

### Building Tomorrow’s Marketplaces

#### Driving Equality, Enhancing Value, Democratizing Investing

The concept of a marketplace is an economic concept that is well understood and best exemplified by securities exchanges like Nasdaq or NYSE. A marketplace is a physical (and increasingly virtual) place where buyers and sellers come together to dynamically negotiate the price of an asset and trade it with transparency and equal access to information. What’s new and promising today is that the advent of modern technology, ambitious entrepreneurs, and greater investor appetite for new assets, are revitalizing traditional asset classes like real estate, while enabling new assets like cryptocurrencies or private securities, to be digitized and tokenized, so they can be easily, cost-effectively and securely traded.

Rosenblatt Securities believes that this transformation of traditional asset classes, and the creation of new ones beyond financial securities, will redefine the scope and scale of financial services. It will unlock significant value, both in terms of lowering funding costs and democratizing investor access, that will ultimately herald a new era in wealth management. The smartest investors are already funding innovative entrepreneurs and companies who are rapidly building the infrastructure to support this new phase of asset growth.

#### Introducing Rosenblatt’s 13<sup>th</sup> FinTech Summit Focused on Tomorrow’s Marketplaces

Our 13<sup>th</sup> FinTech Summit, to be held virtually on May 19-20, 2021, will focus entirely on this important topic of building tomorrow’s marketplaces. This continues our decade-long tradition of organizing a FinTech investor summit focused on a cutting-edge topic, bringing together a select group of executives from investment companies, leading FinTechs, and financial institutions, to explore crucial aspects of that issue.

This year’s Summit about building tomorrow’s marketplaces will be led by a fireside chat with Adena Friedman, CEO of Nasdaq who has championed this idea and who believes that new marketplaces can enhance equality, drive value, and will herald a new era for modern capitalism. Nasdaq’s long-term strategic vision is to foster and enable new markets to be created in all types of non-financial assets ranging from energy, healthcare, infrastructure, consumer goods, and services. The firm wants to utilize its technology and tremendous experience in running its securities exchange and extend it to entirely new markets, bringing transparency, fairness, and price discovery to large parts of the global economy. Besides established firms like Nasdaq, a new crop of FinTechs is utilizing innovative technology (data analytics, mobility, AI/ML, Blockchain) to create greater price transparency across all kinds of assets that have been illiquid and opaque until now, as well as new assets that are being digitized and traded.



*“I believe that markets and price discovery can help play a role in unlocking the potential and the influence of the individual. We can create markets of tomorrow for people, with people, and for the benefit of more people” – Adena Friedman, Nasdaq.*

Following Nasdaq’s keynote session, our Summit will have three-panel discussions that explore various aspects of the Summit’s theme. Each panel will host five CEOs from leading FinTechs who will share their firm’s unique vision and describe how they are enabling marketplaces of the future. The three panels will be:

- **Tomorrow’s Marketplaces: The Promise of Making More Assets Tradeable.** This panel will host five leading marketplace operators that are creating new marketplaces across real estate, cryptocurrencies, art, e-sports betting, and loyalty points
- **Creating Trust, Transparency, and Liquidity: The Need for Institutional-Grade Infrastructure.** Five leading FinTechs will describe how they are building the end-to-end infrastructure to support new marketplaces, including pre-trade analytics, execution, custody, and clearing/settlement
- **Keeping them Honest: The Role of RegTech in Keeping Markets Fair and Operational.** Any new marketplace in its infancy attracts bad actors, disruptive behavior, and forces that can throttle growth. This panel will discuss regulatory and compliance software to keep new markets fair and operational.

This Viewpoint briefly introduces the first topic and will be followed by similar thought pieces published in March and April, on the other two topics.

### **Tomorrow’s Marketplaces: Bringing New Assets (and Old) into the Fold**

New marketplaces are enabling a broad range of assets to start getting traded beyond traditional financial assets like equities, fixed income, FX, or commodities. But the execution is merely one of the activities required to enable an asset to be more readily investable and tradeable. An entirely new stack of infrastructure has to be developed for new asset classes to come fully online, including pre-trade tools, order/portfolio management, risk analytics, lending, collateral management, custody, and clearing/settlement. Over the next 3-5 years, there is an enormous opportunity for FinTechs to help build this infrastructure for online marketplaces. The smartest investors we know are very focused on this trend and are allocating large parts of their portfolios to fund the growth of these firms.

Here’s the range of assets that are coming online to be traded:

- **Traditional assets like real estate and infrastructure:** Until recently, retail investors could only gain exposure to real estate either by buying a home or investing in a real estate investment trust (REIT).

But a whole slew of PropTech and Real EstateTech innovators like [Figure](#), [Home Tap](#), and [Unison](#), are tokenizing and digitizing residential and commercial real estate, making it more widely tradeable and investable. Similar things are happening in infrastructure, where fractional shares and tokenization are expanding access to infrastructure investments to a broader class of institutional and retail investors.

- **Illiquid assets like art, music, and luxury goods:** Only high networth individuals or institutions have historically been able to invest in exotic art, music, or luxury goods like yachts and fine wine. But firms like [MasterWorks](#) and UK-based [Maecenas](#) (for art), and [Rally](#) (for fractional investing in collectibles like exotic cars), are digitizing such assets, allowing a large swathe of investors to invest and trade them.
- **Cryptocurrencies:** No other asset class is coming online as quickly as cryptocurrencies. While crypto execution platforms (like [Binance](#), [Coinbase](#), [Kraken](#)) have existed for many years now, greater institutional participation is driving new infrastructure to be built, including pre-trade tools, lending, collateral management, custody platforms, and clearing/settlement services. Both traditional institutions like Fidelity Investments and a wide range of FinTechs (e.g., [BlockFi](#), [BitGo](#), [eToro](#), [Paxos](#)) are building out such services.
- **Virtual assets:** An entirely new class of virtual assets are rapidly coming online, including digital and fantasy sports, virtual gaming assets, intellectual property, etc. [DraftKings](#) and [FanDuel](#) are rapidly growing marketplaces for trading sports-related assets and virtual sports betting. The NFL, NBA, and MLB are all seriously exploring digital sports and how to create digital assets from their sports franchises that can be easily traded and invested.
- **Next-generation assets:** The outer edge of the universe of new assets that can be traded includes customer and personal health data and even our reputations that may one day be digitized and be made tradeable. The European Union is already working towards this, with organizations like the Ocean Protocol laying the legal and digital rights framework for personal data to be digitized and then traded.

### Key Observations About New Market Places

With new marketplaces coming online fast and furiously, it's important to make sense of their growth. Here are a few key observations to note about how new marketplaces are evolving.

Wide variety, more vertically focused markets. Unlike securities trading, where there are massive economies of scale and a few exchanges dominate global trading, the new crop of marketplaces often have smaller scale but much greater vertical specialization based on a product or industry vertical. Examples are the explosive growth in marketplaces and platforms focused on the service sector, including freelancers and gig economy workers. Examples are Fiverr, Freelancer, Guru, and Upwork.

Platforms emerge as the new Marketplaces. Ridesharing platforms like Uber and Lyft are essentially marketplaces, requiring us to broaden our traditional definition of what a marketplace is. Mobility, cheaper access to computing power, and the powerful network effect of the Internet enable new platforms to rapidly emerge in vertical industries with business models that may resemble traditional exchanges but vary from them in other important ways. Examples are the rapidly growing number of food delivery platforms like Grubhub, DoorDash, and Uber Eats, which don't have the dynamic real-time price discovery of a traditional exchange but fall within the same economic construct.

Factors determining a Marketplace's growth and success. Five key factors will determine a marketplace's growth prospects and chances of success. (We have adapted these from Bill Gurley's previous work on Markets). The most important factor is a significantly enhanced user experience which must substantially improve the bilateral exchange mechanism that already exists. Next is the amount of economic incentive offered by the marketplace over traditional models. The third factor is the strength of the network effect of the marketplace. Fourth is the extent to which buyers and sellers are fragmented, with greater fragmentation

boosting prospects for a marketplace's success. Lastly, marketplaces that unlock un-utilized capacity or enhance an asset's utilization like ride-sharing did have high growth prospects.

### Concluding Thoughts

Advancements in technology, mobility, and investor demand for alternative assets, are creating a perfect environment for the growth of new marketplaces. These marketplaces will improve liquidity and transparency in traditional assets (real estate, infrastructure), bring new assets into the fold (art, collectibles), and over time enable a massive market for digital assets (cryptocurrencies, virtual sports, consumer data). Rosenblatt's 13<sup>th</sup> FinTech Summit to be held virtually on May 19-20<sup>th</sup> will explore this concept in great detail led by Nasdaq's CEO Adena Friedman and 15 CEOs of leading FinTech companies that are building different parts of this new marketplace ecosystem. We look forward to welcoming you to our Summit to debate these issues.



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