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An Empirical Case Study of Kraft Foods (IPO) & Kyber Network (ICO)

Shahedin Alom

Department of Accounting and Finance, School of Business and Economics, Universiti Putra Malaysia

Correspondent Author: Shahedin Alom**, Email:** turag357@gmail.com

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ABSTRACT

In order to advise investors, who are choosing the appropriate avenue to invest between Kyber Network and Kraft Foods, this study investigates the platforms under which these two companies perform in the capital markets. These platforms are the Initial Public Offering [IPO] and Initial Coin Offering [ICO]. In order to find the most appropriate option, both platforms were studied on how they have developed over time. Various principles and requirement guiding their different uses and application were furthermore studied to provide insights on what a potential investor may be required in order to venture into these platforms. These findings were critical in proceeding to further find out how Kyber Network and Kraft Food have embraced these differences. Kyber Network trades in ICO while Kraft Food trades in IPO. In aspects of profitability, this study found out that Kyber Network has more prospective profitability with time due to increasing in per crypto price. Kraft Food's per share price is declining hence it's not profitable. In floating process, Kyber Network was found to be simpler and efficient for users since it only needs a user to create an account and begin trading with their crypto currencies or crypto tokens. Though Kyber Network was found to carry higher risk in the aspect of cyber risk, basic etiquettes of securing one's online information would address any cyber risk. Henceforth, this study finds that investing in Kyber Network ICO is more profitable for investors.

KEYWORDS

Investment, Kraft foods, Kyber network, profitable, investors.

1. INTRODUCTION

Money markets in the present world become the most attractive forms of investments. Money or capital markets are the current trend in investment platform that has seen people venture into them. Investors lend money to the companies, while the companies become the borrowers who exchange the money that they have borrowed with such securities as IPO and ICO (Dudley & Hubbard, 2004). Initial Public Offering is where a private company first offers its securities, bonds, and stocks, to the public. The IPO is regulated by the Securities and Exchange Commission, SEC (Bochner, Avina, and Cheng, 2016). In the Initial Coin Offering, the form of financial instruments used is cryptocurrencies, unlike bonds and stocks which are used in IPO. The investors henceforth offers cryptocurrencies to the companies where the companies offer them with crypto tokens (Sockin and Xiong, 2018; Patwary, Omar, Tahir, 2020; Alom, Patwary, Khan, 2019). The main cryptocurrencies that are mainly used in ICO are bitcoins and ethereum (Sockin and Xiong, 2018). ICO is further not regulated by any financial body (Levenson, 2017). These two forms of capital markets become the main forms used by companies to reach into lenders. However, every company chooses one form of the capital market channel, either IPO or ICO. Under normal circumstances, no company can use IPO and ICO at the same time. Moreover, both ICO and IPO have different requirements and principles of the application while executing lending and borrowing purposes between the investors and companies respectively.

2. CONCEPTUAL BACKGROUND

2.1 Initial Public Offering

Companies that have ventured into the IPO avenues have enhanced more recognition. For the private companies, engaging in IPO helps them to be exposed to the general public since they invite all investors to purchase their stock. This helps them to attract more investors and as a result bringing more competition to these firms. As previously mentioned that the IPO is regulated by the SEC, the institution becomes an avenue that factors in various procedures that the parties involved should be followed. The IPO has defined a way that is structured, adopted and applied when companies and investors come together. Before inviting the investors to purchase their stock, the IPO has various requirements that the companies need to have satisfied in order to invite the investors into the IPO process.

2.2 Requirement and Principles of Undertaking IPO

The most important requirement is that a company should have a capacity that will ensure that the company is participating as a public company in the capital market (SEC, n.d.). The company should have the capacity in terms of skills and resources that will ensure that the company is effectively trading in at the IPO. Furthermore, in order for the company to take place in an IPO, the managers should evaluate the company, whether it realizes more profits, and growth in its activities. The company should also know its position in the competitive map so that it ensures that when it is venturing into IPO, they will not find any competition barriers (Deloof, De Maeseneire, and Inghelbrecht, 2009; House, 2017; Patwary & Omar, 2016). The other requirement of the IPO is that companies should be compliant with the regulations that are provided for by such financial regulatory bodies as SEC. This will give the investors more trust in investing in IPO since the regulatory bodies provide security to the invested stock in the company (SEC, n.d.). The IPO also requires that companies fulfill investor relation demands. This ensures that they are promoting better accountability and responsibility with their partners who include the investors (Schultheis, Day, Lewis, Lindquist, and O'Connor, 2008; Patwary & Rashid, 2016; Islam & Patwary, 2013). Through meeting these demands, the investors are able to have confidence in engaging themselves with IPO investments in companies since they will see that their voice and identity is being addressed.

Upon satisfying the various requirements of the IPO, the other aspect to consider is how to invest in IPO. This is a question that the investors ask themselves. According to Taulli (2001), two main methods are used to invest in IPO. The first way that an investor will be allowed to invest through IPO is when he or she is a "client of an underwriter in the IPO," Taulli, (2001, pg. 2). An underwriter is a broker who sells stocks on behalf of the company engaging in IPO. Being a client of an underwriter will help an investor to purchase through IPO directly from the company. Due to the regulated nature of the IPO, the stock becomes more secure to invest in. Many investors, as a result, become more attracted to IPO stocks. Since they are more secure, they also become more competitive and this makes the companies selling these stocks using brokers [underwriters]. Therefore being a client of the company becomes an opportunity to be considered as the potential investors in companies under IPO. The second manner in which the investors purchase stocks through IPO is through direct purchasing of the stock from the IPO public market. In this case, investors place their order for the purchases that they want so that when the IPO stocks are resold in the market, their orders will be accepted and sold to them.

Initial Public Offering by any company is usually made public by the company which is selling its shares or stocks (NYSE, 2013). The information is usually made available through advertisement through the media and other outlets where the public can be informed. According to (Frey, 2015), making the information public is not only a requirement by the law, but also a way through which companies ensure that they are successful through reaching into more reliable investors. Also, investors become important people that play a key role in the IPO process. Before they proceed to purchase the stocks from the IPO, they should first ensure the companies that are trading under the IPO. The information of the companies henceforth will help the investors understand the various insights about the IPO. One key source of IPO information is the company's prospectus. Though this prospectus helps primarily in providing the information on the company, it also helps to give the terms of the IPO, and the plans that show how capital generated from the IPO will be used (Allison, et al, 2008; Patwary, et al. 2019). The investors furthermore need to understand the risk level of the company. The IPO will be more risky if the company's businesses and performances are also risky (PwC, 2011). This means that any investment that is made to the company will be more volatile.

Dividend policy is another factor that the investors should understand about the company selling its stocks through IPO. When an investor lends company money, he or she is given a stock or shares. According to (Kim and Ritter, 1999), these shares will yield the investors a given amount of the money after some time. As such, understanding the dividend payment scheme and the amount or rate of payments will inform the investors of the earnings that they will realize when they invest their money in the IPO. IPO is affected by pricing and as a result, the other key aspect that should be considered by the investors is the price that the IPO is offering for the sale of the stocks and shares. Where the offering price of the stock is high, the company will generate more capital because the investors will need to pay more for purchasing the stock. However, this move will not favor the investors due to the high cost that they will incur in purchasing these stocks. Furthermore, when the offering price of the stock is lower, investors will be attracted to purchase these stocks. As a result, this will make the companies selling the stock to realize more income since they will sell more stocks. On aspects of the offering price, the main guiding elements are mainly price standards set by the underwriters and companies offering shares for sale, and also the market conditions where demand and supply behaviors will decide the price of the stocks in the market (Hasnat and Alom, 2017; Azim, Tarannum, & Patwary, 2017).

2.3 Initial Coin Offering

ICO is another avenue for that capital markets has ventured in. The main framework that has guided the development of this concept is the current digital age. Every aspect of life has been informed by the ICT. Finance and investment discipline, however, has not been left behind. They are the disciplines that have embraced technology in order to assemble all the investors in one table. ICO process leads to converting the current assets and values into forms that can be measured or rated using cryptocurrency or crypto tokens (Sehra, Smith, and Gomes, 2017). The investor on the other side changes their currencies into cryptocurrencies or digital currencies such as bitcoins. These currencies are then used by traders to purchase and sell the products. While the IPO focuses on the exchange between stocks and money, ICO needs that these stocks and money to be converted into digital currencies first in order for the partners to effectively achieve their particular objectives (Rasputin, 2017).

Nevertheless, ICO process has a particular procedure that has been adopted to be used by the investors and clients while engaging in this process. The first stage requires that the companies or stock sellers announce their wish to sell the stock (Delgado, 2017). In this stage, announcements are made mainly through the social media platforms that include Reddit, twitter, etc. The previous stock performance is also featured in the announcement so as to attract investors (Delgado, 2017). When the announcement has been made, feedback is received from the potential investors. Various insights from these investors are then analyzed so that an offer is made. The second phase is making offerings to the public. This stage is where the company provides various terms and conditions that the potential investors should fulfill in order to engage in the ICO offering. Also, the specific objectives of ICO offering are made in the offer. According to (Grant, 2017), these objectives help to inform the investors how accountable the companies are with their funds. Lastly, offer stage provides the timelines that the ICOs should be purchased. It gives the opening and closing dates of ICO process (PwC, 2017). The third stage is conducting market campaigns. As a noted that the main avenue that ICO use to reach into the consumers is through digital media, it is understood that some investors can also be reached through analog platforms (Teutsch, Buterin, and Brown, 2017). This includes conducting road shows in order to reach institutional investors as well as small investors. The message that is usually passed across in the marketing campaigns is the information that was developed in the offer stage.

Upon completion of the marketing campaigns, trading of the crypto tokens begins. This is the final stage of ICO process where the investors proceed to buy the crypto tokens. This is the time when the investors have enough information about the ICO tokens, and they have the digital currencies that are needed to trade with the token. This purchase process only takes place within the timelines that were advanced in the offering stage.

2.4 Guiding Principles in ICO Process

Having understood ICO process, the next important aspect is developing a successful platform for the ICO process. Various factors have been advanced to ensure that ICO process is successful. In ICO, a successful process is only realized when an investor is satisfied, and the offerors [company] is also satisfied at the close of the ICO process. While this may not be easily achieved, certain factors should be adopted in order to bring better results. The first factor is ensuring that there is a perfect link between the ICO and the business (Danilov, 2017). In any case, the companies [owners of the crypto tokens] should not overcharge the investors. The second factor is that business or companies should build the appropriate ICO team that will effectively undertake the processes of ICO from the announcement of selling phase (Walletinvestor, 2018). The fourth factor to be considered is protecting the interests of the investors. Investors act as the clients to the companies in ICO process. One way of ensuring successful ICO process has been through protecting the interests of these investors by always ensuring that their demands are met (Cryptopay, 2017). This practice will then assist in investor confidence in the ICO Company and in this case, the investors will invest more money in the crypto investment. Furthermore, when the company begins the next ICO process, the investors will be readily available for their confidence in the ICO process will make them loyal to the company. As such ICO companies will not spend more on the advertising and conducting market campaigns. The other factor that must be considered for the successful ICO process is adhering to the law (Flühmann, 2018). Though ICO has not developed particular regulations, some financial regulations will apply to the ICO process. According to (Siegel, et al., n.d), countries such as the US certify a certain transaction as whether they qualify for investment contracts. Therefore, ICO companies should adhere to such regulations so as to ensure that they are achieving the interests of the entire society apart from the investors only.

2.5 Comparison between IPO and ICO

Following the above insights of IPO and ICO, there are both similarities and differences between these two aspects. In both aspects, the principle is the same. The companies need to raise money by selling their stocks. Both platforms henceforth targets the investors to come in and purchase their stock (Hays, Stoeferle, & Valek, 2017). In this move, the investors become the lenders of the money into the companies which use the funds to address various business processes. However, the transaction process of these channels differs where IPO's transaction size is medium to lower while in ICO, transaction size is high to medium (Pathfinder, 2017). The cost of the transaction also differs from these two channels. Though both channels have high transferability, the IPO has minimal transaction costs as compared to

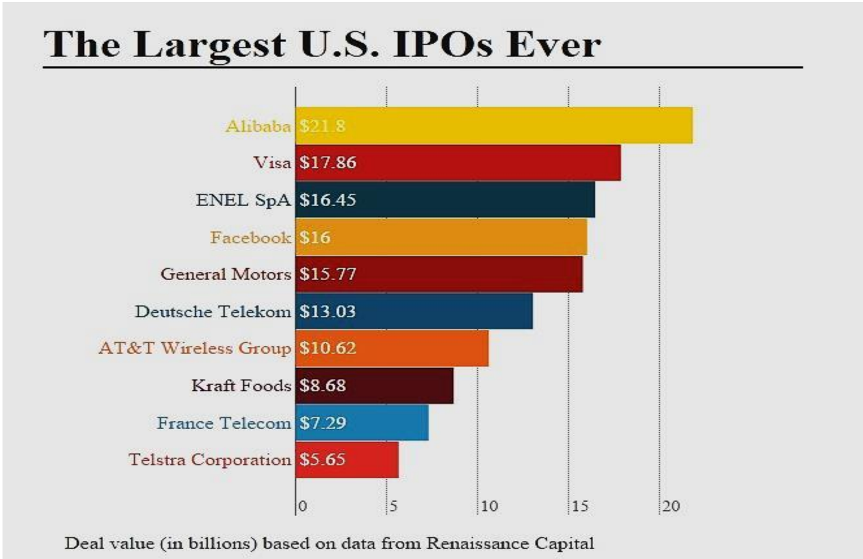
ICO. The risk is also higher in the IPO while in ICO it is moderate. According to (Siegel, et al., n.d), ICO has lower risk since its activities are dependent on exchange market regulations. Therefore, in order to see the application of the above two investment channels, reviewing the companies that have applied these channels will be inevitable. Two companies that form this discourse include Kraft Foods and Kyber Networks. Kraft Food Inc has been trading on the IPO while Kyber Network is ICO. Kraft food is based in the US while Kyber Network is based in Singapore.

3. EXPLORATION OF KRAFT FOOD & KYBER NETWORK CASE

3.1 IPO Kraft Food Case

Kraft Food is an American food based industry that is headquartered in Northfield, Illinois, US. It focusses on such products as beverage, cheese, dairy foods, snack foods as well as convenience food. The company has been in existence since 1923. It started as an ice cream company, but later developed as the largest dairy company in the US. This made the company managers to look for investors who would fund the company's activities across the US. Many investors came in to invest into the company. Due to this investment, the company was then listed on the New York Stock Exchange. It is from this period that the Kraft Food Inc. began trading its shares with the investors. Within the 21st century, Kraft food has realized an increase in its stock prices due to investor interest and confidence in this company. In 2001, Kraft Food was the second leading company in the IPO selling. The company sold its shares worth of 8.7 billion in June 2001 to record its highest ever IPO selling and the second in the entire US (Matthews, 2012). During this year, the US IPO market was on diminishing rate. According to (Westenberg & Gallagher, 2002), the US companies offering IPOs reduced from 339 in 2000 to 77 in 2001.This led to a reduction in revenue earnings from the IPOs from $55.46 billion to $32.19 billion (Westenberg & Gallagher, 2002). Throughout this moment, however, Kraft Food Inc. was realizing its increasing revenue from its IPOs. In 2001, Kraft Foods was leading into the IPO selling with a revenue of $8.68 billion. This shows how the Kraft Food is resilient amid the exit of other companies in the IPO stock market. In the present times, the IPO stock market has realized new players entering into the market. According to (WilmerHale LLP, 2014), Visa, facebook,and General Motors are the current competitors of the Kraft Foods in the IPO market.

Kraft Food trades in New York Stock Exchange, NYSE, using a simple denoted as KFT. It also trades on NASDAQ with a symbol of KRFT. The company sells both Class A and Class B common stock during the IPO. When investors purchase the Kraft Food's stock, they are entitled to devidend that is paid quartely at a rate of $0.52 per share in each quarter. The shareholders or the investors furthermore take part in decision aking process for the Kraft Foods. This is through the voting process. In this case, shareholders vote using their own shares. In Class A common stock, one vote equals to one share, whereas in class B common stock, one vote equals to ten shares.



Source: Matthews, 2012

Kraft Food's Floating Process

The first phase of the Kraft Heinz's IPO floating process is choosing the platform for trading its stocks. Kraft Heinz has established itself on two main platforms which include, NASDAQ and NYSE. The next phase is to go public and advertise their intent to sell their IPO. This is through going public and advertising through media outlets as well as conducting road shows in order to reach into potential investors who wish to buy their its IPO. The next phase is underwriting. This is where the NYSE and NASDAQ engage with Kraft Heinz in agreement to engage in the IPO process. During the underwriting process, Kraft Heinz submits a letter of intent to engage in IPO. The other submission to be made by Kraft Heinz is a letter of engagement. This is the letter that indicates agreement between Kraft Heinz and NYSE or NASDAQ. The main aspects of the agreement include the price for the sale of the stock as well as the amount that NASDAQ or NYSE will earn when it sells the stocks on behalf of Kraft Heinz.

The next phase is pricing. This is where the Kraft Heinz and the underwriting company decide the price which they will be offering the IPO. This phase also requires that the number of IPO to be sold are determined. After determination of the prices and number of IPO to be sold, Kraft Heinz then invites the investors to purchase the IPO. The process goes on within the set timeline. The investors purchase the

IPO at the offering price or below the offering price. Transition to market competition, then becomes the final stage. This is where the investors and Kraft Heinz set new offering prices for the IPO using the market forces. The purchasing process proceeds till the closure of the IPO dates.

Potential Risk

IPO is an investment platform. It faces both systematic and unsystematic risks. Systematic risks are those risks that face the entire market due to such issues as inflation or economic booms. These risks become offers advantage and disadvantage to the investors. During the inflationary periods, the prices of commodities usually go up. Shares become a commodity that is being sold by the companies during the IPO process. In this situation, the companies therefore raise the prices of shares. The investors henceforth will suffer since they will purchase the less shares due to increase per share price. This scenario applies to Kraft Foods since they offer shares for sale. During the inflationary periods, the investors choose to either buy the shares at high prices or avoid buying the shares. Systematic risks henceforth offers a barrier to investment in Kraft IPO (Alom, Patwary, & Hasan, 2020).

Unsystematic risks also face Kraft Food. These are risks that affect Kraft Food company only with no impact to the entire IPO market. These risks include financial, operational, compliance, liquidity risks, among others. Kraft Food faces operational risk. This is vested in the shareholders. Despite it being shareholding company, Philip Morris inc. owns almost half of the Kraft Food's shares. According to (SEC, 2001), Philip Morris owns 49.5% of the company's class A common stock. It was earlier found out that decision making in Kraft Food is based on voting. Furthermore, voting power is based on the number of shares. Therefore, this implies that major decisions will be made by Philip Morris due to more shares that is owned by the company. As a result, when investors choose to invest in Kraft IPO, they may face a risk of failing to make decisions that will help them in addressing their rights and positions as the shareholders of the Kraft Food Inc. Therefore, the situation in the Kraft Food IPO investment currently, is a monopoly situation. This situation cannot favor equality of the investors.

According to (SEC, 2001), Kraft Food's class A common stock is highly volatile. A volatile stock implies that the stock's price can rise or fall rapidly or unpredictably. Though Kraft Food's stocks become investors' advantage when they fall, it becomes a major challenge when they rise unpredictably. Furthermore, when the price of Kraft Food's stock fall, the investors will not generate any profit since the selling price will be lower or equal to the buying price of the stock. This will ultimately lead to decline in the investors' portfolio.

Profitability of Kraft Food IPO

According to (Groenteman, et al., 2006), Kraft Food sells its IPO at a value of $ 19.13 shares at a value of $34.36 in 2006. This price has been increasing. In 2015, Kraft Food merged with Heinz to become Kraft Heinze. Upon the completion of this merger process, the value of the stock has risen to about $65 and this value has been fluctuating between $65 to $75 (Yan, Wille, & Fang, 2015). Due to increase in the stock price, the revenues generated by Kraft Foods has been increasing. This implies that the profits have also been increasing. Furthermore, since 2015, the gross profit of Kraft Food has been increasing. In 2015, Kraft recorded $5,311 million gross profit, which saw increase to $5,466 million, and 5,662 million in 2016 and 2017 respectively (Yan, Wille, & Fang, 2015). The company anticipates continued increase in profits up to $5,871 million in 2018 and 6,091 million in 2019 (Yan, Wille, & Fang, 2015). Therefore, Kraft Food is profitable.

3.2 Kyber Network Case

Kyber Network is the platform that offers the exchange of digital currencies. Kyber Network is a company that offers only the exchange of digital currencies; unlike Kraft Food which depends on other portfolios such as the dairy investment. Kyber Network has no defined headquarters since it deals with digital currencies. It can be accessed through the online platforms. However, Kyber Network originated from Singapore. Kyber Network mainly deals with the ICO. It provides a platform where the digital assets referred to as crypto tokens are exchanged with cryptocurrencies such as ether, bitcoin or cash (Buchko, 2018). Though the ICO began in 2015, Kyber Network saw its inception in 2017. The CEO of Kyber Network is Loi Luu, aged twenty-six years (CrptoAmbit.com, 2018). Kyber Network sees its better advantage over Kraft Food, since it is a decentralized system. This means that the ICO process conducted by Kyber Network does not appear at specific platforms such as NASDAQ or NYSE [as in Kraft Foods], but rather on the online platform which can be accessed by investors from any location that they are. Kyber Network’s current supply of the crypto token is 134,132,697 (Hallac, 2018). With this volume, 19.5% are held by Kyber Network, 19.5% are held by the founders, advisors, and investors while the remaining 61% are held by the public (Hallac, 2018).

Kyber Network’s Floating Process

Kyber Network does not hold the funds of the investors. They rather seek to convert digital currencies with crypto tokens with a focus on creating value on the investments. The Kyber Network’s ICO process begins with investors making a request from Kyber Networks. According to (Luu and Velner, 2017), the requests made include the investor desired conversion rate or the order of the crypto tokens that they need. After these orders have been made, Kyber Network then determines the most favorable conversion rate. After the rate is determined, communications will be made to the investors and the conversion will then be made instantly when the investor places his digital currency. Kyber Network usually uses ethereum currency for its transaction purposes. Kyber Network furthermore does not hold investor's money. When the investor makes an order, he or she receives his crypto tokens in his online account. This is not like the Kraft Food's IPO where the stocks remain within the custody of the company. Therefore, the investors in Kyber Network have the confidence on their securities since they are under their custody.

Kyber Network's ICO Risks

One main risk that investors ought to know about the ICOs is that it is not governed by any financial body (Levenson, 2017). The processes that are being undertaken by Kyber Network in the aspect of ICO process are therefore not governed by financial bodies. This means that should any issues arise and the investors loss their money, it is easy for Kyber Network to win the case since it does not work under any governing jurisdiction. For this matter, the investor henceforth becomes more vulnerable to losses. Investing in Kyber Network's ICO becomes risky since it is a digital platform. The latest scrutiny in the digital world has been characterized by hacking frauds. Therefore, if a person does his investment in the online platform through Kyber Network, he or she will be vulnerable to hacking by the personal information leakage. Investing in Kyber Network hence may subject the investors to losses.

Kyber Networks Profitability

Since its inception, Kyber Network has increased its profits. Furthermore, the entire ICO industry has been realizing the increase in performance with respects to revenues, investment portfolio and as well profit generation. Kyber Network predicts an increase in the price of crypto tokens. The price currently is at $ 1.79 with a projection up to 2.9 in a year and 3.744 in the next five years (Walletinvestor, 2018). Therefore, from this trend, the price of crypto token increases with time.This implies henceforth that investing in Kyber Network's ICO will be profitable to investors in the long run. This is because the investors may choose to purchase the crypto tokens now at the lowest prices and wait for a time in future when the price per crypto token will have increased. This will fetch the investors more money in the long run.

Source: CointMarketcap

Forecast Analysis

Both Kraft Foods and Kyber Network have had notable performances in the recent past. Kraft Food has spent longer time than Kyber Network. The main aspect that forms the basis future prospects of these two companies is based on the relationship between the market volume of stocks or tokens and the value of either a stock or crypto token. For both companies, the last past year offers an evaluation of historical performance in order to inform the performance of the companies over the next year. In Kraft Food IPO, Price is currently $29.17. The value of its stock is attained by using the previous close value of the share and the current yield that the stock is trading at. Below are the calculations of the forecasted price of the Kraft Food's stock.

Current Yield= 4.22%

The value of share= $58.06

Forecasted price= [1+ (current yield)]*present value=$60.51

If my brother wants to sell their IPO in secondary markets, the price will be: =$58.06 - 29.17= (28.89/29.17) *100 = 99.04% ($60.51).

Kyber Network's current price per token is 1.791. This is attained by dividing the capital market by the circulating supply. The company predicts an increase in its capital market by 42% annually in the next five years. Therefore, with constant circulating supply, the market capital will be 1.42*239,675,010 (present market capital) = $340,338,514.2. The price of the token in 2019 henceforth will be: 340338514.2/134,132,697 (circulating supply) =$2.54.

4. CONCLUSION AND RECOMMENDATION

Therefore, from the above comparison of Kyber Network's ICO and Kraft Food's IPO, investors have different sights of these two platforms. Kyber Network is newly adopted digital platform that has not lasted a year, yet its capital and performance is rising steadily. The price of crypto token is projected to rise with time. On the other hand, Kraft Food is a conventional stock trading platform that needs investors to be aware of the dates of the IPO. The value of the Kraft Food's share is at $58.06 while it is expected to rise up to 60.51 in 2019. Kyber Network's price is at 1.79 and is expected to rise up to 2.54 in 2019. The percentage impact will be different in both Kraft Food and Kyber Network. Kraft Food will be: =$58.06 - 29.17= (28.89/29.17) *100 = 99.04% ($60.51). In Kyber Network, the percentage change in price will be: 2.54-1.79=41.90%. Therefore, the percentage of stock value for both companies makes Kraft Food's IPO a favorable place for investment destination since there 99.04% change will fetch the investor more revenues than 41.90% change in Kyber Network. If we compare with profit amounts return, My brother should choose to the Kyber Network cause it can buy unlimited ICO from Kyber Network, whereas it cannot buy an unlimited volume of the IPO. So we know that high volume of quantity increase the profit amount. Therefore, my brother will be best suited to investing in Kyber Network's ICO. This is because the trend of Kyber Network investment is rising steadily and therefore it will be easier for Johor to generate more money in this investment.

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