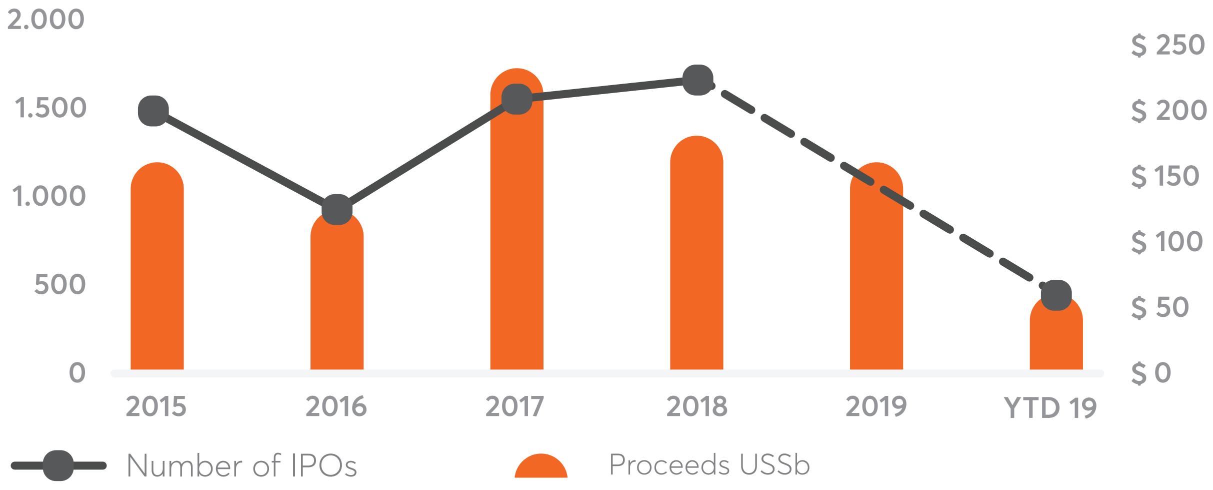
In addition to being complicated, each party draws income from the process, which pushes up the cost of raising capital. As there are so many growing businesses searching for funding, only the largest deals can provide sufficient income for the intermediaries involved, and therefore many SMEs are told that they are too small to list on an exchange.

Is it any wonder that SMEs are turning to simpler, more direct private fundraising models like crowdfunding to secure the backing their business needs?

Listings are falling– and so are results

Even among bigger brands, stock market sentiment is far from rosy. To date, only 25 companies have floated on the London Stock Exchange in 2019, fewer than the same period the past two years, and other stock exchanges tell the same story:

IPO activity



Source: IPO sentiment: EY Global IPO Trends, Q2 2019

While there are external factors affecting market trust – Brexit, currency and international trade policy changes have all played an important role – the fact that IPOs are no longer a sure-fire route to international success is another major influence.

Several big names have experienced global embarrassment since going public this year, as their stock market listing has failed to take off as they expected. Uber's shares fell on the first day of trading as potential investors worried about its money-making potential, while main rival Lyft has suffered a similar fate, with shares losing a third of their value since it launched its IPO in March. Aston Martin also suffered from going public, with the burden of £136 million in IPO costs causing share prices to plummet, wiping 42% off its worth since October 2018.

In response, some brands – like WeWork – have even backtracked on their IPO plans before going public.

Even companies that have tried to remove some of the middleman and launch a direct listing have struggled. Take workplace messaging service Slack, for example. Despite an initial jump on the first day of trading, over summer the company saw shares fall below the guide price, with recent data showing that stock has lost 37.5% of its value since its public debut.

> *If people aren't willing to back businesses, the stock market as we know it is destined for decline*

The high costs of issuance, increasing regulatory burden and other practical obligations mean that both IPOs and direct listings are a wasteful process. And the disappointing results achieved by household names like Aston Martin does not inspire other high-profile brands to follow suit.

The biggest concern with the stock exchange model is not its challenges for companies, but the lack of appeal among potential investors. Costs and complexities can be overcome eventually, but if people aren't willing to back businesses this way, the stock market as we know it is destined for decline.

So why are investors turning their back on the stock market? There are two key drivers:

1. The rewards aren't high enough

Ultimately, investment is a balance of risk and reward, and many investors feel that the pay-off simply isn't high enough to explore traditional stock exchanges. A study by Investment News found that more than a quarter (26%) of investors see the US stock market as very or extremely risky.

> *"Retail investors typically have to wait until the stock begins trading before they can buy. They often miss out on an immediate bump in the share price."*
>
> Daniel Coatsworth, Editor, Shares Magazine

An increasing number of investors are entering the highly volatile crypto markets and crypto exchanges, as although the risks are much higher than traditional stock markets, so are the rewards if their investment pays off.

2. The investor experience leaves participants wanting

We live in a digitally connected world, but this isn't reflected in the traditional stock exchange model. Many investors feel disconnected from the companies being listed, as they are caught in a complex web of custodians and intermediaries, which erodes their engagement – and therefore trust – in the investment chain.

More importantly, however, is the poor user experience many investors encounter even when they do have a direct connection with the listed issuer. And given the increasing number of millennials and Generation Z entering the investment market, this will no longer go unnoticed. These potential investors are digital natives, accustomed to immediate connections to information and results they require at the swipe of a finger they expect the same intuitive experience with their investments.

Most Millennials and Gen Z have made a quantum change in their investment practices from those of their parents… they tend to prefer engaging with online and mobile channels, a low minimum initial investment amount, and 24/7 access to investment advice on smart devices.

Deloitte

There are some user-friendly investor platforms in the form of broker apps such as Robinhood and Nutmeg, which are attracting a Millennial audience through their accessible advice and intuitive processes. However, behind these interfaces lie the traditional stock exchanges with the same drawbacks – and investors are still having to deal with middlemen.

There's a definite perception than existing stock exchanges are for the few rather than the many, and that the risk and inefficiencies are not offset by potential rewards for the everyday investor.

These applications are also trying to address another factor that deters Millennials from the stock market: value for money.

According to the Center for Household Financial Stability, the wealthiest 10% of households own 83% of all stocks in the US market. There's a definite perception that existing stock exchanges are for the few rather than the many, and that the risk and inefficiencies are not offset by potential rewards for the everyday investor.

Given these issues, is it any wonder that Millennial investment preferences lean towards the private market, rather than the public stock market?

An opportunity for innovation

It's easy to point out the limitations in something that already exists. The big question is how do we create a future stock exchange that meets the needs of both companies and consumers?

WeOwn is reenvisaging financial services – and the stock exchange model is a critical part of this innovation.

WeOwn's vision is to connect high growth SMEs with everyday investors

Too many growing companies fall into the gap between crowdfunding and IPOs. They cannot raise the capital they need to scale up – or find investors who will back their business as customers as well as shareholders, and this prevents them from reaching their full potential.

WeOwn's vision is to connect high growth SMEs with everyday investors in a way that offers easier access, greater control and better returns than current investment methods.
In essence, we are giving them ownership of their individual goals and objectives – and it's important to understand the wider context of this vision to appreciate the full potential of our new stock exchange model.

Together, we own the market

To change the future of financial services, WeOwn has built a digital investment platform that benefits all parties involved.

We offer straightforward access to business funding and corporate finance, cutting out middlemen to make the process more efficient, cheaper and easier to manage autonomously.

Our platform is built on the blockchain, offering high levels of security as transactions are transparent and tamper-proof.

For retail investors, we create opportunities to invest in SMEs on an upward trajectory as they start to scale. This higher risk, higher reward model yields greater potential than waiting for companies to reach the stage

For institutional investors, our direct approach provides access to attractive, innovative products for the lowest market fees and basis points (BPS), in addition to offering liquidity across financial products that other platforms lock them into for a long time.
The last piece in the puzzle is to create a more democratic approach to secondary trading. In the short-term, we are launching a peer-to-peer secondary market function on our digital investment platform, but our ultimate goal is something on a much grander scale.

WeExchange:
the future stock exchange

To create a completely user-centric investment ecosystem, rather than the current intermediary-focussed model, the world needs a stock exchange that reduces risk, friction and costs.

The new model must bring companies and investors closer together
– even if they are miles apart geographically
– to give more people access to global capital markets.

WeOwn is building this model:
a global, decentralised stock exchange.

WeInvest | WeManage | WeEngage | **WeExchange**

WeOwn digital investment platform

WeExchange will ensure any securities we digitise will be immediately liquid and tradeable, completing the investment lifecycle. There are other tech companies developing secondary market models, but we're developing something different; a multi-tier technology infrastructure with intelligent regulation and security.

WeExchange will be a vibrant and liquid marketplace that will empower thousands, perhaps even millions, of companies and investors. It will be truly unique, as we are building it on four distinct value pillars…

1. WeExchange will be borderless

To benefit all businesses and investors, the future stock exchange needs to be truly global.

While WeOwn is incorporated in Liechtenstein, the remit for our exchange is global. And to ensure WeExchange is accessible worldwide, it will operate decentralised core services wherever possible.

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We are already discussing with the Liechtenstein regulator how to update the European legal framework to accommodate a tighter, more focussed regulatory approach that supports decentralisation, and how laws will need to evolve over time to embrace the growing securities market.

The recent successful second reading of the Blockchain Act in Liechtenstein parliament is the latest milestone towards this new regulatory environment.

2. WeExchange will be cost-effective

Lowering the cost of participating will create opportunities for both companies looking to secure investment, and investors wanting to get equity and bonds in fast-growing brands.

WeExchange removes the layers of intermediaries involved in traditional exchange transactions, enabling direct connectivity between companies and investors. With a leaner operating model, we can reduce listing and trading fees, offering a cost-effective alternative to existing financial markets.

WeExchange enables direct connectivity between companies and investors

This frictionless approach helps SMEs access affordable capital raising opportunities, enabling the business to spend more money on growth activities (rather than paying huge fees to third parties), which will ultimately promote better returns for investors.

As an added benefit, our approach will remove the counter-party risks that arise when investors have to trade with people they don't know, as the WeOwn investment model is built on an accurate, tamper-proof register of all investors and their holdings.

3. WeExchange will enable real-time settlement

To help both companies and investors make money, liquidity is critical.

WeExchange will settle trades in seconds. Because our exchange is built on the blockchain, every interaction can be validated in near real-time.

Unlike traditional trading systems and centralised crypto exchanges, which measure settlement time in days, WeExchange will settle trades in seconds. We're able to do this because our exchange is built on the blockchain, so every interaction can be validated on the network in near real-time.

In order to settle transactions instantaneously, any security listed on WeExchange will be issued with a stablecoin; a real currency pegged crypto coin. This will facilitate assets, cash and securities to be settled instantly, regardless of whether the payment has been made using cryptocurrency, cash or FIAT, so sellers get their money quicker, and buyers take immediate ownership of their securities.

4. WeExchange will offer a fairer, balanced market

WeExchange will be supported by effective rules and procedures, supervised by the regulator.

To create a mutually beneficial marketplace, we need to build a stock exchange that protects the interests of companies and investors.

WeExchange will be supported by effective rules and procedures, supervised by the regulator, to define and protect users.

In addition to providing a supportive legal framework, the WeExchange user journey will be designed with companies and investors at its heart, rather than the complex, unwieldy experience that comes from relying on a complex network of intermediaries.

It's 2019.

Two thirds of the global population have access to the internet, instantly connecting them to other cultures, values and opportunities. Shoes, car parts – even entire houses – can be 3D printed. Babies born today can expect to live almost 90 years, thanks to advances in healthcare, sanitation and infrastructure.

And it is long overdue for one of the last bastions of the old world, the stock exchange, to transform.

WeOwn is building a future model where high growth companies find it easier to access the funding they need, and investors get equity in exciting brands while they are scaling up.

WeExchange is the final, critical element in this user-centric investment ecosystem.

WeExchange will improve the capital markets by the use of modern decentralised technologa bringing companies and investors closer together, providing new potential to the underserviced, illiquid SME market, and it will be available to the global investor population 24/7.

Right now, we are not ready to challenge the established exchanges with large and highly liquid stocks. But we are ready to take a significant first step towards building a frictionless marketplace that offers valuable new opportunities to both SMEs and everyday investors.

WeOwn:
investment for the digital generation

WeOwn opens up new digital investment opportunities to SMEs and investors, to help them meet their financial goals quicker.

Our business funding platform uses cutting-edge blockchain technology to simplify and speed-up investment, so that companies and their investors can focus on growth – not dealing with endless administration and red tape. And it's a lot more cost-effective as well.

Through self-service tools, our community can manage the complete business funding lifecycle; from lending and fundraising through to compliance, engagement and exchange.

Our vibrant, liquid global marketplace connects strong, direct connections between companies and investors, for a frictionless, user-centric experience.

Join the WeOwn community:
it's free for businesses and investors to register for our digital fundraising platform.

Visit **weown.com** *to find out more.*