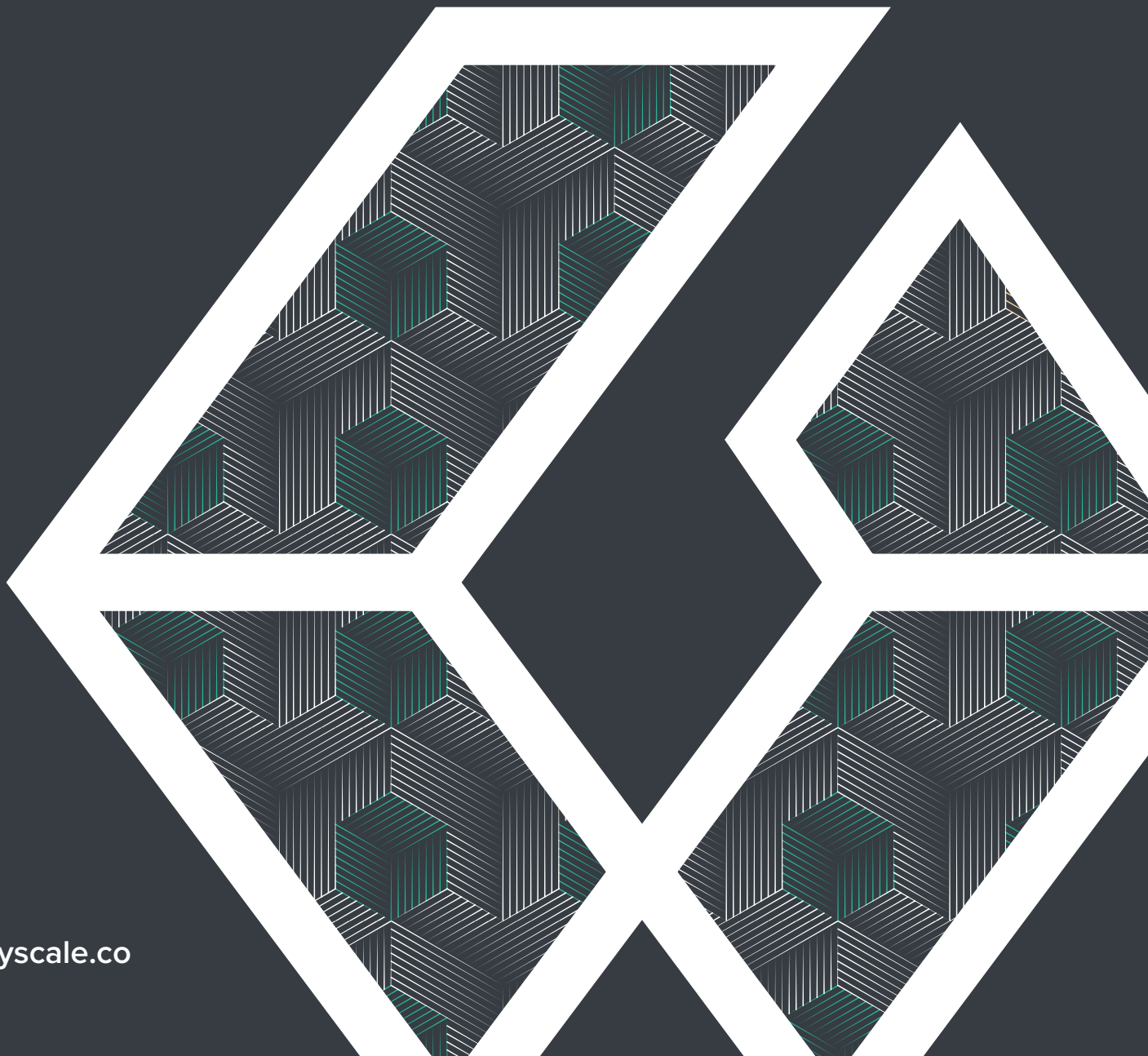


An Introduction to Brave



An Introduction to Brave

Brave is a privacy-focused internet browser that aims to change the digital advertising relationship with customers. Basic Attention Token (“BAT”) is the native token of the platform that is utilized as a payment mechanism between advertisers, publishers, and users.

Background

Brave was founded to address the current digital advertising model, which has been dominated by intermediaries, creating issues for publishers, advertisers, and users. Users especially lack data privacy and suffer a poor user experience from unwanted ads. The Brave team looked to address these problems by creating a privacy focused browser that integrates an advertisement exchange network.

Brave was founded in 2015 by Brendan Eich, the creator of the Javascript programming language and Mozilla Firefox. The formal development of Brave began through a company Eich established called Brave Software Inc., which also raised money to oversee the protocol’s development. The purpose of the BAT Network is to address privacy and opaqueness in web browsing and digital advertising, including cross-party data sharing and lost revenue to middlemen. Brave aims to solve these issues by enhancing user privacy, disintermediating middlemen and distributing revenue more equitably across the digital advertising ecosystem.



Brave's Approach

The Basic Attention Token Network consists of the following features:¹

- **Brave Browser:** An open-source, privacy-focused, and secure web browser that is designed to block trackers and malware often associated with digital advertisements.
- **Brave Ledger System:** Brave leverages blockchain technology that allows users to reward publishers for their content and advertisers to reward users for their attention in a safe and secure manner using BAT.
- **Basic Attention Token:** The token for the Brave ad exchange that connects advertisers, publishers, and users to create a more efficient marketplace. While Brave Browser was initially powered by Bitcoin, the platform pivoted to using its own digital currency, BAT, due to scalability concerns with Bitcoin. Within Brave, BAT serves as the unit of account between advertisers, publishers, and users.
- **Brave Rewards:** a feature within Brave that allows users to contribute BAT to sites they visit. When a user turns on Brave Rewards, their browser measures the time and attention they spend on each site and divides that user's monthly BAT contribution among the sites they visit.
- **Brave Ads:** a feature within Brave that allows users to opt in to earn BAT based on their attention. When a user turns Brave Ads on, their browser will begin learning their preferences in order to show relevant ads. However, neither feature ever reveals a user's browsing history, preferences, or BAT rewards.

Practical Applications of Brave

Brave has quickly become a popular internet browser. The number of monthly active users has doubled from 11.6 million to 25.4 million year-over-year.²

Brave intends to launch a digital currency wallet which will integrate with DeFi applications.³ It seems this will be Brave's attempt to compete with MetaMask as the default interface for decentralized applications. Additionally, Brave intends to build in a fiat on-ramp to purchase crypto with credit/debit cards, bank accounts, and smartphones.

Brave also is exploring the addition of a decentralized exchange aggregator to enable users to seamlessly exchange tokens from the Brave wallet using the underlying liquidity from exchanges like Uniswap. Brave has noted that users may receive discounts when using BAT as the transaction medium or by simply holding BAT in their wallet.

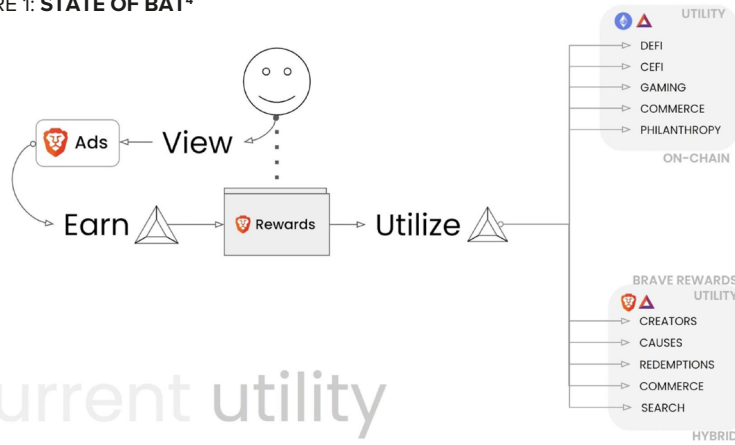
1. "Basic Attention Token (BAT)," September 4, 2017, <https://basicattentiontoken.org/wp-content/uploads/2017/05/BasicAttentionTokenWhitePaper-4.pdf>.

2. Brave, "Brave Passes 25M MAUs and 8M DAUs," Brave Browser, February 2, 2021, <https://brave.com/25m-mau/>.

3. Brave, "BAT Roadmap 2.0," Brave Browser, February 24, 2021, <https://brave.com/bat-roadmap-2-0/>.



FIGURE 1: STATE OF BAT⁴

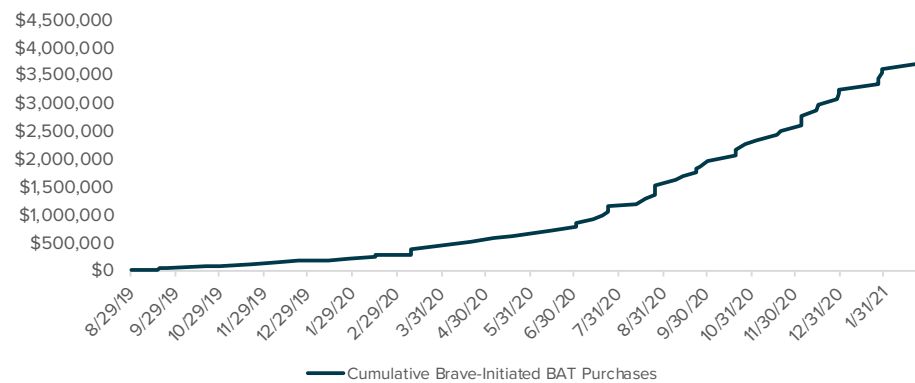


BAT Token Use

As stated earlier, BAT is an ERC-20 token and the native currency of the Brave Ads network and is used for payments between all stakeholders. Users can earn BAT by opting-in to Brave Ads. Because BAT is an ERC-20 token, users can take their BAT rewards and use them throughout the Ethereum ecosystem.

More specifically, BAT is used in a few key ways. Creators on Youtube, Twitch, Twitter, et al can earn rewards from fans and users by activating Brave Rewards and integrating the Brave wallet.⁵ Users can then send BAT as a tip or set up auto-contribute functionality. Users can also use the rewards they earn by opting into advertising and convert their BAT into gift cards through Brave’s redemption program. Soon, users will be able to spend their BAT on goods and services online through the BAT Pay feature.

FIGURE 2: CUMULATIVE BRAVE-INITIATED BAT PURCHASES⁶



4. Brave, "State of the BAT," Brave Browser, January 14, 2021, <https://brave.com/state-of-the-bat/>.
 5. Brave, "State of the BAT," Brave Browser, January 14, 2021, <https://brave.com/state-of-the-bat/>.
 6. "Transparency Data Feed," Brave Browser, March 11, 2021, <https://brave.com/transparency/>.



Currently, BAT has over 25 million monthly users and over 13 million BAT rewards wallets have been created to-date.⁷ There are over a million verified publishers on Brave that are accepting BAT for their work.⁸ Additionally, BAT is supported by major DeFi protocols including Compound and AAVE.

A Brief History of Brave

The initial funding for Brave occurred in August 2016 when the company raised \$7 million from prominent venture firms, including Founders Fund, Pantera Capital, and Digital Currency Group, Inc., the parent company of the Sponsor⁹

In May of 2017, Brave raised an additional \$35 million via an initial coin offering (ICO) by selling one billion tokens. Brave set aside an additional 500 million tokens to support the growth of users on the browser.¹⁰

Token Sale & Allocations

1.5 billion BAT were created in connection with the launch of the Basic Attention Token Network through an ICO that raised approximately \$36 million. No further BAT can be created. BAT were distributed as follows in connection with the launch of the Basic Attention Token Network:¹¹

- **Initial Distribution:** 1.0 billion BAT, or 66.66% of the supply, was sold in the ICO to investors.
- **User Growth Pool:** 300 million BAT, or 20% of the supply, was reserved by the company to incentivize users to participate in the ecosystem.
- **Development Team Pool:** 200 million BAT, or 13.33% of the supply, was allocated to a development team pool to incentivize developers to develop the ecosystem.

Potential Risks

- **Competition** - Brave is competing against the likes of Google Chrome, Safari, and Firefox. While Brave's growth is impressive with monthly active users doubling to 25 million in a year, Chrome boasts over a billion monthly active users.

7. Brave, "BAT Roadmap 2.0," Brave Browser, February 24, 2021, <https://brave.com/bat-roadmap-2-0/>.

8. "Total Number of Brave Browser Publishers:" BATGROWTH, <https://batgrowth.com/>.

9. Digital Currency Group, Inc. is the parent company of Grayscale Investments, LLC.

10. "Crypto Research, Data, and Tools," Messari Crypto News, <https://messari.io/asset/basic-attention-token/profile>.

11. See footnote 10





- **Token Mechanics** - The cash flows that may be earned by Brave do not necessarily translate to any value for Basic Attention Token. Rather BAT is used as a medium of exchange on the Brave platform. It is possible that Brave sees success as a browser and value is not recognized in the token.
- **Governance** - Although the company continues to exert significant influence over the direction of the development of Brave, the Basic Attention Token Network, like the Ethereum network, is decentralized and does not require governmental authorities or financial institution intermediaries to create, transmit or determine the value of BAT.
- **Volatility** - BAT is a relatively nascent asset and may incur substantial volatility.
- **Token Distribution** - At the time of writing, approximately 73% of the total BAT supply is held in the top 100 addresses.¹²
- **Regulatory** - The SEC has stated that certain digital assets may be considered “securities” under the federal securities laws. To date, the SEC has only identified two digital assets, Bitcoin and Ethereum, for which it does not intend to take the position that they are securities. As a result, any other digital asset, including BAT, is at risk of being deemed a security, which may have material adverse consequences for such digital assets.

Summary

Brave is quickly becoming a popular web browser for scrupulous users — not just for its adjacency to crypto but for its speed, privacy, and user experience. It’s not entirely surprising given that Brendan Eich, the CEO of Brave, was also the founder of Mozilla. It remains to be seen whether Brave’s novel approach of redefining the advertising value chain will reach mainstream popularity, but there are early signs of adoption. Additionally, Brave plans to integrate Ethereum wallets and tooling to take advantage of the surge in demand from the DeFi and NFT market. As such, we believe Brave is poised to play a key role as the narrative around socially responsible internet software unfolds, and we look forward to watching it closely.

12. Source: Coin Metrics



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For more information on Grayscale, please visit www.grayscale.co or follow us on Twitter @Grayscale.



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