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## Bitcoin sees biggest-yet investment despite price drop

By Greta Kaul

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Bitcoin has plummeted about \$1,000 in value since its peak just over a year ago, leading to widespread speculation that the digital currency won't live up to its revolutionary hype.

But its fall of about 80 percent has done little to deter Silicon Valley investment.

Coinbase, a service based in San Francisco that lets consumers acquire, spend and accept bitcoin, announced it raised \$75 million in Series C funding Tuesday. Coinbase says the round is the largest-ever in a bitcoin startup, and the first major investment from institutional players, including the New York Stock Exchange, financial services group USAA and multinational bank BBVA.

With Coinbase's new round — a vote of confidence by DFJ Growth, Andreessen Horowitz, Union Square Ventures and Ribbit Capital — the company has raised a total of \$106 million, a sum it hopes will help drive bitcoin into the mainstream.

But industry experts say venture capitalists' interest isn't in buying bitcoins, per se, but the ideas behind it.

“Venture capitalists are (funding) businesses to work with bitcoin as opposed to holding bitcoin as an asset,” said William Luther, an assistant professor of economics at Kenyon College and an adjunct scholar at the Cato Institute. “That's necessarily a long-term decision — they think that bitcoin is going to be a serious competitor in payments markets.”

Bitcoin is a digital currency system that moves funds directly between users, with no central authority. Bitcoin holders can remain anonymous, leading some to describe it as digital cash. While some see bitcoin as an alternative to traditional currencies, others say it may actually complement them.

“Bitcoin’s been this speculative thing, but ... it’s a useful payment mechanism, it’s actually better than cash in a couple ways,” said Adam Draper, a fourth-generation venture capitalist who has been a bitcoin proponent since 2012. His father, Timothy Draper, founded Draper Fisher Jurvetson, which is related to DFJ Growth.

By losing the middleman, Adam Draper and others say the cost of processing a payment could drop, making very small payments — say, a few cents to read an article or skip an ad before a video — no longer cost-prohibitive. It would also be less costly to transfer money across borders without intermediaries like Western Union, Draper said.

“I think of bitcoin as the Skype of money. Originally, the telecom companies had the monopoly on long distance, but then Skype came along and said 'Hey, as long as you’re in our network, it’s a free call,’” Draper said.

In many ways, Draper’s enthusiasm isn’t surprising. Venture capitalists have incentive enough to hype the technologies they’ve invested in so they can cash in on them later. But amid bitcoin’s price drop, Draper announced that the next class of startups at Boost VC, the accelerator he founded, would shift into “full bitcoin” — all 20 to 30 companies that start in February will focus on the cryptocurrency.

“You need to think long term. The coolest things that end up existing look sort of like toys in the beginning,” Draper said. “We are in a business and we need to make money at some point, so there is a little bit of 'let’s hope it works.’”

He’s not alone in his enthusiasm, at least not among venture types: Halfway through January,

CoinDesk had listed four publicly disclosed bitcoin deals for 2015, for a combined \$4.4 million, not including the \$75 million Coinbase haul. In the first half of January last year — when a bitcoin was worth roughly four times as much — there were \$3.25 million in disclosed bitcoin deals.

In the last year, developers have built infrastructure that makes the digital currency easier to use. Gil Luria, managing director at Wedbush Securities, a financial services company, expects to see more of that down the line.

Whether or not bitcoin succeeds, some see its underlying technology as transformative — it could force the evolution of traditional currency's technology or spur the creation of other, more widely adopted cryptocurrencies.

“The perception (of bitcoin) right now doesn't matter. Once the applications come out and they give consumers value, they won't care,” Luria said. “If I could send money to my relative in Mexico for less, I really don't care if it's on bitcoin or other cryptocurrencies.”

Bitcoin still has several obstacles to overcome, not the least of which is a reputation as shady, unreliable and volatile. In 2013, the FBI shut down the first iteration of the Silk Road, an online marketplace for buying and selling illegal drugs, with payments cloaked by bitcoin. Early last year, Mt. Gox, a bitcoin trading post, shut down after it lost hundreds of millions in customers' bitcoins.

Bitcoin's price fluctuations haven't helped, either, though Luther said some of its ups and downs might be mitigated by more people using the currency. Since bitcoin's supply is fairly stable — computer algorithms cap the number of coins in circulation — it's people guessing how many people will be using bitcoin in the future, or the fluctuation in demand, that's causing the price to yo-yo, he said.

“The market for bitcoin is relatively small at present, considering it's a global currency. If you drop a rock into the ocean, no one notices, but if you drop a rock into a bucket of water, it makes

a pretty big splash,” Luther said.

Perhaps bitcoin’s biggest hurdle is public adoption.

“It’s never been easier to use bitcoin. The thing is, is that it’s also never been easier to use dollars,” Luther said. “Bitcoin not only has to be better than the traditional payment systems, but it has to be sufficiently better to warrant the cost of switching to a new payment system.”