

web3 founder guide

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# M&A in Web3



# Web3 M&A Guide's Key Insights

## Hurdles for M&A in Web3

While the web3 sector has witnessed a few headline acquisitions, its M&A activity significantly tracks behind traditional industries such as financial services and tech in terms of volume and deal count. This can largely be attributed to the significant difference in relative sizes when considering both industries. Challenges, such as the novelty of web3 and its shorter existence, also contribute to this lag.

## Web3's Unique M&A Drivers

Despite these hurdles, the current headwinds in the web3 space have the potential to transform into catalysts for future growth. The demand for specialized web3 talent, emerging importance of compliance, regulations & proper legal licensing, as well as increasing interest from new entrants (ie. TradFi and corporates) are all contributing factors to web3 M&A today.

## Tokens x M&A?

Web3 introduces novel variables to the M&A landscape, with tokens playing a central role for many companies - both in terms of utility/operations and as an investment vehicle. M&A deals in this space require careful consideration and innovative transaction structures, such as token deals and token mergers. Orchestrating and aligning novel forms of underlying governance adds to the complexity.



# About Areta

At Areta, we are supporting founders navigating the complexity of key strategic and financial events by bringing in our experience from traditional markets and passion for this new generation of technologies.

Through our work at the intersection of web3 and corporate finance, we have developed a unique perspective on the challenges and opportunities that companies encounter when facing strategic financial decisions in web3, along:

- **M&A / Capital Raises** - For founders to steer through the process of finding ideal strategic partners and investors unlocking its full potential and driving growth
- **Secondaries** - For everyone with vested interest in the venture ecosystem looking to liquidate existing positions or acquire equity or token assets
- **DAO Strategic Projects** - For DAOs to navigate complex situations and manage pivotal strategic matters

Feel free to reach out if you want to learn more.

## Report Contributors from the Areta Team



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# About this Guide

As the global market continues to crab along, we've seen a significant decline in web3 private financing, and financial market activity more broadly. While many startups in the industry weigh off potential different paths forward, in many cases M&A deals emerge as the pragmatic solution to weather the challenging financial climate.

As financial services experts working on M&A in web3, we felt compelled to share our knowledge on mergers and acquisitions activity in web3. Hence, this guide.

## Who is this guide for?

Founders.

While the information contained in this piece is relevant to anyone interested in web3 markets, we intentionally set out to create a guide that would help founders better understand the web3 M&A market.

The intended outcome is to help equip founders by describing the role of M&A in a market, as well as navigating the aspects that make the web3 industry unique for mergers & acquisition activity. Ideally by the end, founders should have an idea of when to consider M&A opportunities for their company and feel comfortable knowing which next steps to take.

# A few of our recent M&A transactions at Areta...

Nov 2023



CoinGecko

X

ZASH

Zash, a leading NFT data API company, was acquired by CoinGecko, the largest aggregator of cryptocurrency data to solidify its position within the NFT vertical.

Areta acted as the sole financial advisor for the transaction.

Oct 2023



X



Clear Junction, a leading payments solutions provider, has acquired Altalix, the UK FCA licensed cryptoasset firm which will shift focus to serve regulated institutions.

Areta acted as the sell-side advisor on the transaction.

Sep 2023



wombat

X



ATOMICHUB

AtomicHub, the leading NFT marketplace on WAX & EOS, has been acquired by Spielworks GmbH, integrating into their Wombat web3 gaming platform.

Areta acted as the exclusive sell-side advisor on the transaction.

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# Foreword

When we started Areta our stated goal was to help founders unlock liquidity. Much like the companies they run, founders themselves have a wide range of goals and aspirations. As financial advisors in the web3 space, we recognize the unique opportunity to assist founders in achieving both the strategic objectives set for their companies and the personal milestones they aim to reach.

Recently, we've had the privilege of working hands-on with a diverse group of founders, guiding them through the intricacies of M&A in web3 and helping usher their ventures into the next chapter of growth. For us at Areta, this is the most meaningful outcome of our work. To become long-term partners in their journey, leveraging our expertise, to help them achieve their goals wherever their companies may sit in the growth cycle.



**Karl-Martin Ahrend**  
Founding Partner



# Foreword

In the present web3 market environment, the proper structuring of transaction processes has become more vital than ever, serving as an imperative for maximizing transaction certainty and achieving favorable outcomes. Further, as many web3 businesses navigate challenging times, it becomes necessary to extend outreach and explore unconventional avenues in identifying potential buyers with strategic alignment and synergies. This involves thinking creatively to enhance the value of existing product portfolios or user bases. Notably, a significant cohort of VC-backed startups that once thrived on large funding rounds during the market peak now find themselves grappling with diminishing runways. Whether these startups have attained product-market fit or are still in the process, many face challenges in monetizing their products.

As a result, many startups are exploring opportunities to align themselves with established market players, aiming to leverage their existing go-to-market strategies, infrastructure, and sales engines. While some startups are facing the necessity to cease operations, there are opportunistic strategic acquirers with sufficient capital reserves taking advantage of this consolidation wave. On a positive note, this natural evolution is expected to solidify underlying technologies with real use cases, eliminating many non-sensical or even fraudulent players from the market, remnants of the last hype cycle. Similar patterns and cycles have been observed in other industries, notably the web2 dotcom bubble of the "old" internet era, followed by prosperous growth cycles and evolution to the next maturity and adoption levels.



**Clemens Koczur**

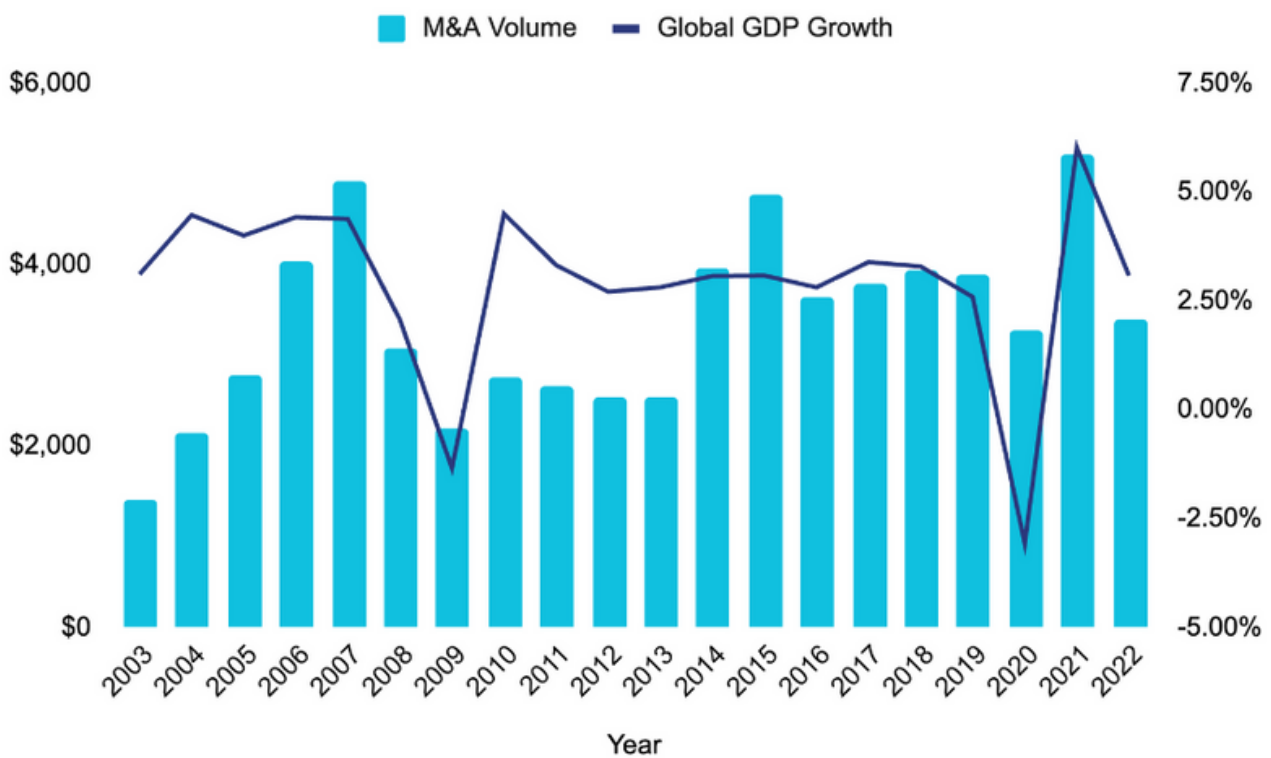
M&A Lead



# I. M&A in Traditional Markets

In the dynamic landscape of modern business, **mergers and acquisitions (M&A)** serve as **powerful instruments of transformation, reshaping industries, and influencing economies on a global scale.** These strategic maneuvers, where companies join forces or absorb one another, have over time emerged as a vital force for not only corporate growth but also the broader economic ecosystem. Beyond their immediate impact on the involved entities, **M&A activities possess the unique ability to steer markets toward greater efficiency and equilibrium.**

**Global M&A Volume vs. Annual Change in Global GDP Growth**



In traditional markets, as a byproduct of hundreds of years of fine-tuning, the synergistic benefits of M&A are apparent both at an individual company level and from a broader market-wide lens.

Accordingly, the **total global M&A market size for the first half of 2023 was roughly \$1.32 trillion\***, representing even still a 40% decline year-on-year from the first half of 2022. This above chart also illustrates the cyclicity of M&A activity and its independent movements from broader economic productivity. This distinction is important because it lends that **even during moments of widespread economic turmoil, M&A markets can remain a haven of opportunity for stakeholders.**

While it's tempting to construe this activity as solely impacting the transacting companies, **all of these M&A deals are crucial to optimizing the overall efficiency of our markets.** We'll highlight a few of the key reasons why this is the case here:

- 1. Resource Optimization:** M&A activities often lead to the consolidation of resources (whether misused or unutilized), eliminating redundancies and reducing wasteful expenditures. These efficiency gains can result in cost savings for the merged companies and contribute to overall market efficiency.
- 2. Enhanced Capital Allocation:** When companies merge, they can reallocate resources and investments to areas with higher growth potential, which can drive economic growth and market efficiency. Additionally, M&A deals increase the amount of market information available and signal important information to investors, resulting in more efficient capital allocation.

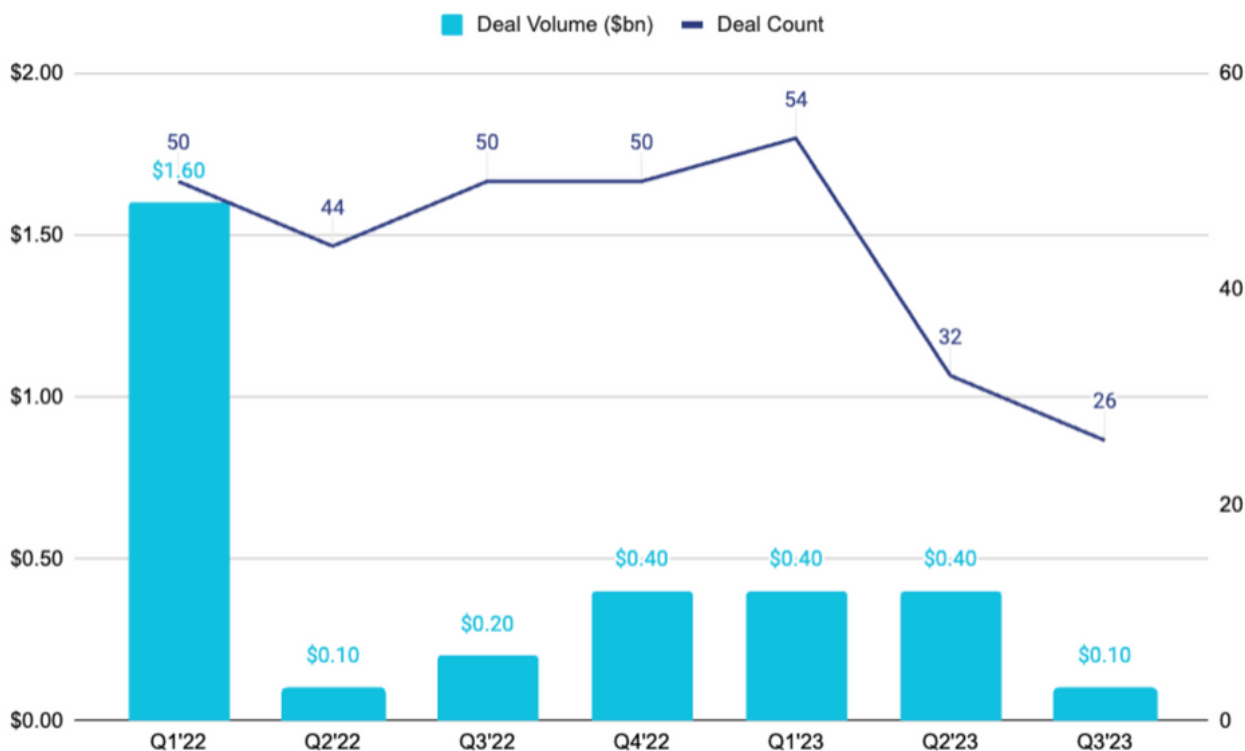
Huobi was acquired by  
About Capital for a  
reported \$1bn

- 3. Increased Competition:** When companies merge, they may have more resources to compete effectively with incumbents in industry, which can lead to innovation, lower prices, and better products or services, benefiting consumers and enhancing market efficiency.
- 4. Market Liquidity:** M&A transactions often involve the exchange of securities, which can increase market liquidity. When a company is acquired, shareholders may receive cash or stock in the acquiring company, leading to an uptick in trading activity and liquidity in the market.
- 5. Market Monitoring and Discipline:** Active M&A markets encourage companies to continuously assess their strategies and financial performance. The threat of acquisition can act as a form of market discipline, prompting companies to improve their operations and make decisions that are in the best interest of shareholders and stakeholders.



# II. Understanding M&A in Web3

## Historical Web3 M&A Activity



## Market Sizing and Rationale

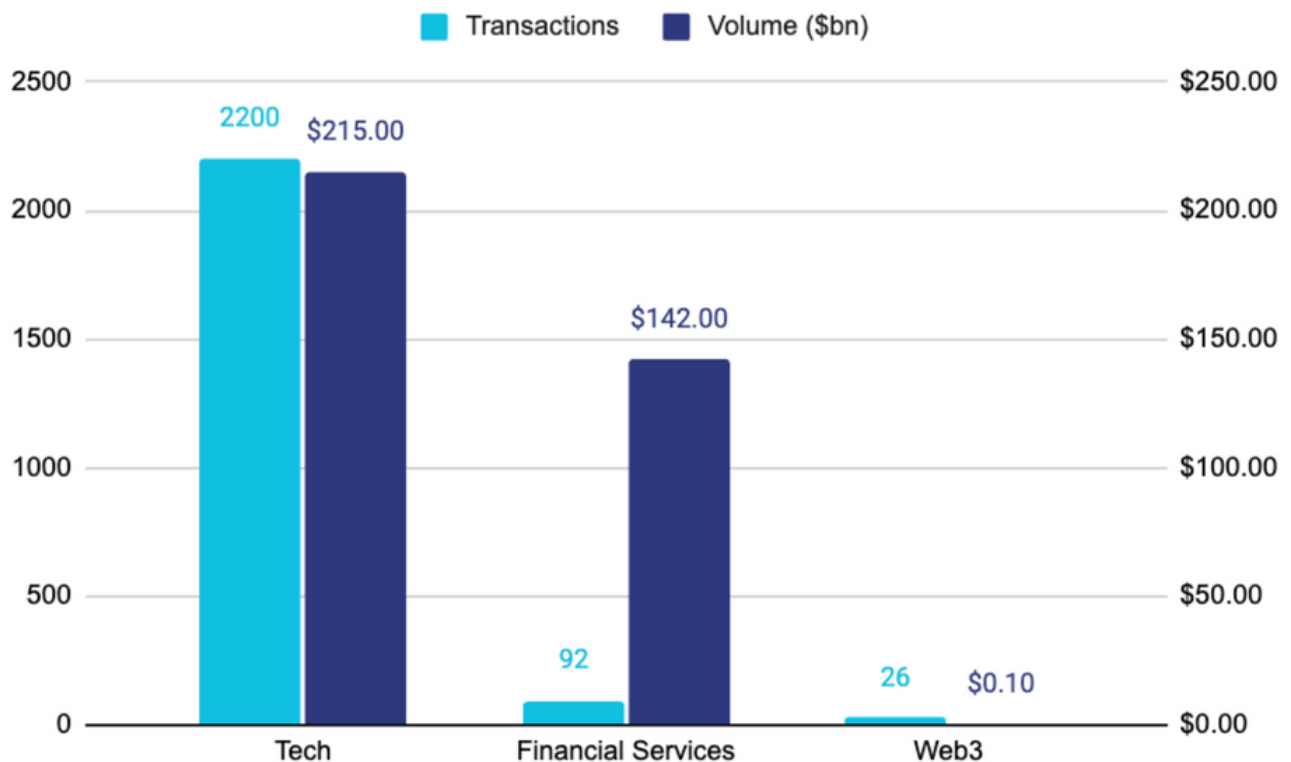
Understanding the importance of M&A in traditional financial markets, all web3 stakeholders have a vested interest in creating an environment that is conducive to such market activity. However, exploring the numbers we can see **total global web3 M&A activity amounted to ~\$1bn** in the first three quarters of 2023, representing **112 deals total**. Granted, this slowed pace has been reflected across almost every industry, web3 M&A lag is a result of more than just broader market conditions.

As mentioned above, the efficiency borne from mergers and acquisitions in traditional markets is the culmination of countless years of market trial and error. The **web3 industry, still very much in its nascency, does not share that same luxury and companies must still work through the kinks and uncertainties transacting in this young market.**

Management teams can not lean on decades of precedence to estimate how or if synergies will materialize; an issue only complicated by the innovativeness of the underlying blockchain technology. Following the same logic, a major driver of M&A activity in traditional markets is consolidation - where a company will acquire or merge with another strategically important entity to consolidate market share, eliminate competition, and achieve economies of scale. While **the web3 industry is increasingly seeing incumbents solidify themselves through consolidative acquisitions, this activity pails in comparison to what is seen in traditional markets.**

Further, the **uncertainty surrounding impending regulation towards digital assets and their service providers/issuers in some of the major global jurisdictions fosters a ‘wait-and-see’ approach** in many would-be M&A acquirers and targets, especially amongst major institutions.

## Industry M&A Transaction & Volume Comparisons



These are a few of the headwinds affecting the level of M&A activity in web3 to date. Despite their present, with regulatory clarity and further maturation of the industry as a whole, it is likely these current obstacles will turn into catalysts moving forward.

## Web3 M&A Structures

Web3 has introduced an entirely **novel landscape, reinventing core market characteristics that all further complicate how M&A activity is conducted** in the space. This includes the ways in which value is created, stored, and extracted, as well as how organizations are governed, and how communities and companies interact.

### Token Deals

As an invaluable tool for incentive alignment and enabling decentralization, tokens are the lifeblood of many web3 projects. **Because of their centrality to companies operating in the space, anyone pursuing M&A deals have had to pioneer creative solutions addressing tokens.** In practice, there are a handful of different approaches to this situation:

1. **Consolidate:** Most commonly in token deals, the acquiring company sunsets the target companies token, integrating their own existing token to the remaining operations of the acquired company. All token holders are allocated the acquiring companies token at a predetermined ratio to the sunset token.
2. **Fresh Start:** All outstanding tokens are discontinued and the new combined company launches (or doesn't) a new token altogether. This method requires some way of rewarding existing token holders, such as offering buybacks or preferential treatment to the new company.

The nuances of how governance operates and how tokens are handled in the combined organization, are uniquely situational and fall outside of the scope of this article.

## Equity Deals

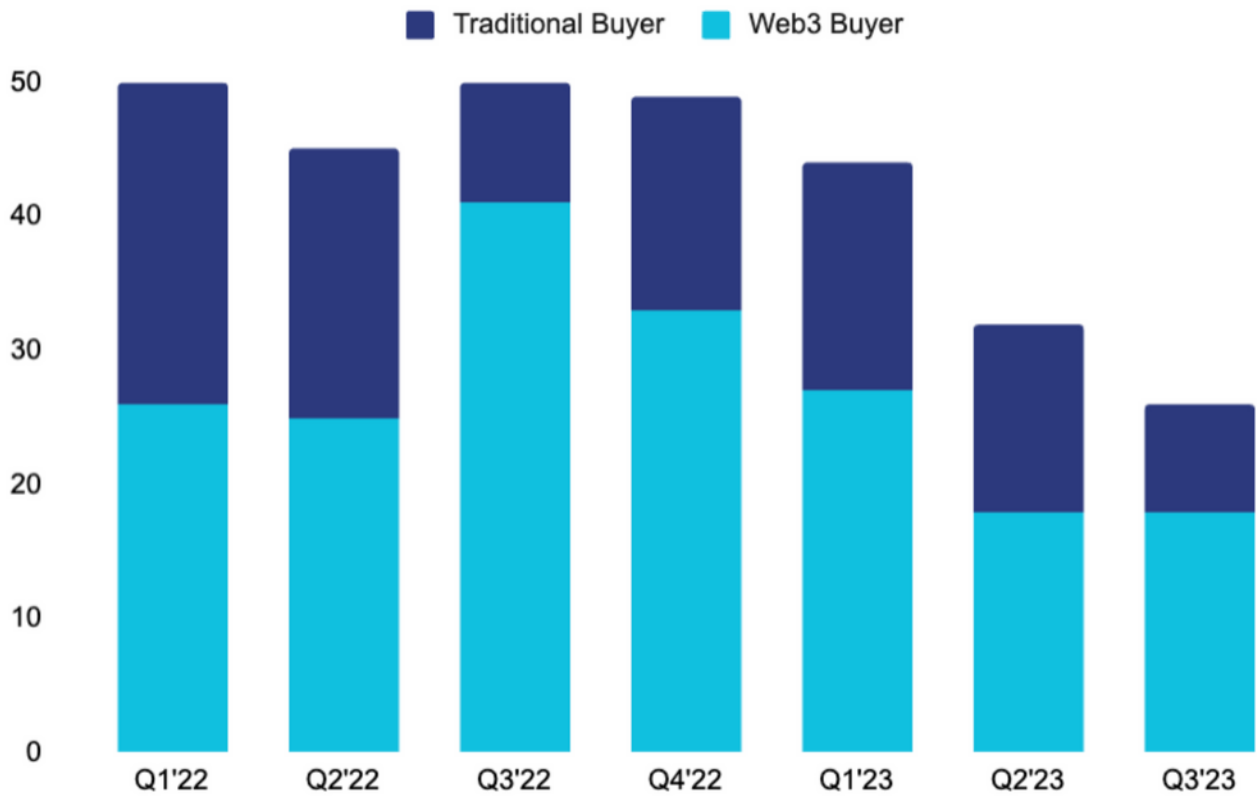
Although tokens play such a pivotal role in web3, the preponderance of companies in the industry still have equity entities. As such, the majority of mergers and acquisitions in web3 look a lot like mergers and acquisitions in traditional markets.

This convergence of traditional and web3 M&A processes underscores the transitional nature of the web3 industry, where the coexistence of various financial instruments reflects an ongoing evolution in business models and a pragmatic response to the evolving demands of the market.



# III. Drivers of M&A in Web3

## Web3 M&A Deal Count by Buyer Segment



The aforementioned **cyclicality of M&A activity, combined with its relative detachment from broader market conditions** lends that there must be **other drivers** of this type of market activity. We'll highlight a few of the main drivers of M&A activity in web3:

### Early Industry Maturation

Although it's still very new in relation to traditional industries, many of the older verticals within web3 are starting to realize early consolidation. The NFT market, marked by acquisitions like Gem by OpenSea, exemplifies the appetite amongst sector incumbents to scoop up smaller protocols with great growth potential and lots of users.

1) Traditional refers to a non-crypto company acquiring a crypto target.  
 2) Web3 refers to a crypto company acquiring a crypto target.

### **Protracted Bear Market Distressed**

As the bear market drags on, companies continue to bleed through diminishing runway with private placements in web3 significantly drying up. In light of impending financial obligations coming due, many teams are making the decision to pursue a distressed sale.

### **New Entrants: Buy or Build**

As more traditional companies begin to appreciate the strategic and financial opportunity in web3, they're faced with a decision on how to enter. Specifically, they often grapple with the strategic decision of whether to pursue M&A or build their capabilities from scratch. Opting for M&A can offer a shortcut to industry entry, leveraging the strengths of existing players, while internal development allows for a tailored approach but demands time and resources.

### **Regulation and Compliance**

As regulatory standards remain fragmented and differentiated across the world, there are significant considerations and barriers to entry for companies hoping to enter new markets. Many companies are making the decision to acquire existing companies with required accreditation and licensing in new markets as opposed to enduring the lengthy and rigorous application process themselves.

### **Acquihire**

In the rapidly evolving web3 landscape, companies are increasingly recognizing the immense value of specialized talent, particularly developers of blockchain applications and smart contracts who have become the linchpin of innovation. For more established companies, an effective method of onboarding such developer talent is 'acquihiring' a company replete with specialized employees.

This list is not exhaustive, and as the web3 world continues to mature and the broader market landscape shifts, more drivers of M&A will emerge.

# IV. Your Web3 Company and M&A

## When to Consider M&A (Sell-side)

As a founder, it can be challenging to determine the most opportune time to pursue M&A for your company. **There are no hard and fast rules to follow, as each situation is unique**, and it may not even be a consideration at all.

At Areta, we believe **corporate development efforts should be an ongoing and integral part of a company's strategy**. This approach not only keeps founders informed about the evolving competitive landscape in their vertical but also provides crucial insights into potential opportunities for collaboration or consolidation. Often companies will receive inbound or passing interest from strategic buyers regarding M&A. Even if it doesn't feel like the right time for your company, we would always recommend pursuing these opportunities deeper because exploring these inquiries can help founders assess the potential value and alignment of their project within a larger ecosystem; in turn, guiding strategic decisions that best serve your long-term goals.

There will also be more pressing circumstances that necessitate exploring exit opportunities. This could be for any number of reasons, from regulatory changes to personal matters. Often, and as is commonplace in web3 right now, the driving force is finite resources beginning to hinder growth or operations. Even if your company is equipped with sufficient runway, there may be strategic alignment benefits through M&A which give your company the necessary resources (ie. distribution, tech talent, users, etc.) to scale as would otherwise be impossible. It goes without saying that there are tradeoffs with such decisions, often around control of future direction through combined ownership.

London Stock Exchange  
Group acquired Tora for  
\$325m

TORA 

 LSEG

Given the complexity M&A opportunities, especially in these nascent stages of web3, it is prudent to consult experts for advice. Engaging an investment bank, for instance, can ensure you approach the sale of your business at the right time and with a properly constructed strategy.



## M&A Stakeholders

The stakeholders in the M&A web3 space are very similar to those in traditional markets:

**Target:** The target company is at the center of the M&A process, as it's the entity being acquired or merged. Its role involves negotiating terms, due diligence, and ultimately deciding whether the deal aligns with its strategic goals and provides value to its shareholders or community.

**Acquirer:** The acquirer, or buying company, initiates the M&A process and aims to gain control or ownership of the target. They assess the target's value, negotiate terms, and conduct due diligence to ensure a smooth transition.

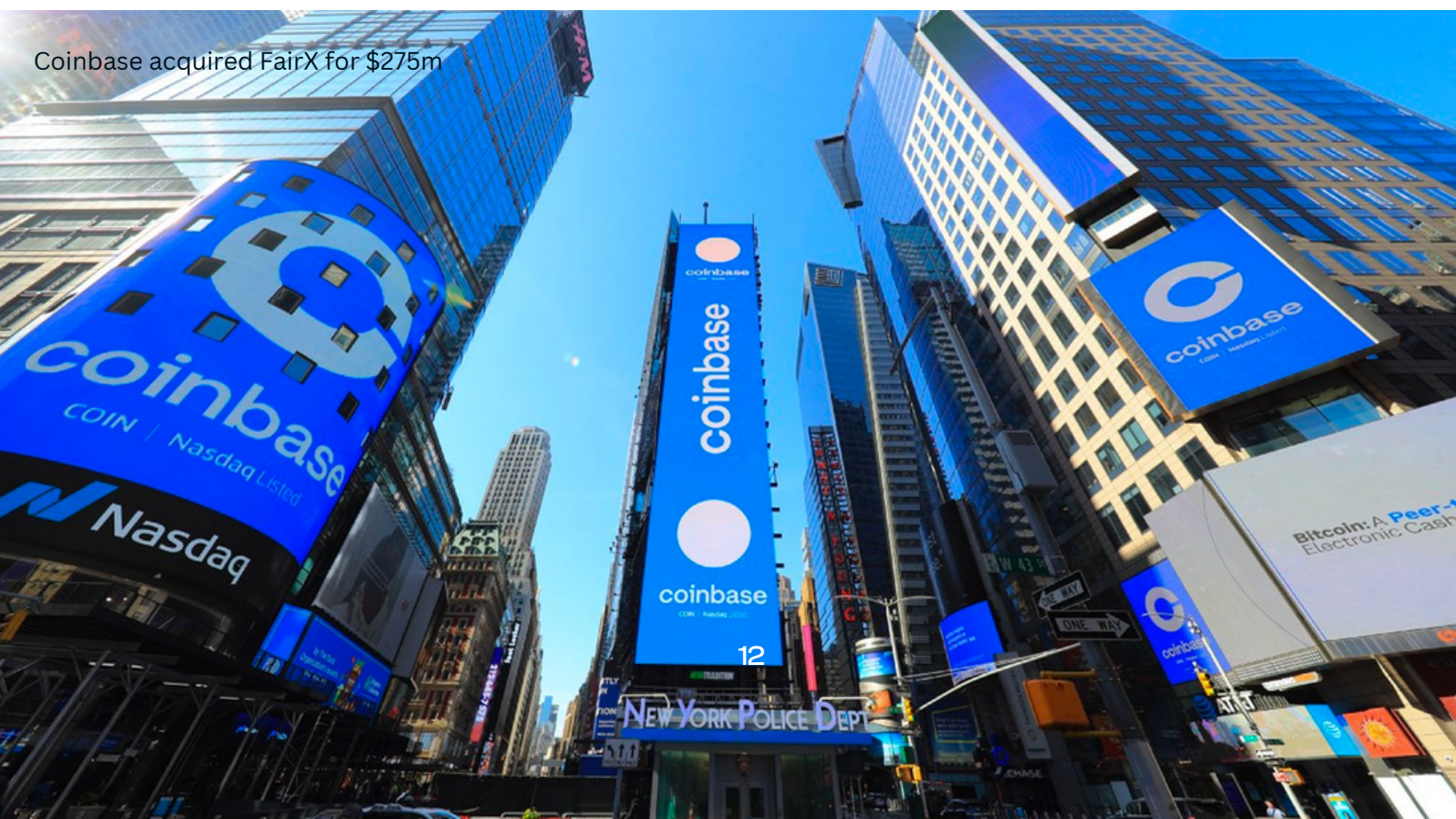
**Accountants:** Accountants play a crucial role in M&A by evaluating the financial health of both the target and acquirer. They assess financial statements, identify potential risks, and ensure compliance with accounting standards.

**Lawyers:** Lawyers are responsible for drafting and reviewing contracts, negotiating terms, and navigating legal regulations to protect the interests of their clients (both target and acquirer).

**Financiers:** Financiers, including banks and investors, provide the necessary capital for the M&A transaction. They may offer loans, equity financing, or other financial instruments to fund the deal, ensuring that sufficient funds are available to complete the acquisition.

**Investment Bank:** Investment banks provide financial advisory services to both targets and acquirers. They help structure the deal, evaluate valuations, and often facilitate the transaction process by connecting buyers and sellers. As we've discussed throughout this guide, the web3 M&A landscape is complicated for numerous reasons such that it is often worthwhile to engage a specialized web3-focused investment bank.

Coinbase acquired FairX for \$275m







## V. Conclusion

For those aware and decisive, **the web3 market at the moment presents a very real opportunity for M&A activity.** Whether you're an investor or buyer seeking to enhance your portfolio or company through cost-effective acquisition of strategic assets, or you're a founder aiming to secure liquidity or align with a larger company in your vertical, there are abundant opportunities abound.

Undoubtedly, as with any nascent market, there will be uncertainties when trying to execute these transactions. **For founders wanting to ensure the best possible outcome from an M&A transaction both for their company and for themselves, bringing on a strategic partner with experience can be a super useful tool.**

At **Areta**, our goal is to unlock liquidity for founders. Uniquely, we combine our traditional finance experience with our deep understanding of web3 market to guide builders and investors in all aspects of strategic finance, including M&A deals.

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