

Here's why crypto companies are flocking to Texas

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Mance Harmon graduated from college in 1993 when the World Wide Web was just getting ripples, so he remembers the frustrations of trying to explain it to his parents. It didn't make sense to them until they got an

email account, but now, everyone intuitively understands the Internet, he said.

"Crypto is in the same space," said Harmon, now the co-founder of Dallas-Fort Worth's largest [blockchain](#) company, Hedera. "As the number of applications grows and people start taking control of their identity and privacy, they'll begin to appreciate it in a different light."

D-FW has made its name as a business-friendly area with a large talent pool. But is the traditional environment enough to draw in the younger crypto companies that favor a more casual work environment, open minds and creative solutions?

"Crypto culture is one of the weirdest cultures I've ever been a part of," said Rasikh Morani, CEO of The Arcadia Group, a Dallas-based blockchain software development company.

"It's awesome. But it's also very weird," he said. "There's no other industry where I'd be sending anime pictures to my clients or my clients' investors."

Crypto's complexity means some tune it out, not wanting to get involved in something they don't understand. That has allowed some of D-FW's biggest crypto-related claims to fame to go largely unnoticed:

—Hudson Jameson, one of the best-known faces of Ethereum, hails from Dallas. For five years until 2021, he worked at the Ethereum Foundation.

—Coinsource, the world's largest Bitcoin ATM operator, operates out of Fort Worth.

In 2021, Dallas crypto startup Zabo secured a deal to be bought by

leading U.S. mainstream cryptocurrency exchange Coinbase.

If you ask industry experts whether Dallas-Fort Worth is becoming the "it" place for crypto, you rarely get a simple yes or no answer. But you hear the same themes.

How Dallas stacks up

The first point everyone agrees on is that there is no one "it" place for crypto because it was specifically designed to be done from anywhere.

"The unfortunate reality is that many, if not most, crypto companies are based offshore and maybe have an office in the States, due to the regulatory uncertainty," said Mark Cuban.

In 2021, the entrepreneur's Dallas Mavericks team started accepting Dogecoin cryptocurrency as payment for tickets and merchandise and signed a five-year partnership with publicly traded cryptocurrency platform Voyager.

Second, they agree that Texas is definitely the it place if you just focus on crypto mining, because the state is willing to negotiate "fantastic" rates for the power-heavy activity.

"Being in Dallas has been a big selling point for investors because they know that it's becoming the mining epicenter of the U.S.," said Nevin Bannister, co-founder and CEO of Dallas crypto mining startup Blockmetrix, which started in July and has already raised \$50 million.

Data from the state's grid operator, the Electric Reliability Council of Texas, or ERCOT, affirms its growing mining presence. The U.S. has about 3,500 megawatts of Bitcoin mining capacity, and more than 40% of that is with ERCOT, according to estimations from Lee Bratcher,

president of the Texas Blockchain Council.

Third, Dallas is generally a bigger place for companies focused on blockchain enterprise. These are companies that are using blockchain, the technology cryptocurrencies are built on, to create software and applications for companies. On the other hand, Austin is the epicenter for developers focused on crypto.

"Dallas is likely where a lot of the money will come from in the space with the hedge funds, private equity and family offices," said Patrick Zielbauer, who handles global strategic accounts for Austin-based Blockfills, a company that connects investors to crypto companies.

Fourth, Texas is an it place on the regulatory side with companies across the board lauding the Texas Blockchain Council for setting the gold standard on how to influence state policy.

"Texas has become the epicenter for crypto in terms of leadership, especially on the regulatory side," Harmon said. "When we started TBC, we had this vision that if we could influence the regulatory environment in Texas, the rest of the nation would follow. And that strategy is on track. A lot of people have their eyes on Texas because of the work that TBC has been doing."

The nonprofit lobbying group with an office in Richardson launched at the end of 2020 and already has more than 90 corporate members and over 450 individual members, with about one-third of its total members in the Dallas-Fort Worth area, TBC president Bratcher said.

Regulations are key

When the association launched, Bratcher said in a statement that Silicon Valley had lost its competitive edge, opening up space for Texas to be

the favored state in the industry if it got the regulatory side right.

The states with the most welcoming regulatory environments are the ones that will become the "it states" in the long run, said Shahzad Nathani, head of business development at Richardson-based blockchain startup Shardus.

Texas, Wyoming and Oklahoma stand out as crypto-friendly, he added.

"It's the political and regulatory environment that matter," he said.

For example, last year, China's move to tighten regulations on crypto mining and trading created a mad scramble from crypto miners to find facilities in the U.S.

"Even in the past two years, there has been a change in the sense that Texas has begun to embrace the crypto community," Harmon said. "It's very pro-crypto at this point."

The inaugural Texas Blockchain Summit was held in Austin in October to talk about how cryptocurrencies and blockchain tech can contribute to the Texas economy. Speakers included Texas Sens. John Cornyn and Ted Cruz, as well as Wyoming Sen. Cynthia Lummis.

"We believe that Texas can lead the world in establishing a climate of innovation around blockchain technology," Bratcher said in a statement ahead of the event.

2021 heralded a number of wins for TBC.

The Texas Legislature passed two key bills, signed into law by Gov. Greg Abbott, who tweeted in February 2022 that "The Lone Star State is poised to be a world leader in blockchain & cryptocurrency."

The first bill created a Blockchain Work Group to make recommendations to the Legislature and the governor's office. The second bill defined what a virtual currency is, making it easier to do business with it. Both bills received broad, bipartisan support from state legislators.

Soon after, the Texas Department of Banking affirmed that banks chartered in Texas have the authority to provide custody, or safekeeping, services for virtual currencies.

"The crypto community in Texas was able to organize itself and start using money politically, and that is the language that these people speak," said Ali Agha, CEO of Dallas blockchain company Olypsis Technologies. "I think there's a libertarian ethos at the heart of the blockchain and crypto community that has naturally drawn them to Texas."

Institutional interest

Another sign of increased trust and acceptance in the crypto and blockchain space is the growing number of institutional investors wanting some exposure to them.

"The shift in legacy institutions wanting to participate is one of the most remarkable things I've witnessed," said Blockfill's Zielbauer. "Banks and institutions that are more traditional in nature are looking for ways to engage these clients in a way that is safe and low risk."

Venture capital funding for crypto companies surged in 2021, with firms investing more than \$27 billion globally, more than the previous decade combined, according to PitchBook.

Funding for U.S. crypto and blockchain companies in 2021 increased

about 730% from 2020 to \$14 billion, according to a CB Insights report. The median deal size in the U.S. was \$5 million, the report said.

It's "insanely competitive," said Giorgi Khazaradze, CEO of Dallas crypto startup Aurox, which got a \$5 million cash infusion in February. He said the startup that launched in September 2020 has drawn significant investor interest from the start.

"A lot of companies are raising \$10 million to \$20 million from venture capitalists without a product," he said. "And it comes down to how fast you can hire developers and build a product."

The vote of confidence from institutional investors has come in spite of the ongoing "crypto crash" occurring alongside the broader market crash happening in response to rising interest rates and geopolitical uncertainty.

Since reaching new highs in November, the global crypto market cap has fallen from \$2.9 trillion to \$1.2 trillion, according to CoinMarketCap. Bitcoin has lost more than half of its value since its November peak. The crypto exchange Coinbase said this week that it planned to slow hiring given the market conditions. Coinbase's stock value has fallen about 75% this year.

But institutional investors are continuing to double down in some cases. Investment firms like Credit Suisse and Jefferies are hiring in-house crypto analysts. Fidelity, BlackRock and Charles Schwab have announced that they're working on crypto-focused exchange-traded funds.

Leaders in the Texas [crypto](#) and blockchain space said people in the industry know that it's a feast-and-famine industry. This is the fifth major dip in cryptocurrencies since Bitcoin launched in 2009, and the

latest crash won't scare them away, they say. For some companies, like those using the blockchain to create software, the ebbs and flows of cryptocurrencies don't affect their business.

Arcadia's Morani said he was at a conference in Miami in January 2018 when the market crashed. "We were freaking out about doing payroll," he said. But the company survived.

"Now I have three and a half years of payroll set aside because I'm not going to be that guy that lets people go in the middle of a bear market," he said. "That's just the thing about it is when it goes down, you're not growing as much. But we're prepared."

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