

[Transcript] FYI - For Your Innovation / SEC vs. Ripple, Threads Users Drop, SpaceX | The Brainstorm EP 06

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Welcome to episode 6 of The Brainstorm, I'm Sam Corris, joined by Nick Groose.

We'll keep throwing the fingers up until we go past 10, then we'll cooperate here and figure out what's the right thing to do.

Today, we're talking about SEC versus Ripple.

We're circling back to threads again and changes that we're seeing on threads and Twitter.

And then lastly, we listen to your comments.

A lot of people want to talk about space, so we'll dive into what's happening in the space ecosystem.

We're lucky to be joined by Arc's crypto lead here, Yasin.

What can you tell us about SEC versus Ripple?

Thanks for having me, guys.

I'm excited to be here.

SEC's case against Ripple, I think it's really interesting because initially, it was thought of as a, wow, this is a huge win for crypto, and it's black and white.

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The SEC basically lost against Ripple, and it turns out there's a little bit more nuance, but we'll give you the brief rundown.

After two years of waiting, we had a district judge that issued a summary judgment in this SEC case against Ripple that accused Ripple of selling unregistered securities.

And so it isn't totally black and white in terms of the outcome, but it does still appear to be a net win for crypto.

The judge basically gave out two main takeaways.

The first is that they agreed, on one hand, with the SEC, that Ripple's early private token sales to institutional investors constituted an unregistered securities offering, and this judgment was based on meeting the criteria of the HAUJ test, which defines an investment contract, but on the other hand, the judge decided with Ripple regarding other token transactions where she ruled that Ripple's sale on public exchanges and even their use of XRP for employee compensation didn't meet the HAUJ test.

So what to make of both of these claims?

It basically implies that the XRP token itself, or the underlying crypto asset itself, is an investment contract, but that the circumstances surrounding the offering of the token would determine whether or not it's an investment contract.

And so this is, I'd say, a net win specifically for exchanges, for XRP.

I'd assume that the SEC will likely appeal because the court's decision didn't really set a precedent that other courts must follow, and so you might see an appeal, and this might be sort of a one-off, but say all things considered, this is a win for crypto.

Before we move forward with the case itself and maybe some of the implications for the broader market, can you just explain what the HAUJ test is?

Sure.

So the HAUJ test is effectively, I don't exactly know when, but the Supreme Court established four criteria to determine whether an investment contract exists, and they've defined that investment contract.

And so in the case of crypto, what they effectively do is they go through each of the criteria and they effectively determine whether or not the specific asset fits the HAUJ test.

So the four criteria at a high level is, are you actually investing with money?

Is it in a shared or common enterprise?

Is there an expectation of profit, and can it be derived from the effort of others?

In the case of, in the case of the first decision, which was that the institutional investors that were investing in the private token sale, that constituted an unregistered securities offering, effectively it met each of those four criteria, and in the case of the latter where it was listed on exchanges, the buyers and sellers of those exchanges didn't necessarily or couldn't necessarily identify whether Ripple was selling it with the expectation of profit or as an investment, and therefore on the latter case, it failed the HAUJ test and was, could not be deemed an investment contract.

Gotcha.

And then I have two questions here.

One, you said summary judgment.

So, you know, what both sides are going to appeal, how final is this, is the first one?

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And then the second, for that initial sale, how does this play out with all of the VC funds that got, you know, they essentially took the token and then turned around and sold it on exchanges?

Is this kind of clearing the way for that type of behavior?

Yeah.

So, for the first question, which was, I forgot what the first question was actually, summary judgment.

Yeah.

This was summary judgment.

Are people going to appeal it?

Oh, the summary judgment.

This was kind of alluding to the first point of the court's decision didn't set a precedent.

So, it was a single judge that basically was analyzing this case and gave her opinion, but that doesn't necessarily set a precedent.

And the appeal, you might see a reversal of the appeal.

That being said, and I think what a lot of people are recognizing is that it's really calling into question the recent views from the SEC.

And if you see what Gensler is saying now, the vast majority, the vast majority of digital assets are securities, you know, this puts into question that very fact.

And so, I think, again, as I was alluding to earlier, it is a net benefit for exchanges that are listing all of these so-called securities.

And then for the second question, can you repeat the second question?

Yeah.

Sorry to overwhelm you with the double up there.

What does it mean for the VCs and the VC funds who took crypto as part of the investment and then turned around and sold it at a much higher price to kind of just everyday retail investors through exchanges?

I think, I don't know if there are direct implications.

There are questions on whether or not, you know, if they are deemed unregistered securities, whether there are some clawbacks which would really, really affect a lot of the VCs that indeed participate in these token sales.

I think, you know, moving forward, if a case like this is sort of generalizable, then you'll likely see a move away from VCs participating directly in private token sales and waiting for them to exchange.

But the implications, I think, for crypto are quite positive because if you think about sort of what defines broadly a decentralized network, issuance is a huge component, specifically around the fair issuance.

So you compare something like Bitcoin, which didn't really sell Bitcoin in the early days to VCs to what we're seeing now.

They resemble pseudo equities much more than they resemble these native assets on these public blockchain networks.

So it's unclear exactly what the answer is, but I think that at the very least it'll kind of discipline the process that will prove to be beneficial for the ecosystem long term.

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And when it comes to how the ecosystem proceeds, now that you have this ruling out there, is the community looking at past token issuances of other cryptos and saying, okay, we might have trouble here.

This one's in the clear.

What are the broader implications for some of the other tokens out there?

You mentioned Bitcoin.

What are there now just clear lines of this is okay and this is not okay?

You mentioned there's not a precedent, but I'm curious.

That's a great question.

I think for the most part, there is still a question of every asset is going to be looked at on a case by case situation.

I think part of that is really the SEC's existing regulation by enforcement.

There is no framework that the SEC can reliably refer to to create sort of blanket claims on broader asset buckets.

They have to go to each asset one by one.

But the public is looking at this as, look, if Ripple is not clearly a security, then the 13 securities, whether it's a Solana, an Ave, a Cardano, they can't possibly be securities.

Now again, there's not very much legal basis behind this analysis.

It's really more of a common sense smell test where if there was any asset that was going to be deemed clearly a security, it would be an asset like Ripple.

The fact that that has been now put into question, I think will be a tremendous positive surprise for the crypto ecosystem.

You've seen how the coin bases of the world have even responded to that outside of just broader promise on exchanges and their positioning in the market.

You saw 24 hours after the major exchanges ended up relisting XRP.

So XRP wasn't even listed on these major exchanges in the face of this court battle.

And now that we have some clarity, they're back in the game.

So it's great to see.

Nice.

And I feel like we've said this before, but regulatory clarity is good for the space broadly.

And it's good to see the judicial system here putting some of its own takes on what the SEC has been doing, which has kind of just been on their own.

You've seen, thank you for joining us.

Thank you guys.

And from your lips to God's ears, we'll have you back on to the next slide.

We'll have you back on to evaluate as we progress towards that.

Awesome.

And Nick, now on to you, threads and Twitter.

What I love about this space is everyone's so extreme and things happen so quickly.

One day it's Twitter's dead.

The next day it's, oh my God, I can't believe Twitter is giving people \$30,000.

This is the right move.

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So can you frame it for everyone and tell us what's going on?

Yeah.

Well, I go back to the question you asked last week was, is this a binary event?

And the answer to many still seems to be yes.

As in one will succeed and the other will fail.

And last time we spoke, people were pointing at threads succeeding and Twitter was failing.

And now it seems like that's flipped on its head and Twitter's succeeding and threads is failing.

And so the incremental news here is there is a firm called Sensor Tower.

They do third party data.

People have gotten into the data, started looking at threads, daily active users and engagement numbers.

And yes, it's only been a week or two.

So take this with a grain of salt, but the numbers are down.

If you look at the daily active users on Tuesday and Wednesday of last week, they were down around 20% from Saturday.

Time spent was also down by 50%.

I found a chart showing kind of this decline in the time spent on threads.

And it seems to have declined even more than 50% from its high around 20 minutes.

It now seems to be trending below 10 minutes.

And then on the flip side, you have Elon Musk and Twitter,

I think responding in a really smart way.

And that is fulfilling the promise around creator monetization opportunities.

Back in February, Elon promised that they would begin as a platform to start to start to share ad revenue with creators that met some criteria.

The criteria, it seems to be around,

you need 5 million impressions per month for at least three consecutive months.

You also need to have a Twitter blue account, which costs you \$8.

But given the payout opportunities, that is pretty insignificant.

You mentioned \$30,000.

And there's plenty of creators that were actually very much willing to show how much Twitter had paid them.

One interesting note, if you do or have seen those payouts,

very careful, I think it needs to be expressed that that was backdated all the way to February.

So Twitter was making good on that promise back in February.

So they paid out for multiple months in one single check.

Or I think it just went through Stripe and the Clearing House behind Twitter's payment service.

But if you look at the numbers right now, what we're seeing is Twitter is paying creators around one cent per every 1,000 impressions, which is I think a pretty good starting point.

And when you're getting cleared checks in the thousands, tens of thousands,

I don't know that you can really complain.

And I think from a strategy perspective, this is a great way to hold on to creators, given that you now have this competitor in threads breathing down your neck.

And it's not just the ad monetization, right?

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There's the subscription direct monetization.

I imagine these individuals who have Twitter Blue who are doing millions of impressions a month probably also have that subscription feature enabled.

It does seem like a pretty fun environment to be a creator on.

How does this change your outlook for threads?

Does it?

Or is it kind of just the, this is an interesting development.

We still need to wait and see.

Yeah, I'm still in the wait and see mode, but I do want to point out two pieces of evidence, or maybe two analogies that we can use to kind of judge this time period.

On the engagement side, I was reminded of a story I heard about Blockbuster and Netflix back when Blockbuster was going to roll out a streaming service.

And I think what is really interesting when you look at this threads and Twitter debate, if you go on Google search trends, and obviously this isn't a perfect metric, you've seen the decline in threads, but what you didn't see in Twitter's numbers or the search trending for Twitter was a big spike in Twitter search trends when threads launched, which I would have thought would have been the case.

And this is getting back to the, why is he talking about Blockbuster and Netflix?

When Blockbuster launched or when they went out to launch their streaming service, everyone knew what Blockbuster was.

And so they wanted to go out with a splashy marketing campaign in the way that they did that they ran a Super Bowl ad.

What ended up happening, if you look at the numbers from that Super Bowl ad, it ended up benefiting Netflix 10 times more than Blockbuster.

Obviously, we know how that story ended, but I find it interesting that in this period of time, when you have this competitor that is a copycat, we're now in the Clone Wars, I heard that term, I think it's pretty great to describe how meta operates.

It's the Clone Wars that we're operating in.

But I would have thought to see some increased trending on Google search.

You can point to, Elon mentioned there was a week over week increase of around 3.5% in total user time spent on the platform.

I would have thought it would have been more.

So it is interesting how these two platforms are still operating in different silos and different use cases.

So that's one thing that gives me pause and says, this is maybe still too early to make a call.

There's so much room.

There's so much that these platforms are going after.

If I had to make a claim, I think both survive and thrive.

We just need to give it time to really understand where the opportunities will be for each of the platforms.

Yeah, and anecdotally, my dreads time has gone to close to zero.

I don't think I'm representative of the world out there,

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given that I'm a Twitter, Twitter power user and barely use Instagram.
But that's definitely been the case for me.
I'm just looking for content.
I definitely don't follow the right people.
They still haven't rolled out all of the features.
But for me, I definitely feel what those metrics show.
Yeah, and I mentioned that I had two points on this.
The other point, it was just slipping my mind.
But is on the monetization side.
The Creator Fund are allowing ad revenue to flow to creators now
and offer these subscription services,
I think is the absolute right path for Twitter.
We've seen a number of different platforms do this.
When TikTok wanted to go international,
they put up a billion dollars in a Creator Fund.
And it operated very much in the same manner.
You needed to meet a certain criteria.
You needed to post regularly.
And then you got a cut of the advertising that was flowing on the platform.
One thing to note with these Creator Funds or these Advertising Funds
is the money can potentially dry up in bad scenarios.
Or if you're just giving out more than you are taking in and subsidizing,
which I think some of these companies have,
I don't think we can make the claim that Twitter's doing that.
But Elon did tweet out last week.
He gives us so much information on this platform.
It's part of the draw, right?
But he did tweet out that Twitter is still free cashflow negative
and they didn't see the advertising dollars rebound in June when they thought they would.
So it's something to...
Are they getting ahead of themselves by paying out creators
because they needed to?
Or is it something to think in terms of longevity here?
That's just one thing.
I'm not making the claim that this money is going to dry up.
I think if you look at YouTube and the success that they've had
with their Creator Monetization Program on advertising,
it can be executed and it can be something that is a big, big draw for creators.
But just wanted to throw that thought out there as well.
Yeah. And I think having it as an ad share aligns incentives
and gives you that longevity as opposed to saying,
you know, here's a set billion dollars.
You know, see how much of it Mr. Beast can soak up as fast as possible.

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Right. Yeah. The TikTok fund, I haven't heard much on that.
I know, you know, you can still make a decent amount of money on TikTok,
but that Creator fund I think has since, you know,
I don't know that they're throwing around billions of dollars anymore.
Let's just say that.
Great. Any last points here?
Or should we move on to space?
No, I'm sure we'll be back next week for Threads Part 3.
Maybe we'll have to give it a breather next week
and come back in two months.
We can't just be too tied to this on the short-term news cycle.
We've got to be true to what we're saying and say, you know,
yes, it's too early to call,
but now I think we've given enough information on both sides
to really understand how this might play out over the next few months.
So maybe we'll come back at the end of summer
and talk about where these two platforms are.
Sounds good. So then we'll move on to space.
A lot of people commenting they want space content
and we're here to deliver.
We do a lot of space research, a lot going on in the space economy.
And so I'll kind of just give a smattering of recent events
and what's going on, how we think about it.
And then as time goes on,
we'll dive into kind of different topics.
So what's happening in space right now?
SpaceX, obviously, the biggest lightning rod
for media attention and the biggest innovator,
I think, in the space economy.
So we'll start there.
They, you know, are apparently valued
at \$150 billion after some secondary shares were sold.
They recently also just launched the same Falcon 9 rocket
for the 16th time.
Originally they were saying
they were going to just do this 10 times.
Now they're saying, you know, they'll do it 20.
I'm sure they're going to continue to push the envelope here.
On that reusability,
I do want to pull up a chart here and kind of talk about this.
It is crazy to me that they're doing this so regularly
and no one else has done this, right?
So it's been, I think, like seven years now

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and it's not no one's doing this at the same price that they can.

It's they've done something and they're doing it perfectly and no one else has even accomplished this, which is pretty insane in my opinion.

And so if we look at this chart here, this is showing the refurbishing rockets and the time to do so.

And so when SpaceX first did this in 2017, it took them roughly a year to do this.

In 2022, they got this down to 21 days for the fastest time ever.

And so if we're looking and we're doing our research correctly here, if you take the amount of time that it took for that first one to the amount of time it took for this most recent one

or the fastest one in 21 days, we think that they can refurbish the Falcon 9 for roughly a million dollars,

which is pretty profound when you're looking at launch costs and cost declining there.

And so another fun fact here, Nick, I'll throw this out there.

They've launched every roughly four and a half days this year, right?

I don't think people even appreciate how fast this is happening.

And then what else happened this week?

So much stuff is going on.

You had two rocket engines actually explode in testing.

One of those was Blue Origin's BE4.

Another one was JAXA.

So Japan, they were test firing a second stage engine, which exploded during testing.

You had Viasat, who sent up a satellite, which malfunctioned.

And so that was a big impact there.

But then maybe just taking a step back and looking at the space economy and what we think is going on.

Nick, jump in.

Yeah, I have a question.

Before we get too deep in the weeds on the other space news, you mentioned SpaceX is lead in this race.

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Why do you think they have such an advantage?
Why is there not even a close second?
And then also my second question is,
if you had to point the finger at another company
and say, this is runner up,
even though it's miles behind, who would it be?
Yeah, so why are they so ahead?
Elon's been kind of driving the company
and they've been doing what everyone said was impossible.
And so I think that gave them a lot of room.
I mean, there's a huge runway and head start in 2015,
I think it was, maybe 2016 or 17.
You had CEOs of other space companies saying,
we've looked at reusability, it's not economic.
And so if you have every other company out there saying,
this is an interesting and then all of a sudden,
SpaceX goes and proves that it is, that's a big head start there.
So it's definitely not an easy task.
They were tackling something everyone else had kind of written off.
And I think it is kind of the ethos of his companies,
which is just, you can have a mode where you just need to keep
innovating quickly and that's the best mode.
When we look at who's next in line,
China, I would say, has been very aggressive in their space capability.
They've got some companies that are trying to replicate the Falcon 9 landing.
In the US, we look at companies like Rocket Lab
and originally they were trying to reuse rockets by
having the stage parachute down, catch it with a helicopter,
bring it back to land.
Now they're just saying, oh, when it splashes down in the water,
it's actually not that damaged and we can design for that and we can reuse it.
And so that's something to look at.
But I think this actually gets to a bigger point that I was going to get to anyway.
There's this big question, is the launch business even interesting?
And I think, in our opinion, it's super important
and it's a key enabler.
But it's not like a, wow, you can launch a rocket,
even though it's incredibly difficult.
We don't think the economics are that amazing for rocket launch providers.
And so you have dozens of these small launch providers.
And to us, that's much less interesting than the services that you can do
once you're in space, once you have a constellation,
maybe even the verticals where you can use those applications as well.

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Great.

So when we look at SpaceX, it's obviously incredible that they have a reusable rocket that they can use 16 times.

They can launch every four and a half days.

But what's really exciting from them is Starlink and this global connectivity play.

And the type of margins and business model that you could get off of that, if you reach scale without going bankrupt.

And that's kind of always something to keep in mind with space companies.

That's great framing.

Yeah, I had never really heard you say that before.

Maybe I wasn't fully paying attention in the actual brainstorm,

but I like that framing as in, you know,

the added services on top of the launch capabilities

is where the real opportunity and growth prospects could lead to.

Yeah, anything else, Sam?

No, I mean, I think that's the point, you know,

one of the questions people always ask is,

is their price elasticity of demand for rocket launches?

Right.

And so just in basic terms, if you lower launch costs,

does that mean more satellites are going to be launched?

And it's really unclear at this point.

It's definitely true for individual companies

that are driving their own demand, right?

So it's like, who's launching on SpaceX rockets every four and a half days?

It's mainly SpaceX, right?

They're launching their Starlink constellation up there.

And you have a lot of these small launch companies out there

whose whole business premise is essentially,

no, there's this huge amount of demand out there

that's waiting for low launch costs.

And that that's a sustainable demand,

not just kind of a boom bust environment.

And that's something that remains to be seen.

But I, you know, we're incredibly optimistic on the space economy

to say a word that I feel like is a buzzword

that's kind of been beaten to death, the space economy.

But it is super exciting.

And it's one of the areas where I find it particularly exciting

because there are so many things happening

that people said were impossible and now they're possible.

And it's not just, you know, one person doing it.

It's like everyone's on board with it now, right?

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So, you know, astronauts are being launched on reusable rockets.

That was never going to happen.

You were never going to have satellites

that could go directly to an existing smartphone.

Now you've got, you know, five companies out there

that are saying they can do it and are executing on it currently.

So it is amazing to see the impossible come true.

And, you know, market opportunities are large

and growing if it goes from impossible to something.

So that's kind of like that zero to one.

It's the final frontier.

The final frontier.

And the final topic of today.

Thank you all again for listening in.

We appreciate it.

Hopefully, Sam, I have actually one last question.

We'll wrap on this.

When is the next star ship launch?

Oh, that's a good question.

I think, to be honest, I don't know.

I think that they need to get some clearance.

They've done the construction to the pad to make it functional.

I don't know if you saw any of those photos

from the previous launch.

They really did a great job of destroying it.

So it sounds like that's been repaired

and SpaceX is moving, you know, extremely quickly.

I think they need to get clearance.

But I would hope within the next few months

that they'll be able to do it.

And then also, again, next week,

I'll have the microphone so I can sound as smooth

and buttery as you, Nick.

All right.

Thank you all for listening in.

That's our show.

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