Scaling Software with Web3 (Pt. 2)

Not relevant for US-based companies/founders/readers.

Escape Velocity
Rocket fuel for networks.

Token Launches *COULD BE* Next-Gen IPOs.

Common goal: bootstrap initial liquidity …

…i.e., assemble a critical mass of buyers/sellers around a tight price range…

…so that entrepreneurs can finance growth businesses.

…But the Status Quo is Extremely Broken for Entrepreneurs.

<u>Centralized exchanges</u> require projects to maintain $[1]m+ in average daily trading volume…

…plus, charge a $[250]k listing fee of and take [months] to list a token, unless teams have prior relationships.

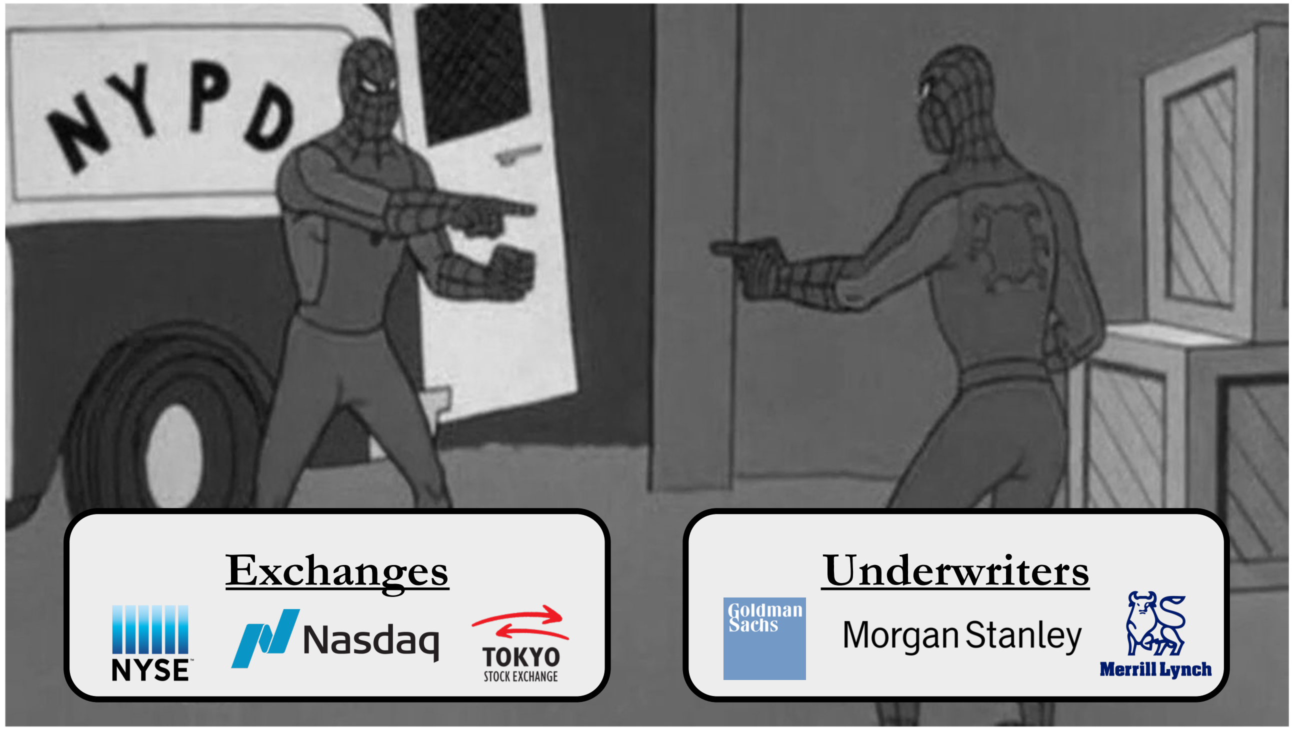
<u>Market makers</u> guarantee $[1]m+ daily trading volume and expedite exchange listings…

…in exchange for [3-5]% of token supply on loan) plus another [3-5]% in equity/warrant upside.

In Fact, Token Listings Look a Lot Like TradFi IPOs.

Stock exchanges

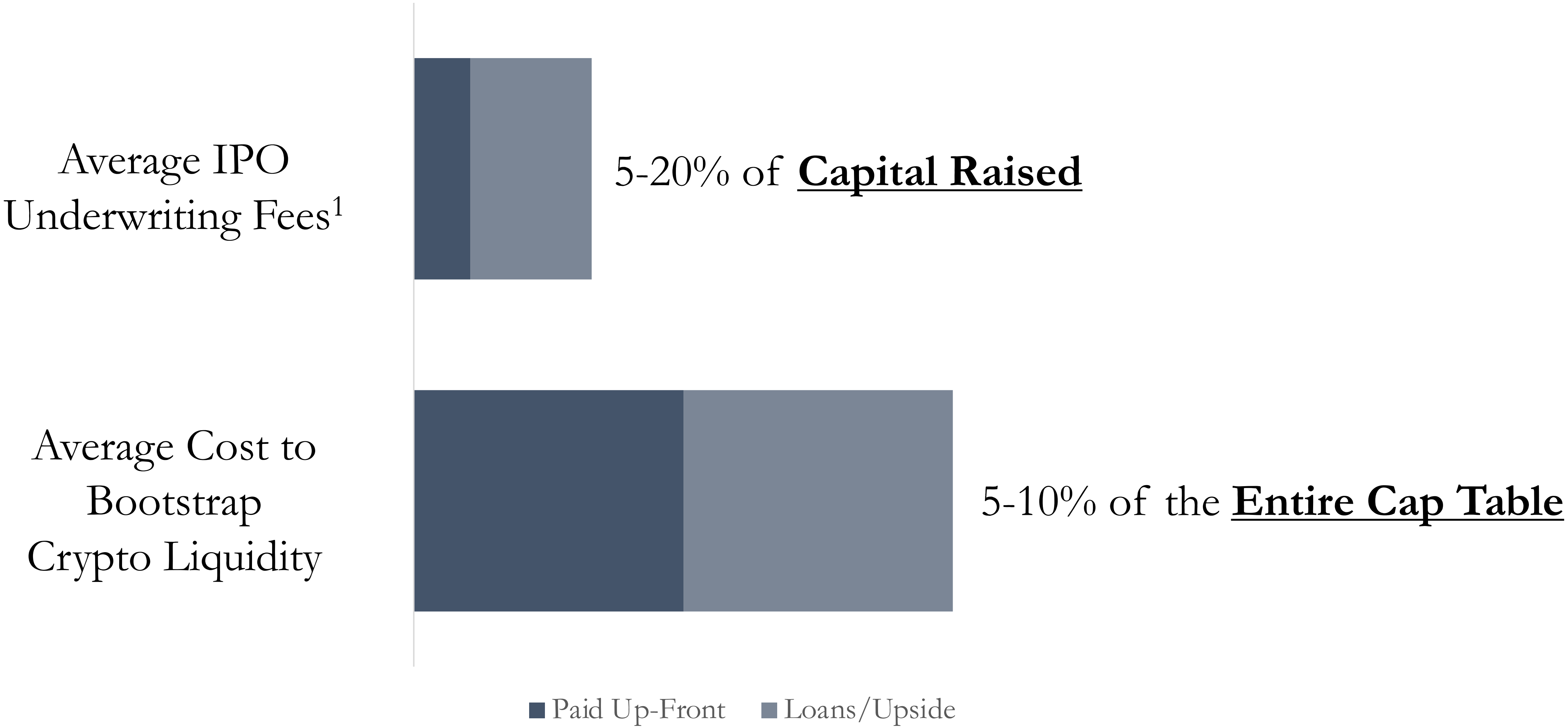
- Listing requires minimum daily trading volume ($100k+), market cap ($100m+), share price ($1+), etc
- Inclusion in the major indices (e.g., S&P500, Nasdaq Composite) comes with even stricter requirements
- Index inclusion ⇒ passive ETF flows ⇒ higher stock price ⇒ more exchange volumes



Investment banks

- Banks are gatekeepers to institutional investors: no bank ⇒ no roadshow / equity research / market makers ⇒ no large institutions buy the IPO
- Bank charge 3-7% of capital raised in underwriting fee
- Banks get a free option to upsize IPO by 10-15% if stock trades up, earning a riskless profit (greenshoe)

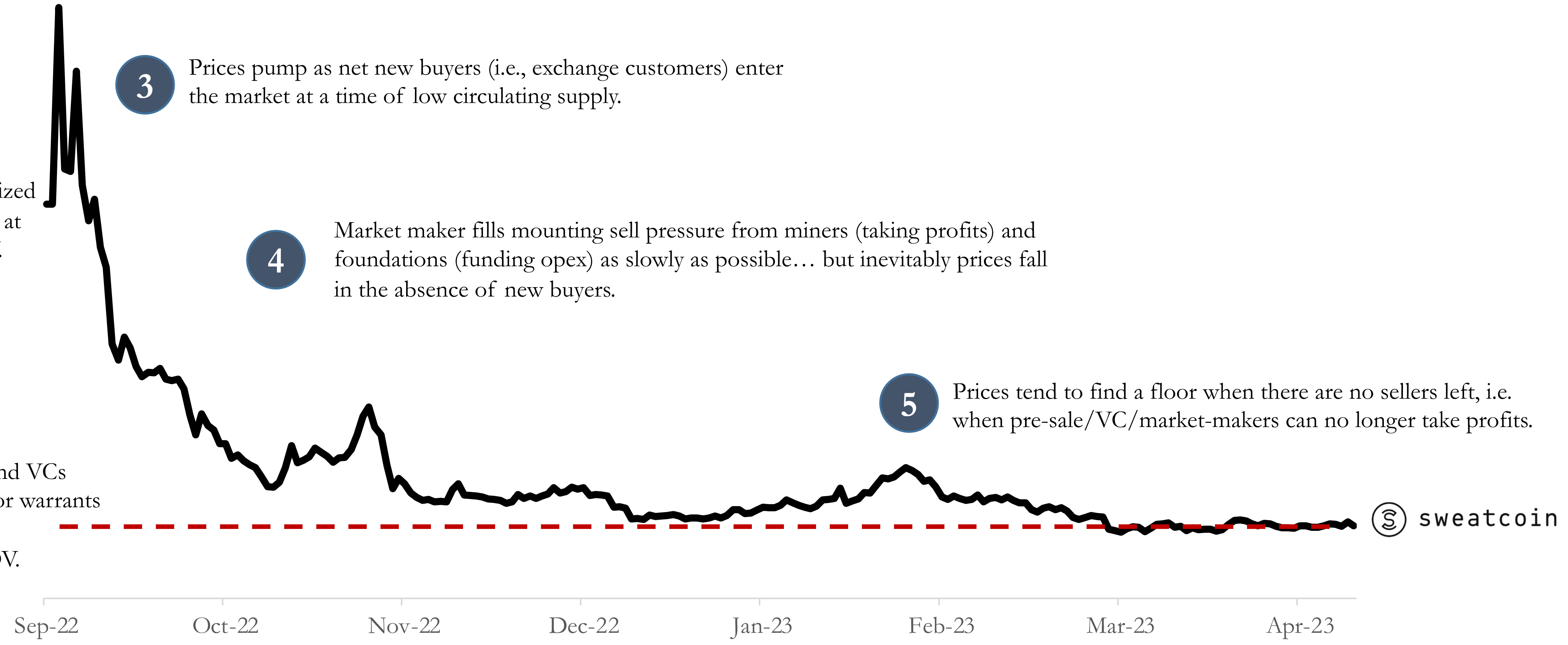
Yet Listing Tokens Is—Somehow—Much More Expensive.



Source: 1) PwC, Costs of an IPO (2020). Chart assumes 15% average dilution at IPO.
Note: Based on public filings from 829 companies.

The Current Listing Process Sets Tokens Up For Failure.

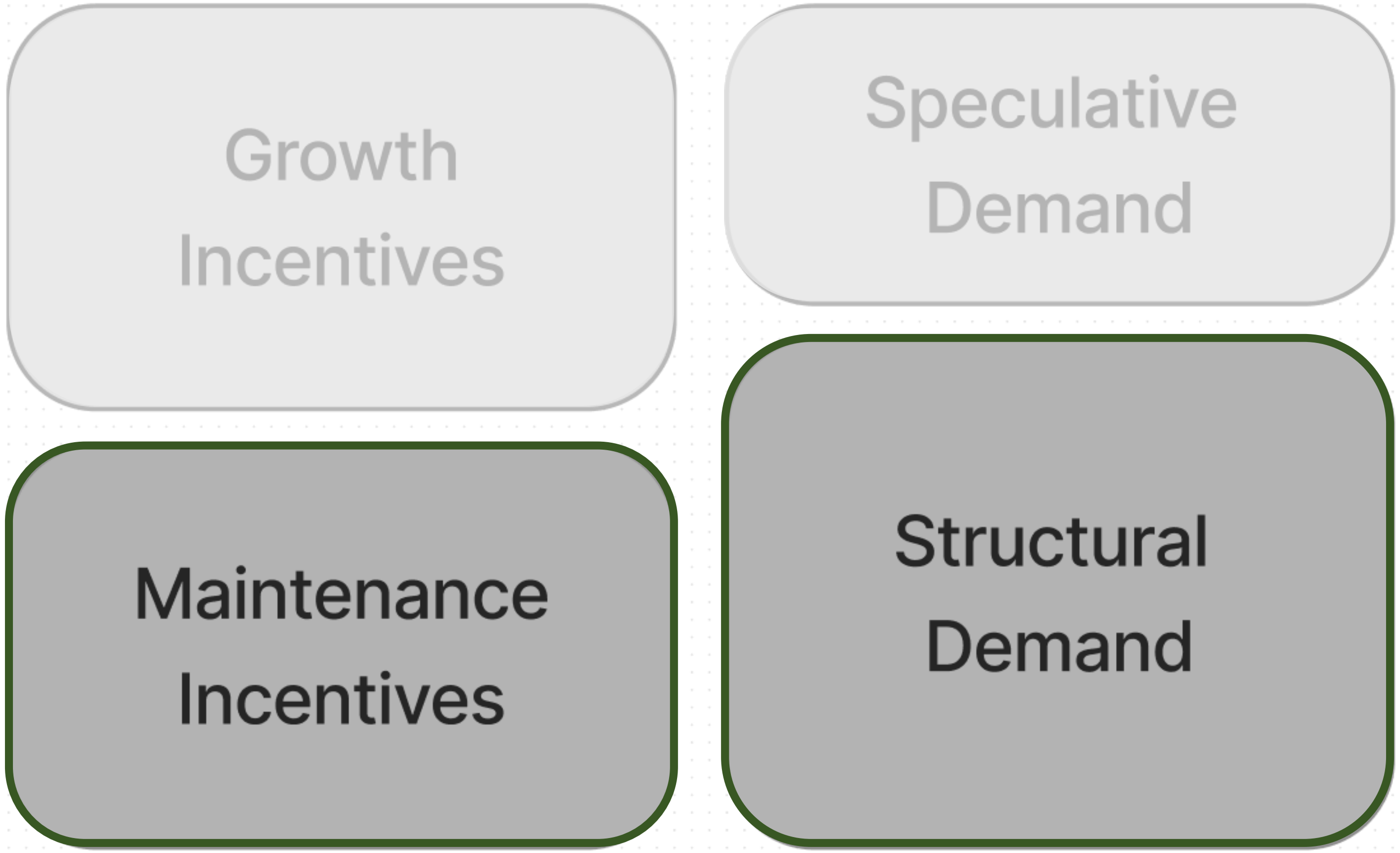
Anatomy of the typical crypto listing process



1. Market makers and VCs invest in tokens or warrants (with lockups) at $10m-$100m FDV.
2. Market maker facilitates centralized exchange listings at $100m-$1b FDV.
3. Prices pump as net new buyers (i.e., exchange customers) enter the market at a time of low circulating supply.
4. Market maker fills mounting sell pressure from miners (taking profits) and foundations (funding opex) as slowly as possible… but inevitably prices fall in the absence of new buyers.
5. Prices tend to find a floor when there are no sellers left, i.e. when pre-sale/VC/market-makers can no longer take profits.

Networks with Fiat Revenues Can Play a Different Game.

not reliant on speculative demand = not reliant on market makers & exchanges



Growth Incentives

Speculative Demand

Maintenance Incentives

Structural Demand

A Simple, Flexible Issuance Curve Provides Decades of Runway.

Key Assumptions

- Network airdrops [5-10]% of tokens to its community at launch, then uses fiat cash flows to support token buybacks/burn from day one.

- Network issues [4] new tokens for every [3] tokens of buybacks/burn.
  (75% coverage ratio)

- Markets value the network at a [3-5]x fully-diluted cash flow multiple.
  (20-33% yield)

Implies 8-15 years of runway, assuming zero growth or multiple expansion.

Networks Can Feasibly Grow 80x+ Over a Decade, Financed Entirely by Token Emissions.

	Years										
	0	1	2	3	4	5	6	7	8	9	10
Last Year Buybacks		$0.5	$0.5	$1	$1	$2	$4	$6	$9	$15	$25
(+) Growth (from Incentives)		$0.0	$0.3	$0.5	$0.9	$1.4	$2	$4	$6	$9	$15
This Year Buybacks	**$0.5**	**$0.5**	**$0.9**	**$1**	**$2**	**$4**	**$6**	**$9**	**$15**	**$25**	**$40**
(x) Market Multiple	4x	4x	4x	4x	4x	4x	4x	4x	4x	4x	4x
Fully-Diluted Valuation	**$2.0**	**$2.2**	**$3.4**	**$6**	**$9**	**$14**	**$23**	**$38**	**$61**	**$99**	**$160**
(%) of Total Tokens Issued	5%	14%	22%	31%	40%	48%	57%	66%	74%	83%	92%
Market Cap	**$0.1**	**$0.3**	**$0.8**	**$2**	**$4**	**$7**	**$13**	**$25**	**$45**	**$82**	**$146**
YoY % Inflation		*170%*	*64%*	*39%*	*28%*	*22%*	*18%*	*15%*	*13%*	*12%*	*10%*

Network launches with $0.5m in annualized token buybacks/burns from day one, valued at 4x FDV.

Assumes $1 of new token issuance drives $0.15 of new structural demand six months later.

Path to 80x growth over a decade.

Model download link: https://docs.google.com/spreadsheets/d/1kfsS9U0Rlx0zTr0PeMrRGsLKAA2AlJO1/

For Profitable Businesses, Token Networks are Actually a *Low-Risk* Way to Finance Growth.

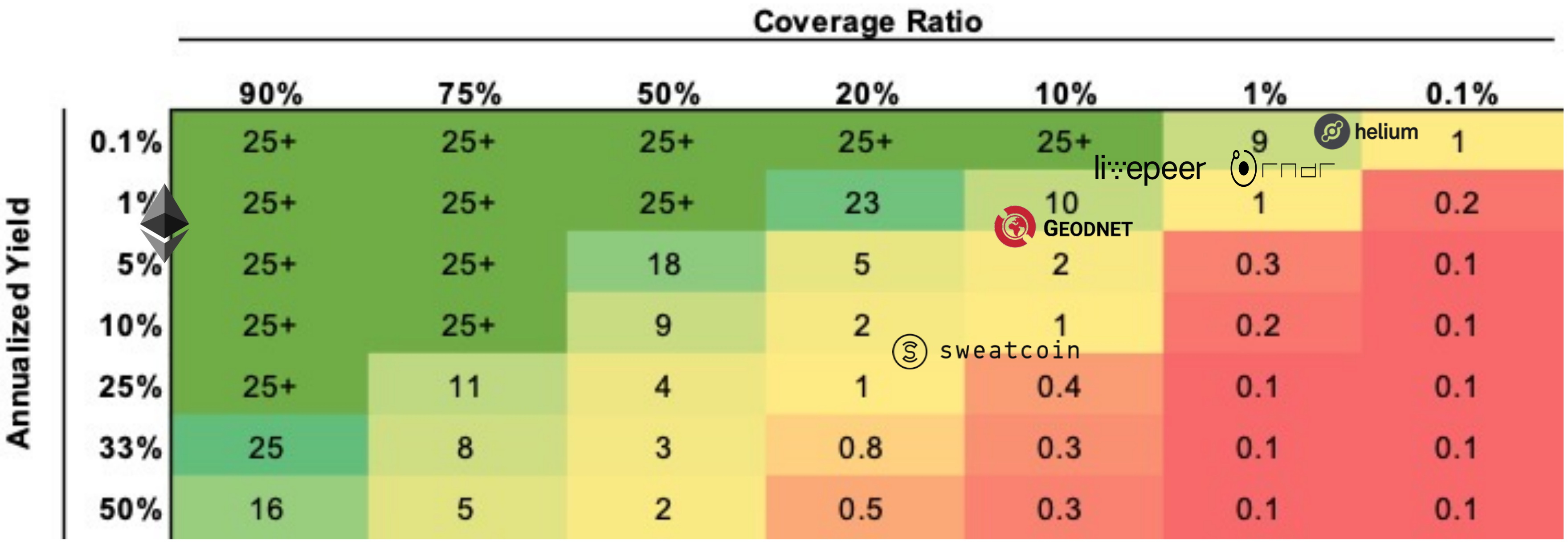
What happens in a…

Economic Recession	Economic Expansion
Lower revenues ⇒ fewer tokens bought back ⇒ proportionally fewer tokens issued ⇒ lower network inflation.	Higher revenues ⇒ more tokens bought back ⇒ proportionally more tokens issued ⇒ higher network inflation.

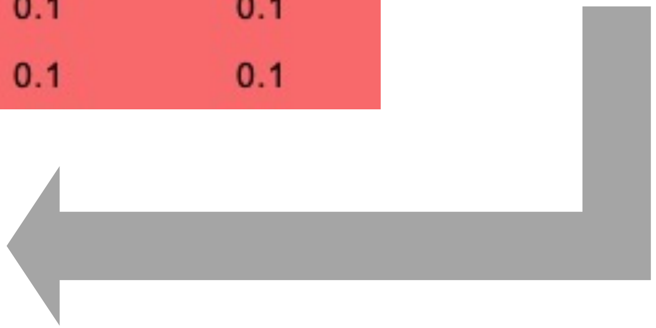
Bear Market	Bull Market
Lower prices ⇒ higher net token issuance ⇒ adjust coverage ratio higher ⇒ lower net issuance/inflation.	Higher prices ⇒ lower net token issuance ⇒ adjust coverage ratio lower ⇒ higher net issuance/inflation.

Networks Can Adjust *Coverage Ratio* to Respond to Changing Market Conditions.

Implied years of runway for growth*



Annualized Yield	Coverage Ratio						
	90%	75%	50%	20%	10%	1%	0.1%
0.1%	25+	25+	25+	25+	25+	9	1
1%	25+	25+	25+	23	10	1	0.2
5%	25+	25+	18	5	2	0.3	0.1
10%	25+	25+	9	2	1	0.2	0.1
25%	25+	11	4	1	0.4	0.1	0.1
33%	25	8	3	0.8	0.3	0.1	0.1
50%	16	5	2	0.5	0.3	0.1	0.1



What multiple will the market support?

What is the right pace of net token issuance?

** Under linear issuance model.*

Model download link: https://docs.google.com/spreadsheets/d/1kfsS9U0Rlx0zTr0PeMrRGsLKAA2AlJQ1/

For Networks with Exceptional Growth Dynamics, Token Incentives Can Drive 500x+ Growth Over a Decade.

Buyback growth over a decade

		Months to Payback				
		1	**3**	**6**	**12**	**24**
Growth Efficiency	**$0.00**	1x	1x	1x	1x	1x
	$0.10	42x	31x	22x	13x	7x
	$0.15	258x	149x	80x	34x	13x
	$0.25	1,000x+	1,000x+	712x	155x	33x
	$0.35	1,000x+	1,000x+	1,000x+	513x	66x

How much new structural demand (i.e., recurring token buybacks) is driven by every $1 of net token issuance?

How many months between when token incentives are issued and the associated token buybacks begin? (payback)

Model download link: *https://docs.google.com/spreadsheets/d/1kfsS9U0Rlx0zTr0PeMrRGsLKAA2AlJQ1/*

Tokens Don't *Create* Value… They *Unlock* It.

How strong is our moat? (x) How much value can tokenization unlock? (=) ROID

Moat

Engaged community
Proprietary dataset
Strong brand
Network effect

1P Products

- Subscriptions
- Commodity software/hardware

3P Products

- Partner ecosystem
- Advertising network

Data

- Data & analytics
- Neural network training/tuning

Growth & Engagement

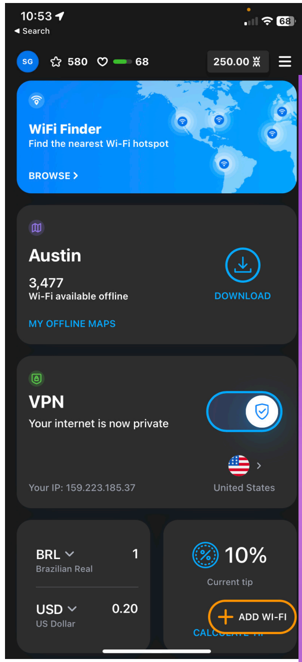
- Referrals
- Marketing
- Incentives
- Gamification

Returns on Incremental Dilution

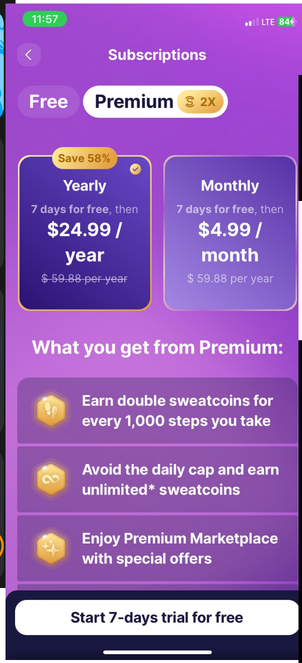
10%+ = investable
25%+ = strike zone
50%+ = fat pitch

How Tokens Unlock Value: 1P & 3P Products

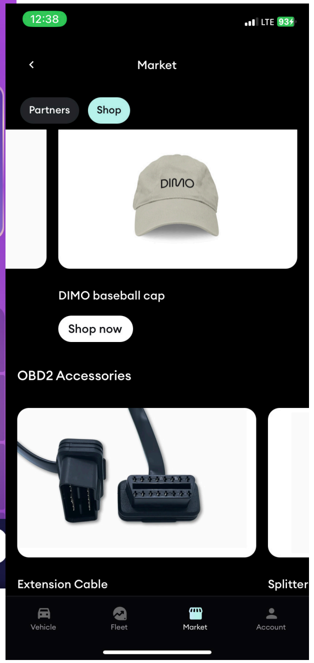
First-Party Products



WiFi Map
VPN

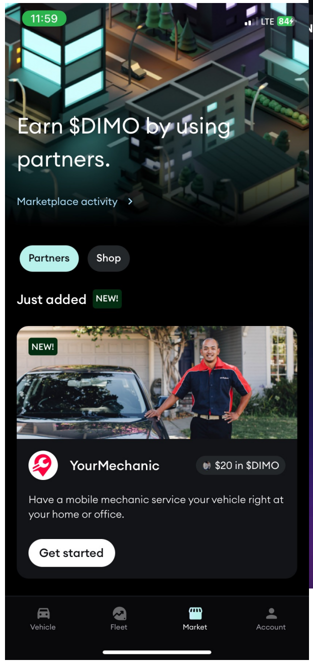


Sweatcoin
subscriptions

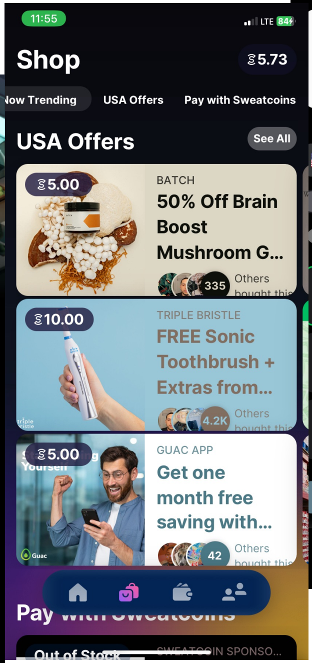


Dimo
gear

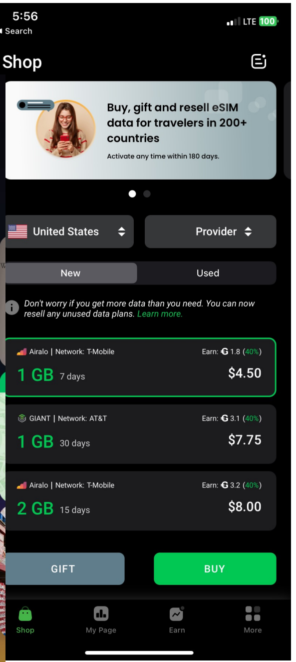
Third-Party Ecosystems



Dimo
auto repairs



Sweatcoin
fitness



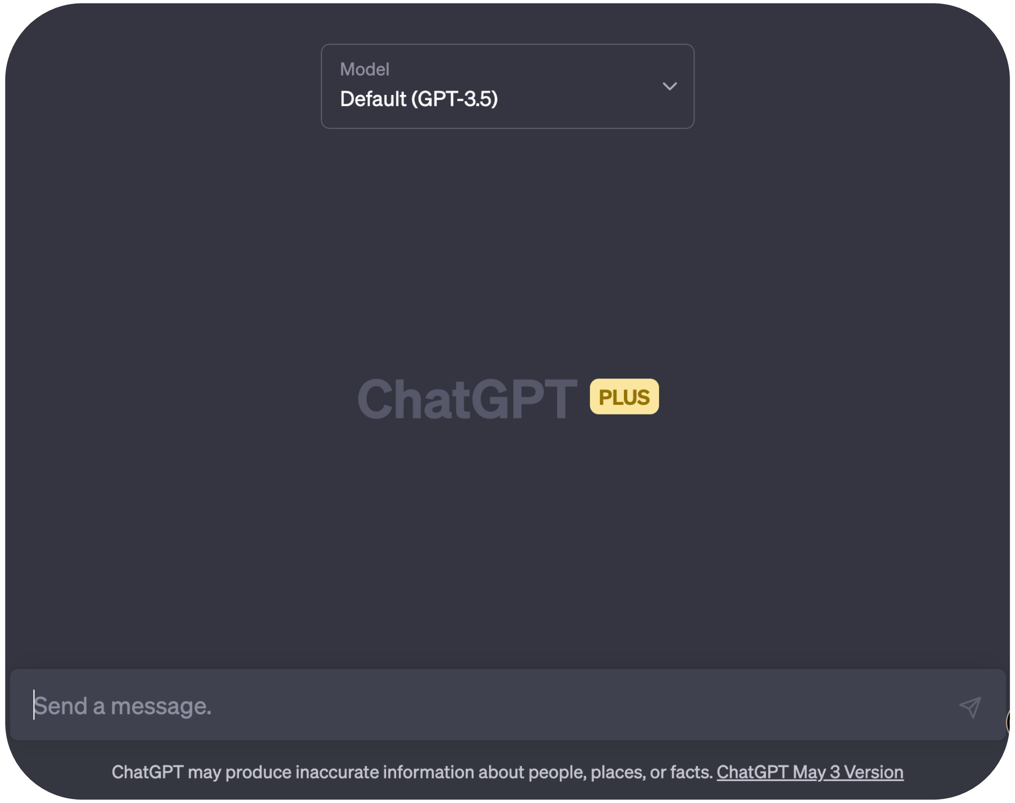
GIANT
eSIMs

1P Products = Near-Term Cash Flow.
3P Ecosystems = Long-Term Growth.
Data = Hedge.

	1P	3P	Data
Business Line	**Subscriptions & usage-based services.**	**Partner ecosystem & advertising network.**	**Data & analytics sales.**
Examples	WiFi Map - VPN ($/mo) Helium Mobile - eSIM ($/gb) Render - rendering ($/frame)	WiFi Map - travel Dimo - auto React - energy	Planetwatch - pollution WeatherXM - weather 2blox - traffic
Pros	(+) near-term cash flow for buybacks (+) sticky, with clear growth drivers	(+) biggest long-term opportunity (+) new web3 tools for driving growth	(+) unlocks new global use cases (+) long-term demand from AI/ML
Cons	(-) limited ARPU ceiling (-) rug-pull risk for tokenholders	(-) requires lots of coordination (-) only works in huge verticals	(-) smallest near-term revenue pool (-) unclear long-term value

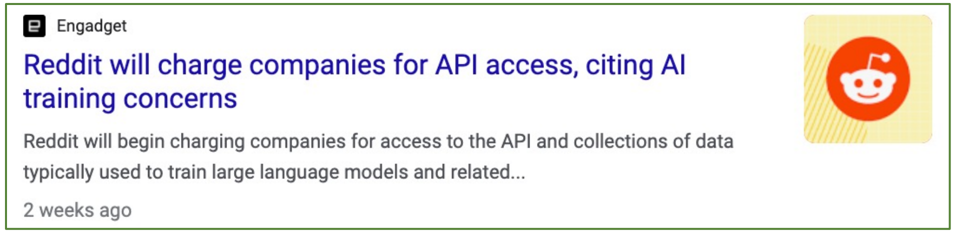
Data is the Most Effective Hedge Against the “Singularity”

In a world where ChatGPT becomes the universal frontend,
networks with *proprietary, community-built datasets* become uniquely valuable.



Model
Default (GPT-3.5)

ChatGPT may produce inaccurate information about people, places, or facts. ChatGPT May 3 Version

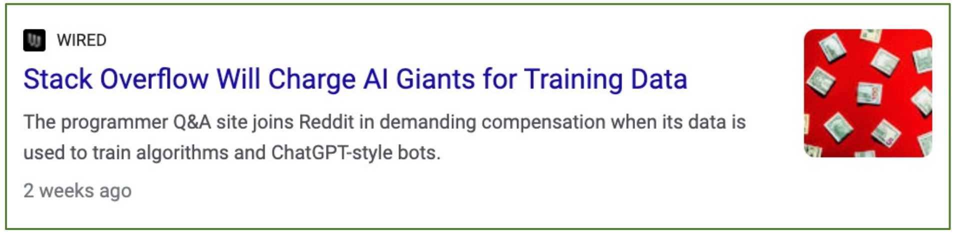


Engadget

Reddit will charge companies for API access, citing AI training concerns

Reddit will begin charging companies for access to the API and collections of data typically used to train large language models and related...

2 weeks ago



WIRED

Stack Overflow Will Charge AI Giants for Training Data

The programmer Q&A site joins Reddit in demanding compensation when its data is used to train algorithms and ChatGPT-style bots.

2 weeks ago

vs

CNBC

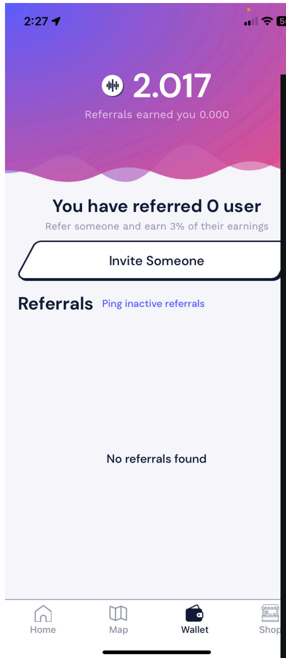
Chegg shares drop more than 40% after company says ChatGPT is killing its business

Chegg beat first-quarter expectations on the top and bottom lines but issued a weak second-quarter revenue outlook.

2 days ago

How Tokens Unlock Value: Engagement & Growth

Growth



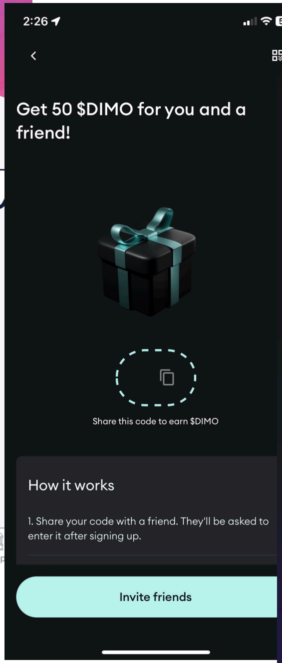
You have referred 0 user

Refer someone and earn 3% of their earnings

Referrals Ping inactive referrals

No referrals found

Silencio
referral rewards splits

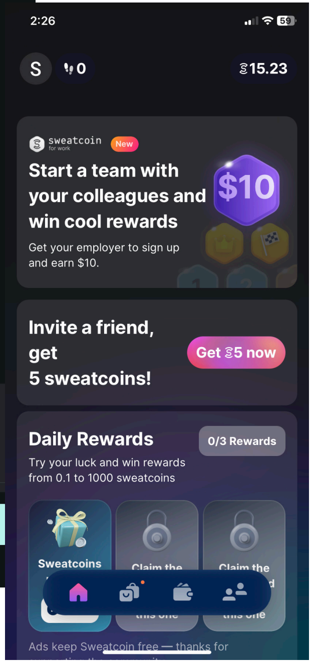


Get 50 $DIMO for you and a friend!

How it works

1. Share your code with a friend. They'll be asked to enter it after signing up.

Dimo
referral bonus



Start a team with your colleagues and win cool rewards

Get your employer to sign up and earn $10.

Invite a friend, get 5 sweatcoins!

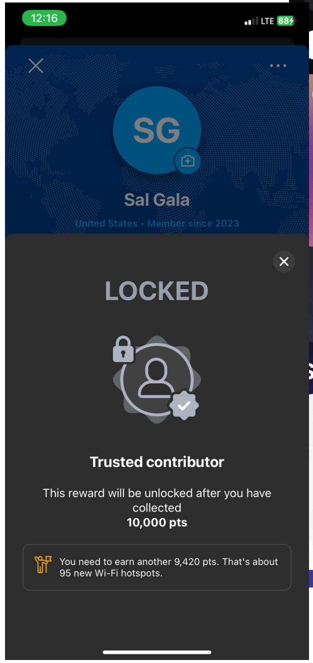
Daily Rewards

Try your luck and win rewards from 0.1 to 1000 sweatcoins

Ads keep Sweatcoin free — thanks for

Sweatcoin
employer referrals

Engagement

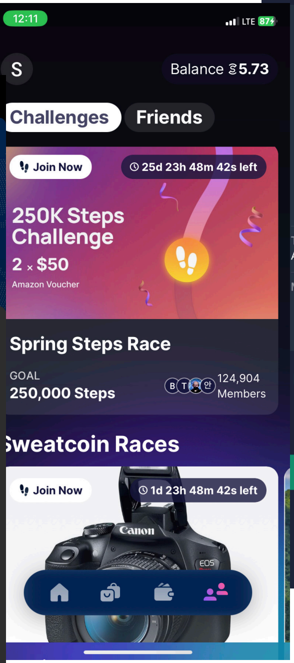


Trusted contributor

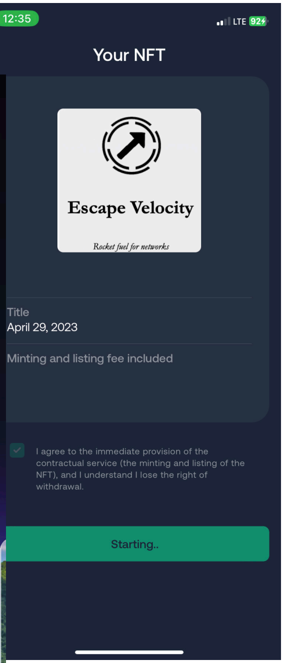
This reward will be unlocked after you have collected 10,000 pts

You need to earn another 9,420 pts. That's about 95 new Wi-Fi hotspots.

WiFi Map
gated experiences



Sweatcoin
challenges/ quests



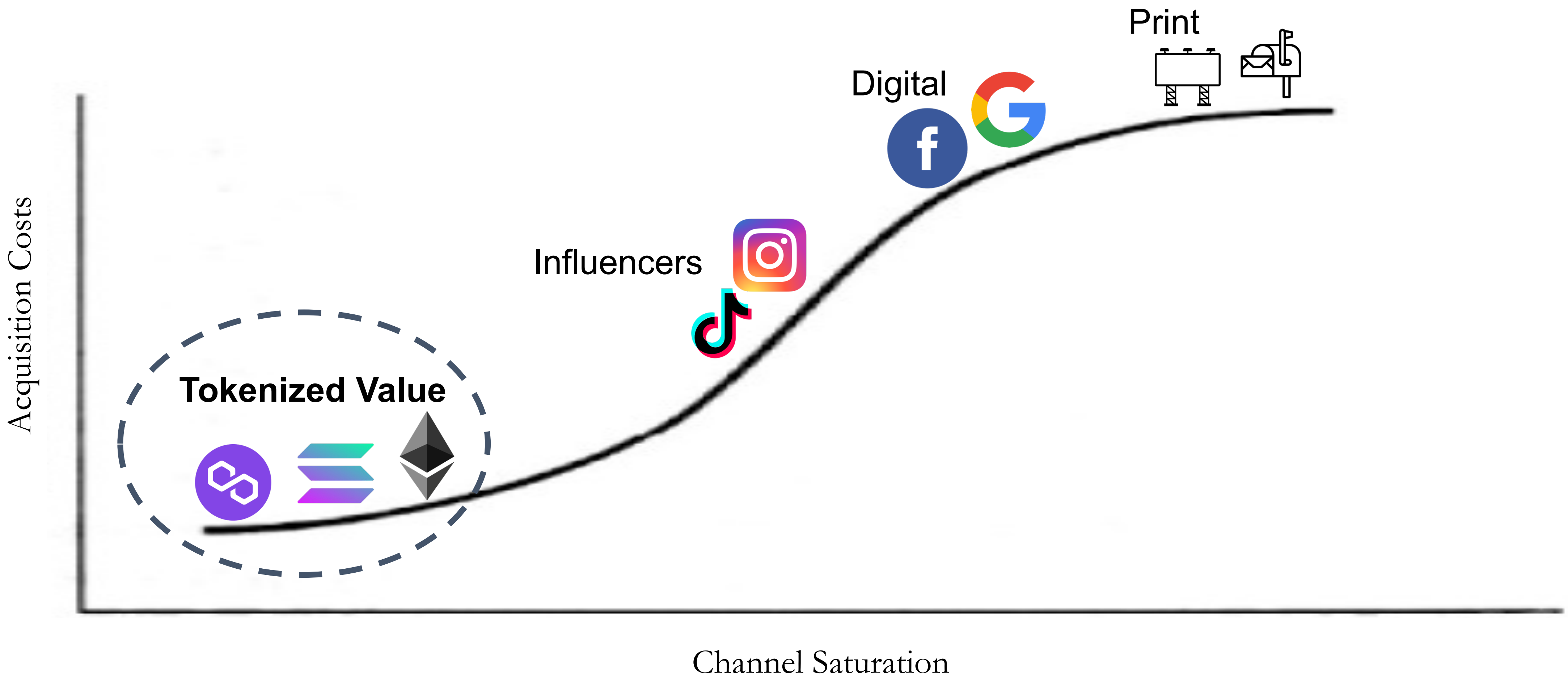
Title
April 29, 2023

Minting and listing fee included

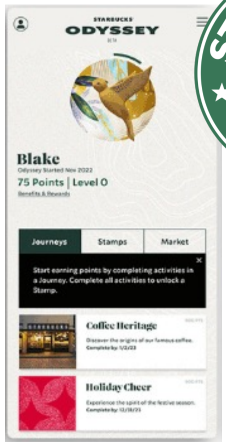
☑ I agree to the immediate provision of the contractual service (the minting and listing of the NFT), and I understand I lose the right of withdrawal.

Nodle
minting NFTs

Tokens are the Least Saturated (& Therefore Most Lucrative) Channel for Acquiring/Engaging Users.



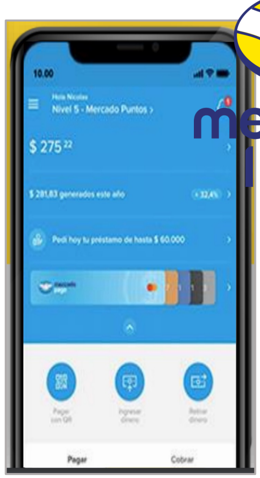
In 2023, Hundreds of Millions of Users will Experience Tokenized “Points” for the First Time.



Start earning points by completing activities in a Journey. Complete all activities to unlock a Stamp.

Starbucks Brewing Revolutionary Web3 Experience for its Starbucks Rewards Members

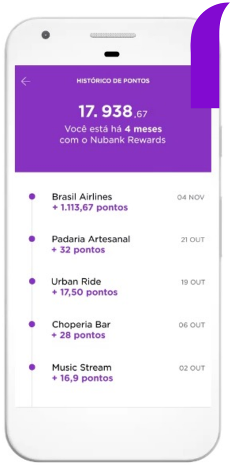
September 12, 2022 · 6 min read



E-Commerce Giant Mercado Libre Introduces Cryptocurrency in Brazil, Plans Wider Latin America Use

Mercado Coin will allow the company’s 80 million users to make purchases and receive cashback.

By Rodrigo Tolotti Aug 18, 2022 at 11:22 a.m. EDT Updated Aug 18, 2022 at 3:18 p.m. EDT



Nubank launches its own Nucoin cryptocurrency to 70 million customers

David Feliba · Fintech · Mar. 6, 2023 · 2 min read

さっそくポイントを追加してみましょう！

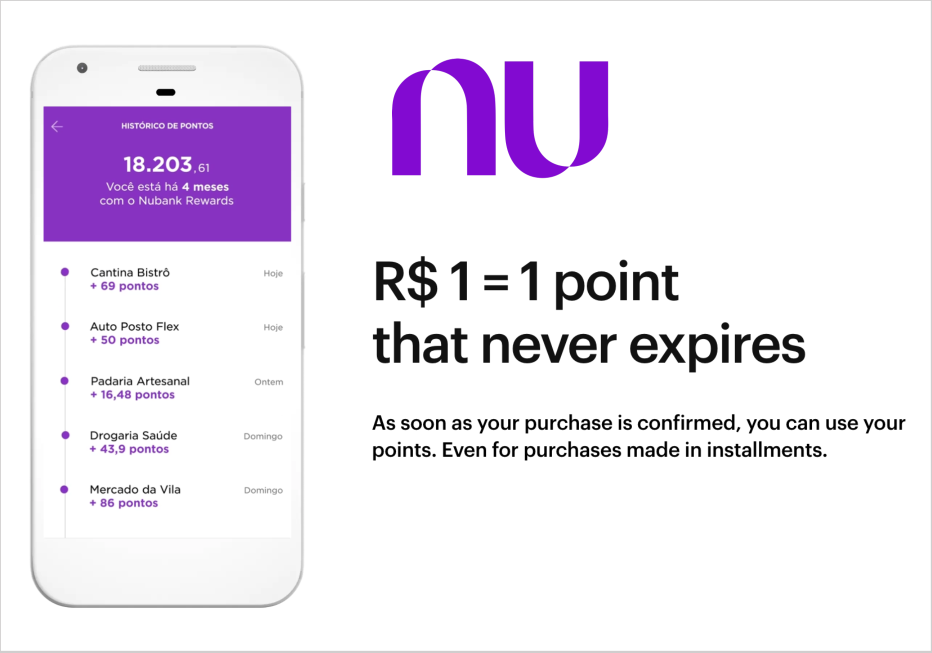
March 18, 2021 Rakuten, Inc.

Rakuten Launches “Point Bitcoin by Rakuten Point Club”

- New service offers Bitcoin trading experience using Rakuten Points, provides even more options for point usage

As "Points" Become Redeemable & Interoperable, Mainstream Users will Inevitably Learn the Same Lessons as Crypto Users.

Credit Risk



HISTÓRICO DE PONTOS

18.203,61

Você está há **4 meses** com o Nubank Rewards

Cantina Bistrô + 69 pontos	Hoje
Auto Posto Flex + 50 pontos	Hoje
Padaria Artesanal + 16,48 pontos	Ontem
Drogaria Saúde + 43,9 pontos	Domingo
Mercado da Vila + 86 pontos	Domingo

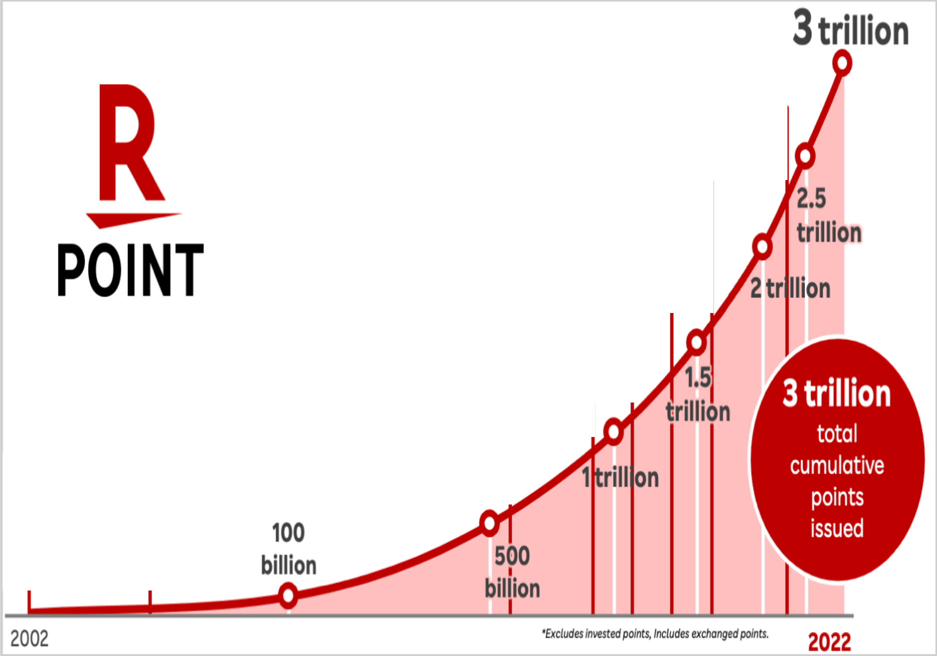
nu

R$ 1 = 1 point that never expires

As soon as your purchase is confirmed, you can use your points. Even for purchases made in installments.

Terra Luna

Inflation



*Excludes invested points, Includes exchanged points.

Olympus

Only Web3 Software Networks Can Offer "Points" with Non-Speculative Utility AND Asymmetric Upside Potential.

Crypto-native apps

Axie INFINITY

Networks rely entirely on speculative demand to fund early growth.
Vicious cycle when hype subsides.

Web3 software

WiFi Map react sweatcoin

Fiat-based token buybacks from day one ⇒ **token prices are resilient to hype cycles.**

Excess value accrues to tokenholders ⇒ **tokens have "home run" upside.**

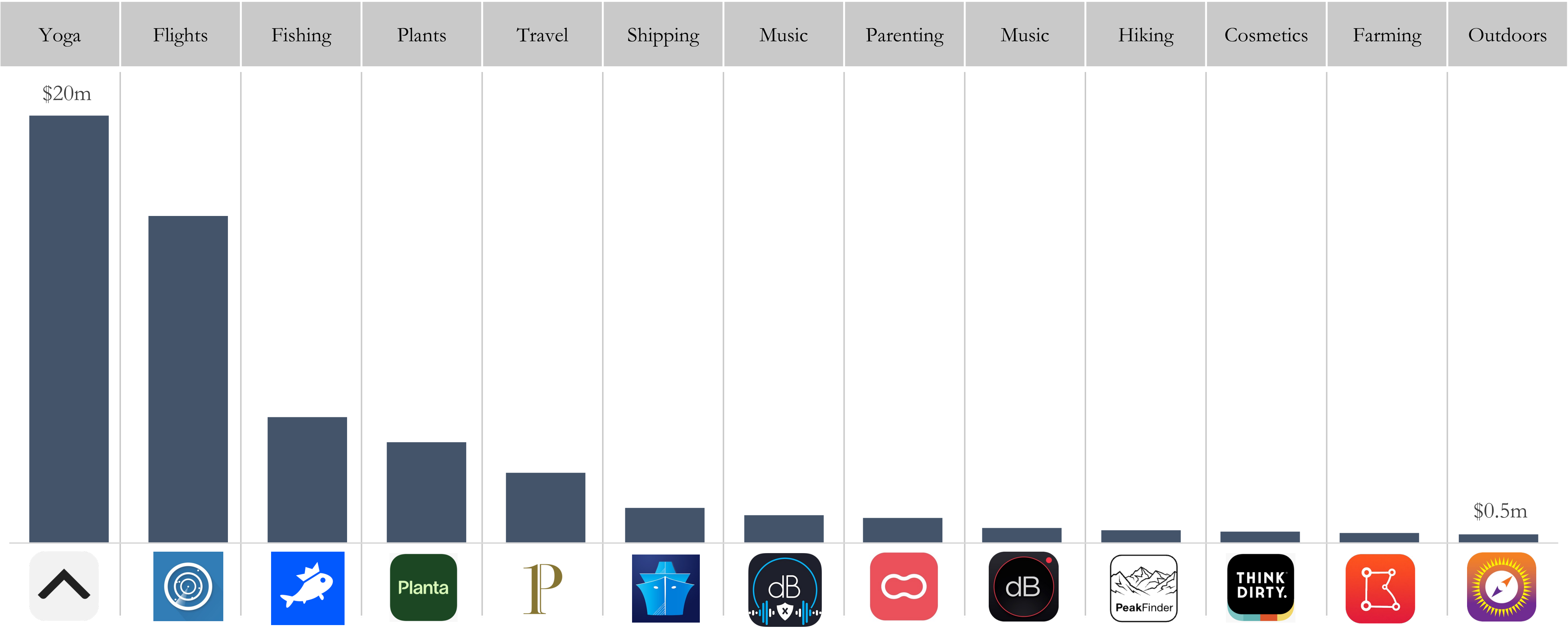
Tokenized loyalty/rewards

mercado libre nu Rakuten

Companies will never let networks get big enough to threaten shareholder value.
No "home run" scenario for tokenholders.

We Believe There are Dozens of Such Networks with the Potential to Compound for Decades.

Non-US based community-centric mobile apps with $0.5m-$20m ARR



Source: SensorTower

Escape Velocity

Rocket fuel for networks.

Website: https://www.ev3.xyz/

Twitter: @DAnconia_Crypto and @MoneroMahesh

Telegram: @salgala and @moneromahesh