FINANCE · FTX

Leaked documents that Sam Bankman-Fried used to fundraise in 2021 and 2022 show why VCs may have ignored due diligence and scrambled to invest nearly $2 billion

BY LUISA BELTRAN
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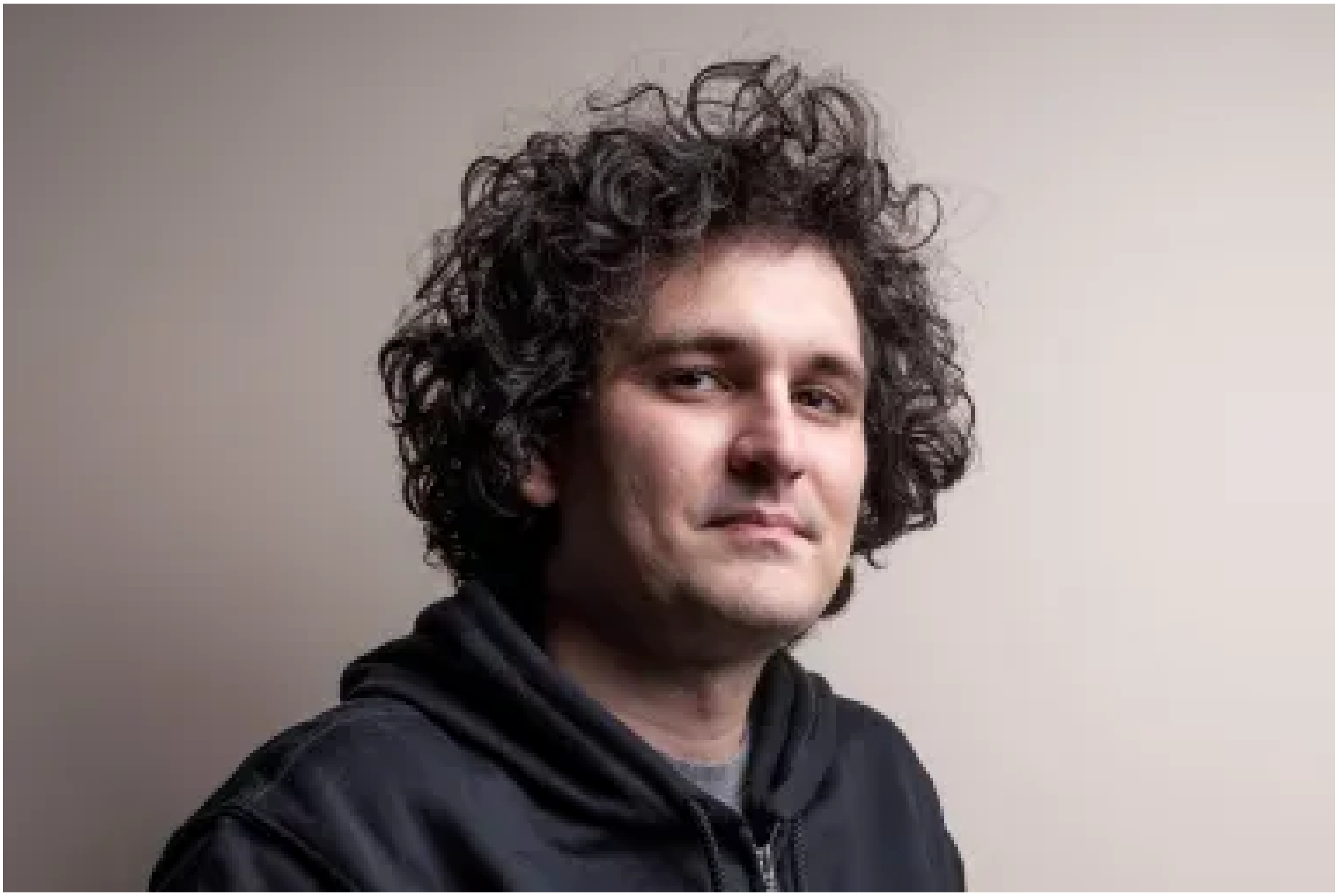

Sam Bankman-Fried photographed in Hong Kong on July 16, 2021.

ANTHONY KWAN FOR FORTUNE

Leaked documents from FTX show stunning growth for the crypto exchange and expenses that shot up dramatically during the company's short existence.

FTX spun out of Alameda Research, a quantitative trading firm, in 2019. Sam Bankman-Fried, CEO of FTX, owned a majority of both FTX and Alameda (read more about Alameda and its twentysomething CEO Caroline Ellison here). FTX raised about $1.8 billion through several rounds of funding, attaining a $32 billion valuation in January. Some of the biggest names in the venture world, including Tiger Global Management, SoftBank, and Sequoia Capital, backed the company, which is headquartered in the Bahamas. Last week, FTX, Alameda Research, and about 130 affiliated companies filed for Chapter 11 bankruptcy protection after a CoinDesk report led to a bank run. Bankman-Fried also resigned as CEO of FTX last week.

With each round FTX raised, Bankman-Fried sent a spreadsheet to potential investors displaying items like revenue, profit and losses, daily users, and expenses for FTX, according to an executive who received the documents. *Fortune* was sent two sets of spreadsheets on the condition that we could review but not publish the original documents, which were dated December 2021 and June 2022. The documents do mention Alameda and the fact that the market maker has overlapping ownership.

Taken together, the documents show an early picture of an outrageously fast-growing enterprise run by a founder who eschewed traditional management structures, board oversight, teams of accountants and lawyers, and other standard practices of businesses that grow to this size. The spreadsheets are a far cry from audited financials; rather, they appear to be homespun Excel files, which are at times confusing and have inaccurate labels. They are sales documents, and do not provide a clear accounting of how FTX was valuing its various tokens or liabilities when calculating figures such as “net profits.” And yet Bankman-Fried was able to translate such documents into nearly $2 billion from some of the savviest investors around.

The figures—which are estimates and appear to be annualized—detail jaw-dropping growth as well as escalating costs. FTX revenue in 2019, the year it was founded, was $15 million, while net profit was $3 million. In 2020, revenue jumped to $87 million, with $31 million in net profit. A year later, in 2021, revenue skyrocketed to about $1 billion, while net profit was $370 million.

FTX’s success appears to have leveled off in 2022. Revenue in the fourth quarter of 2021 stood at $1.34 billion, with $493 million in net profit. Revenue dropped to about $1 billion in Q1, then slid to $995 million in Q2. Profit also fell, to $371 million in Q1 and then $366 million in Q2 of this year. Ryne Miller, FTX.US general counsel, declined to comment.

The picture gets even murkier when it comes to FTX’s in-house token, FTT. FTX created the FTT token in 2019, the same year it spun off from Alameda. By September 2021, the token had hit a high of $79.53. Holders of the FTT token were given discounts on trading fees and other perks. The exchange, on its website, said the FTT Token (FTT) is “the backbone of the FTX ecosystem.” The token was supposed to be widely distributed, but most were held by FTX, a situation that helped lead to its implosion.

“The exchange lent billions, including most of its FTT pile, to its sister firm Alameda for trading capital at first, and eventually to cover massive losses,” said Cory Klippsten, founder and CEO of Swan Bitcoin, a financial services company. “It seems like FTX lent customer deposits to Alameda Research using FTT tokens as collateral. So when public perception of the value of the tokens collapsed, the value of the loan and collateral also collapsed,” added Ariel Zetlin-Jones, economist at Tepper School of Business at Carnegie Mellon University.

FTX, to support the value of the FTT token, regularly repurchases and burns the tokens using 33% of the trading fees generated on its platform. According to the documents reviewed by *Fortune*, the buy/burn rate, plus trading and other expenses, totaled around $12 million in 2019; jumped to $56 million in 2020; and hit $635 million in 2021. This year, the buy/burn rate, plus trading and other expenses, was $637 million in Q1 and $630 million in the second quarter. (The buy/burn alone was $4 million in 2019; $26 million in 2020; $267 million the next year; and $266 million in 2022, according to the June spreadsheet.)

Daily average volume for FTX shows a similar trend, starting out at about $148.4 million in 2019. Volume surged 592% to $1 billion in 2020, then to a $12.6 billion average in 2021, and remained at a $12.6 billion average this year (an 8,405% gain from 2019). FTX's daily average volume (labeled on the spreadsheets as "run rate," which appears to be an error) began accelerating in the first quarter of 2021, hitting about $7.4 billion: a 4,882% increase from 2019. It rose to $14.4 billion in Q2 2021, dropped to $11.8 billion in Q3, and then rebounded in Q4 2021, rising to a high of about $16.7 billion, up 11,128% from 2019. Volume then fell to $12.5 billion in the first quarter of this year and $12.7 billion in Q2, which was still up 8,461% from 2019.

For a company posting such staggering growth numbers, much has been made about the lack of oversight. The company was small, employing roughly 300 people including U.S. and international staff, a spokesman told *Fortune* before the bankruptcy filing. FTX had a very small board, which included Bankman-Fried; FTX executive Jonathan Cheesman, who left earlier this year; and a single unnamed outside director, an attorney based in Antigua and Barbuda, according to the *Financial Times*. FTX also has advisory board members like Robert Sayle, a partner at Thoma Bravo, according to LinkedIn. (Several executives as of late Monday had apparently deleted their roles as advisers to FTX on LinkedIn.) Thoma Bravo and Sayle did not immediately return messages for comment.

FTX had some well-known venture investors, but none received board seats, and FTX raised several rounds of funding that did not include a lead investor. Many times, investors would get very small stakes, the exec said: "You don't get a board seat for 2%."

—With additional reporting by Shawn Tully