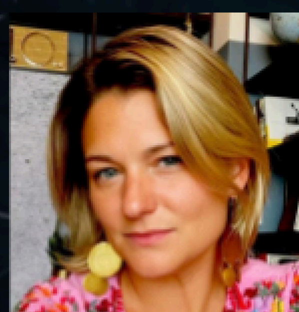
diffusetap
Virtual Event Series

Supply Chain on the Blockchain As A Service

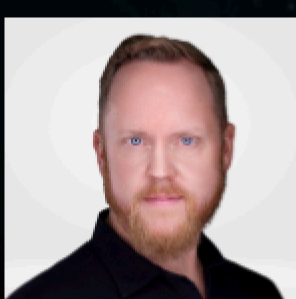
Guest Speakers:

Todd Ziegler
CEO & Founder
TruckCoinSwap

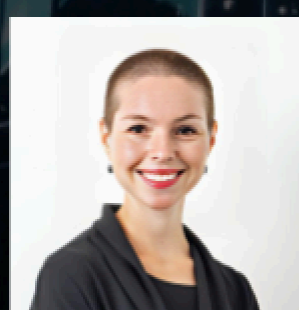


Gabriella Kusz
Advisor
TruckCoinSwap

Hosts:



Kenny Estes
CEO & Founder
Diffuse



Ayla Kremb
COO & Co-Founder
Diffuse

DiffuseTap: Supply Chain on the Blockchain As A Service

Last time on DiffuseTap, Todd Ziegler and Gabriella Kusz of TCS Blockchain talked to us about the biggest problem with payments in the transportation industry, why a large number of shipping companies are filing for bankruptcy today, and how blockchain applications can significantly accelerate payments across the entire supply chain.

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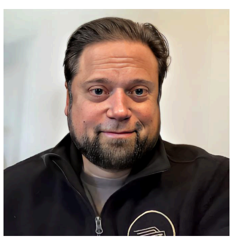
DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)... straight from your armchair like a boss.

Meet the Speakers



TODD ZIEGLER is an investor with 20+ years of experience in fintech, freight tech, and digital assets. He is the CEO of TCS, a blockchain as a service company that solves the trade finance problem in the $2T+ U.S. transportation industry by settling carriers in 1-2 days, 90% cheaper than banks and factoring companies.

Linkedin: @todd-ziegler

GABRIELLA KUSZ is a thought leader in financial services, public policy, and sustainable programming innovation. Before joining TCS as Operations Advisor, she was CEO of the Global Digital Currency Association, a self- regulatory association for the blockchain and digital assets Industry .

Linkedin: @gabriella-kusz

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KENNY ESTES: Todd, you want to tell the folks a little bit about your background and what you're up to over at TCS Blockchain? And then, we'll bring it over to Gabby.

TODD ZIEGLER: Thanks, Kenny and Ayla for the invite. Very excited to be on episode 200. I had no idea! Just a little bit on my background, I'm an attorney by education. I spent the better part of a decade working in the transportation industry doing compliance, contracts and business development. Customer facing, for a lot of Fortune 1,000 shippers. I quickly realized that we had a systemic trade finance problem in the transportation industry. Shipper pay terms are 30 to 180 days by industry averages.

Sadly, the shippers, the big companies that you've heard of, tend to have the worst pay terms. A lot of the Fortune 50 companies in the United States pay on net 180 terms. You deliver a load of freight, you incur all the costs of moving widgets from point A to point B, you deliver clean, and you have to wait six months for the cash to show up in your business checking account.

This is a problem that really goes back about 40 or 50 years to when the transportation industry started to decentralize during the Carter years, and early Reagan years. And, of course, nature abhors a vacuum.

So, banks and companies called "factoring entities:", which are third party intermediaries, stepped into the fold and said "Hey, trucking companies and logistics companies. We realize you can't wait 180 days to get paid. We realize you probably can't wait 10 days to get paid. So, what we will do is we will advance you cash against your receivables. We will take assignment or collection rights in those commercial paper assets. We will collect on them for you, and we will only charge you 3 to 6% of gross to do that."

Three percent to 6% of gross doesn't sound that bad, especially in a high interest rate environment. But oftentimes, this is 50% of net revenue on every transaction. The hypothetical that I like to use is, you run a load of onions from Idaho to New York. The freight rate on that transaction is probably about $10,000, the net revenue is probably somewhere in the ballpark of 10%, or $1,000. If I am paying a 5% factoring fee to get paid in 10 business days, that's $500. That's 50% of my net revenue. So, this is a really egregious scenario in normal market cycles for the transportation industry.

For those who don't know, this is a $2 trillion industry in the United States. Domestic transportation. Just in the full truckload sector in the United States we are settling about $850 billion a year in commercial paper transactions. It's an absolutely massive market.

And another interesting statistic that most people don't know is that about 90% of the full truckload spot freight that is managed in the country is managed by small businesses that have to factor their invoices, because they're not at scale, and they cannot wait 30 to 180 days to get paid.

So, TCS is a Blockchain as a Service company that solves the problem. We have built out a tech stack and a financial business and revenue model that allows these companies to get to liquidity, to get to cash in one to two business days, and about up to 90% cheaper than what they would pay to a bank or a factoring company.

I won't get into the weeds in the introductions here. I know we have some time to do that. But we utilize an ERC 20 token, and a crypto blockchain backend in order to facilitate the value proposition for the industry. And sorry Gabby, that I ran over a bit.

GABBY KUSZ: No worries. I'll go next. Gabby Kusz. I'm an advisor for operations at TCS. I have a background in international economic and financial sector development. I was the former CEO of the Global Digital Asset and Cryptocurrency Association. After which, I moved over to support former US CFTC Chair Christopher Giancarlo with the Digital Dollar Project.

I bumped into TCS while at the helm of the global DCA, and it was there that I felt like this was the most compelling use case for blockchain application I had ever seen. In fact, it was so compelling that this was the flagship use case, that I used when I did a lot of my advocacy with legislators and regulators, explaining what and how blockchain was really intended to work, and why it should be embraced beyond just the FinTech or tech industries, but really, by all industries. It touches people all over the country, and in fact, all over the world.

Todd talked a little bit about the North American TAM, and I'm lucky enough to know that the global TAM is around $10 trillion. So, this is not a uniquely North American issue. It is not uniquely an overland freight issue. These are the most egregious examples that we're seeing here in North America. And for me, that was such an amazing rationale to get involved more , and to really link arms with Todd and the team as we move forward.

KENNY: Okay, that's great. And I think it's worth noting at the start of the 200th episode, Gabby, that I think this is your third time on here.

GABBY: This is my fourth, yeah.

KENNY: Fourth time! Wow. You are two ahead of everybody else.

GABBY: Yeah. I've done two when I was with Global DCA, one with Innovo Markets, and now with TCS.

KENNY: All right. We have a bit of an overlap, apparently. All right, Gabby, I'll stick with you just because your vocal cords are warm. Is this a utility token as a security token? And what are your thoughts on why one versus the other?

GABBY: Sure. So, this is a utility use of blockchain technology. What we're looking at here is the leveraging of tokenomics in order to facilitate, and provide such low cost settlement to carriers to 3PLs and 4PLs, or third party logistics and fourth party logistics. When we look at the purpose behind it, the way that it is structured is that tokens only come out of the Gnosis safe for the purpose of settling an invoice, accounts receivable. And it is from that point that people are able to immediately cash out into USD fiat through a centralized exchange mechanism.

We always like to say that there is a token involved, for the purpose of facilitating settlement, and allowing for small businesses to get the foot off their throat from these factoring companies.

It's one of the truest forms of the application in the Satoshi white paper, which recognizes a limited supply of tokens in an effort to try to transform industries, as opposed to "coin go up, coin go down". It's really about helping to facilitate a transaction, and allowing for people to live better, more profitable, and more expediently with the funds that are owed them.

KENNY: Makes sense. Todd, do you want to expand on that idea of utility versus security, and then also the marketing strategy around it?

TODD: Sure. Absolutely. I think you, Gabby hit the main points. The TCS token is a utility token. We refer to it as a "non-security digital asset". It is a non-security digital asset pursuant to the Howey jurisprudence, which a lot of folks have gotten intimately familiar with over the last couple of years in some of the big cases that are making their way through the federal courts.

Like the point that Gabby made, we really do look at this as the manifestation of the Satoshi white paper in the $2 trillion supply chain industry. The whole purpose of Bitcoin, while it is a store of wealth for certain, the underlying thesis was about the tech.

That a blockchain tech stack is infinitely superior to banking rails, in terms of disintermediating third parties, lowering costs, increasing speed, and creating efficiencies. That is exactly what we're doing in this industry with a blockchain tech stack.

So, in order to facilitate all of this, we do need secondary market participation. Well, I shouldn't say we need it, but it's advantageous to TCS when a transportation company takes settlement in TCS token and they go to sell on an exchange.

They are doing so because that is their need. They have an immediate need to get to cash. Or maybe they're converting to USDC, or maybe they're converting to Bitcoin, whatever they're doing on the exchange. Once the value of that freight invoice is on-chain, it's their business.

TCS does guarantee to act as the buyer of last resort when those tokens are sold on a centralized exchange. If the secondary market does not come in and buy them on the trading day, we guarantee that we will come in and buy them back to guarantee that our transportation user can get to liquidity. Because if they can't get to cash, we don't have a value proposition and product market fit.

The incentives of all of the parties and counterparties in this ecosystem are perfectly aligned in that sense. But when we do get secondary market participation on an exchange, Kenny, when you show up and buy some TCS tokens, or maybe it's a family office in Abu Dhabi, or somebody on the other side of the world, it does help to facilitate the ecosystem. Because every token that TCS doesn't have to buy back is profit for TCS .

So, instead of just charging a very low fee associated with settlement, which again is 90% cheaper than what a user would pay to a bank or a third party factoring company, TCS is actually able to benefit from the ecosystem that is being developed when we have that secondary market participation.

KENNY: Understood. You touched on it there, but if you don't mind expanding, we've got a lot of questions in the chat about the intersection between the cash fiat and the actual tokens. Is there a tokenization element where there is this claim on the receivable on the supply chain, and then that turns into a token? Can you talk through a little bit of the logistics behind that, and how that interplays with the liquidity pools?

TODD: Sure, I'll do my best. I like to use a restaurant analogy. You have the front of the house and the back of the house. The settlement of the transportation user, between TCS and the user on a centralized exchange – that's on the front of the house. Once the user has their tokens, they can hold, they can divest, they can transfer into USDC. They're on to their next load. At that point, they are out of the transaction.

So, what does that leave TCS? TCS now has a commercial paper asset. It has collection and assignment rights in that asset, just like a bank or a third party intermediary would. So, we have to go collect the cash on 30 to 180 day terms. At that juncture in the larger transaction, TCS has two options. We can collect directly from the shipper. It could be Walmart, it could be Target, it could be Fred's Carpet Barn. Whoever the payee or the shipper is on the transaction.

Or, we can work with our strategic partnerships over on the liquidity and credit facility side of the business, and we can effectively collateralize those commercial paper assets into liquidity pools and liquidity pool providers, like Bulla Network.

I know Mike Revy, the CEO of Bulla Network, is on the call today. Mike is also a minority owner in TCS, in the interest of full disclosure. But companies like Bulla can actually take this collateral, they can create liquidity pools, and then they can create yield-bearing security products for accredited investors. Yields that are better than US Treasuries, for example.

And in that specific relationship between those counter parties, there would be redemption rights in the underlying assets. That is basically a structured securities product that is collateralizing the commercial paper that came to TCS through the initial barter transaction, where we traded a digital asset for the commercial paper asset.

It's a little complicated, but it's really not much more complicated than the way things are happening now in TradFi and in the conventional banking space. But the real difference here is, again, we are utilizing the blockchain tech stack and technology to create a fundamentally faster, cheaper, and better product market fit for users – a better experience and value proposition for these transportation companies that are under so much financial hardship.

Just last year, we had 35,000 American trucking and logistics companies either file bankruptcy or fail. We are in a down market cycle right now in the transportation industry. And again, in a good market or a normal freight market, maybe you can absorb losing 30, 40, or 50% of your net revenue on every transaction. In a down market, you can't. And that's why we're seeing massive bankruptcies, massive M&A I mean, it's a disaster right now.

TCS doesn't eliminate that problem, but we significantly mitigate it. And we give the small businesses who are truly the backbone of the entire US supply chain a far better chance to maintain their operations in down markets and to grow their business when we cycle back into positive trade markets.

KENNY: I love that. Gabby, anything you want to expand on as far as the intersection between fiat and token? And also, how is it not a security token? In the sense that you're taking these claims, there are collections involved, and there's a yield on it. How are you skirting that line?

GABBY: When we talk about the transition from the TCS token into fiat, I think, Todd appropriately highlighted the degree of friction that exists today with regards to obtaining payment, and going through the process. I think one of the things he hasn't hit on is the degree of low-level of customer service and support that is provided.

When we look at a holistic solution for carriers , we are looking not only at the ease with which in 90 seconds, you can transition from tokens to USD fiat through a centralized exchange and their wallet products, but also the fact that a lot of the differentiation and focus will be on providing a much more attractive solution.

That includes ensuring that we have appropriate customer support, which we have been gearing up and working internally on. And also ensuring that there is a high degree of satisfaction with regards to service.

Those are some of the pieces, just to comment on some of the transition from token to fiat. When you compare what a carrier or 3PL, 4PL goes through today in order to get paid, that process is extremely egregious. Even though you're working with a wallet and a centralized exchange, the reality is that it is far more streamlined, quicker, efficient, and likely more user-friendly than what you're seeing in the market today.

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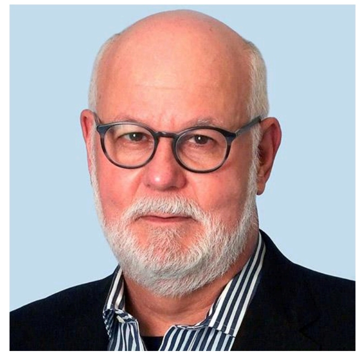

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