

Digital Asset Investing: How to Value Crypto Assets

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Exploring the **Digital Asset Ecosystem**

Blockchain will underpin all assets in the future.

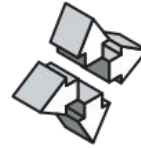
Digital Asset Features:

- **Store of value**
- **Medium of exchange**
- **Pass through values**

Governance Structures



Centralized



Decentralized

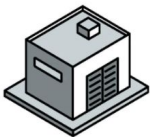
Governing Bodies:



Government



Ex. Central Bank
Digital Currencies
(CBDCs)



Organizations



Ex. Exchange tokens,
Binance (BNB)



Individuals



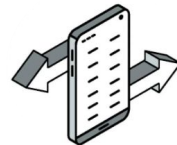
Ex. NBA player
Spencer Dinwiddie
tokenized his Brooklyn
Nets contract



**Decentralized Autonomous
Organizations**



Ex. Nexus Mutual (NXM)



**Protocols/Platforms/
DAPPs**



Ex. Ethereum (ETH)

Defining Digital Assets

Going beyond crypto.

Digital Asset Types:



CURRENCY

A medium of exchange valued solely by supply and demand.

EXAMPLE



Bitcoin (BTC)



PASS THROUGH

A digital asset that grants revenues, rewards, and network benefits to token holders.

EXAMPLE



Sushiswap (SUSHI)



ASSET-BACKED

A token backed by a hard asset like equity, debt, or physical assets.

EXAMPLE



Nexus Mutual (NXM)

Applying Traditional Valuation Methods to **Digital Assets**

5

The opportunity for investor and customer alignment.



Traditional Frameworks:

- Graham and Dodd's Security Analysis
- The Handbook of Fixed Income Securities, authored by Frank Fabozzi

Digital Asset Considerations:

- Supply sinks
- Amortizations / inflation
- Utility functions
- Metcalf's law

Bitcoin is the Anomaly Rather than the Standard

Cryptocurrencies are mediums of exchange.



**No universally
accepted method
for valuation**



Relative value, ex. FX



**Lacks intrinsic
value, ex. Gold**



**Valuation
experiments include:**

Market Value to Realized Value (MRVR)
Spent Output Profit Ratio (SOPR)
Stock-to-Flow

Value vs. Growth

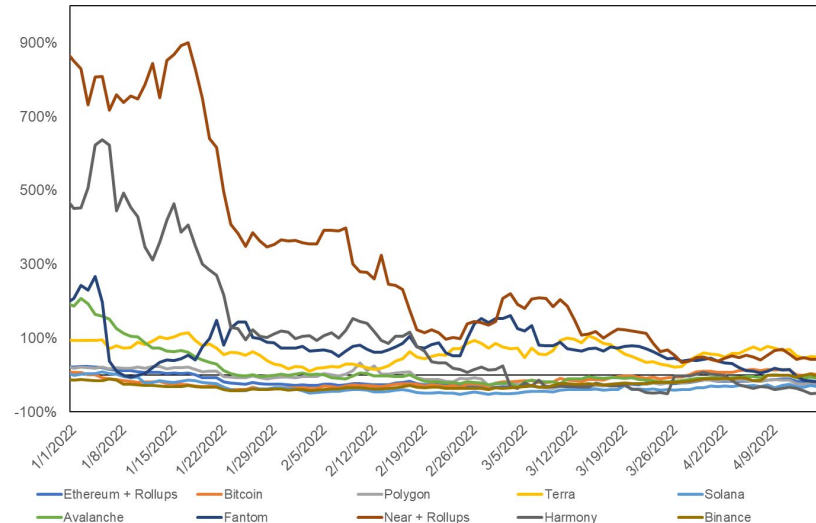
Understanding Layer 1 blockchains from different angles.



- Definable cash flows
- Product-market fit
- Business models

Growth

3 Month Change in Total Value Locked (TVL)



Source: DeFi Llama

- Total Value Locked (TVL)
- Active addresses
- Gas fees






Valuation Comparison: Ethereum Vs. Avalanche

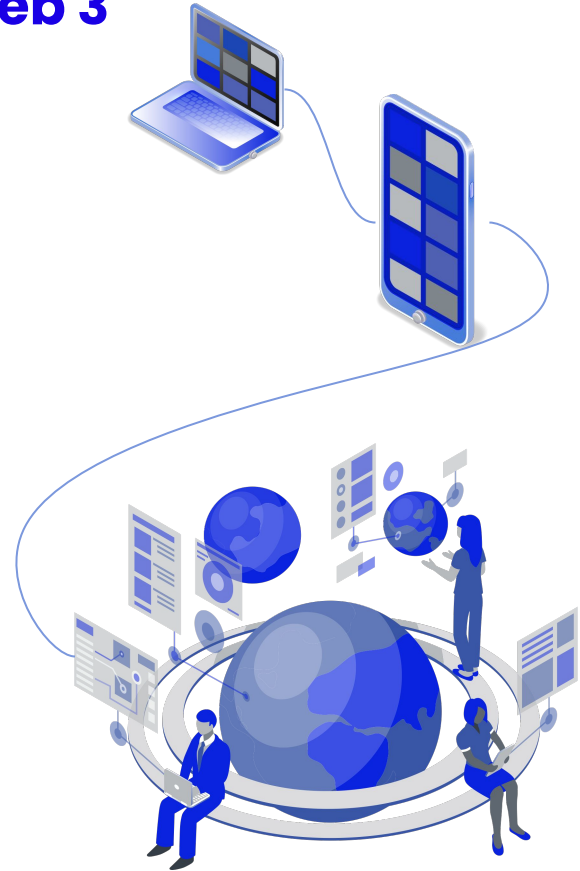
The influence of growth over value for Layer 1 tokens.

Digital Asset Metric	Traditional Metric	Ethereum	Avalanche
Price	Price	\$3,121.40	\$80.05
Fees Generated	Sales Revenue	\$ 10,041,468,342	\$ 257,881,286
Cost of Blockspace Sold	Cost of Goods Sold	\$ (1,338,903,562)	\$ -
Protocol Revenue	Gross Profit	\$ 8,702,564,780	\$ 257,881,286
<i>Protocol Revenue Margin</i>	<i>Gross Profit Margin</i>	86.7%	100.0%
Security Rewards	SG&A Expenses	\$ 17,381,993,999	\$ 7,821,403,140
Net Burn (Issuance)	Net Profit (Loss)	\$ (8,679,429,219)	\$ (7,563,521,854)
Net Burn per Token	Free Cash Flow per Share	-\$73.06	-\$28.23
Assorted Valuation Ratios			
Market Cap to Fees	Price to Sales	37.4x	83.2x
Market Cap to Protocol Fees	Price to Gross Profit	43.2x	83.2x
Market Cap to Net Supply Burn	Price to FCF	-43.3x	-2.8x
Net Burn as a % of Market Cap	FCF to Price	-2.3%	-35.3%
Growth Metrics			
YoY Change in Price	YoY Change in Price	27.73%	121.09%
YoY Change in Active Addresses	YoY Change in Customers	-13.65%	4299.62%
YoY Change in Fees	YoY Change in Revenues	11.97%	3400.60%

Considering the Emerging World of Web 3

A focus on infrastructure.

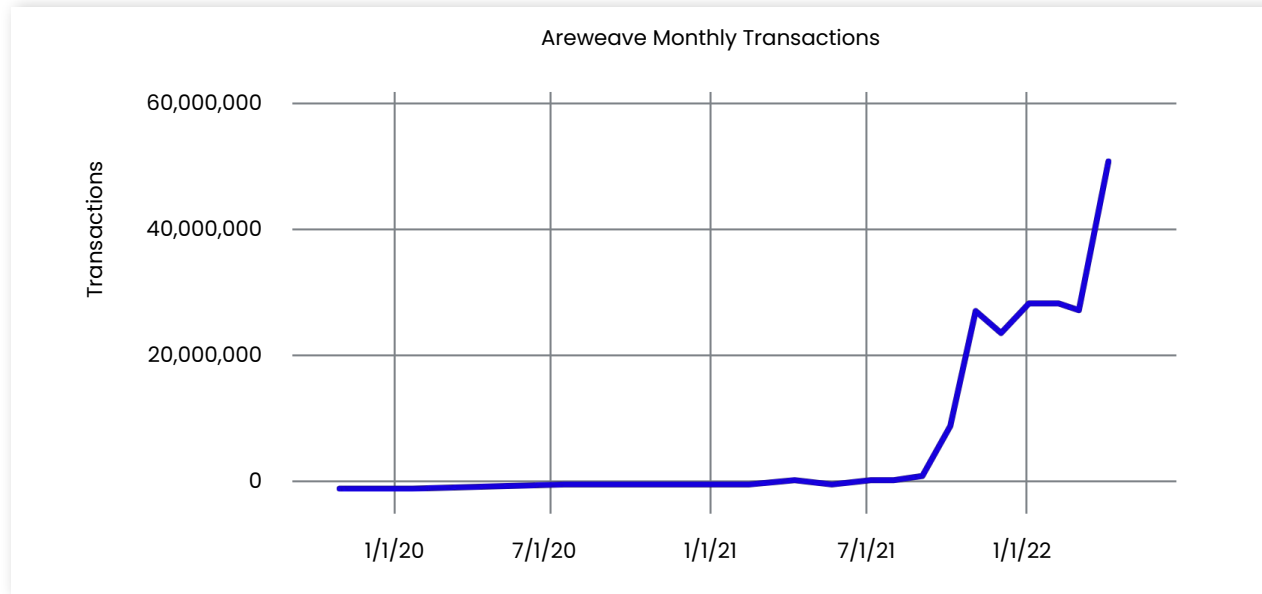
- **Network effect**, ex. Chiliz (**CHZ**) 
- **Large total addressable market (TAM)**
points to high rewards, ex. Arweave (**AR**) 
- **Areas of disruption:**
 - Cloud computing, ex. Akash Token (**AKT**) 
 - Telecommunications, ex. Helium (**HNT**) 
 - Data, ex. The Graph (**GRT**) 



Measuring Future Growth Instead of Present Value

Combining revenues and network statistics to measure potential growth.

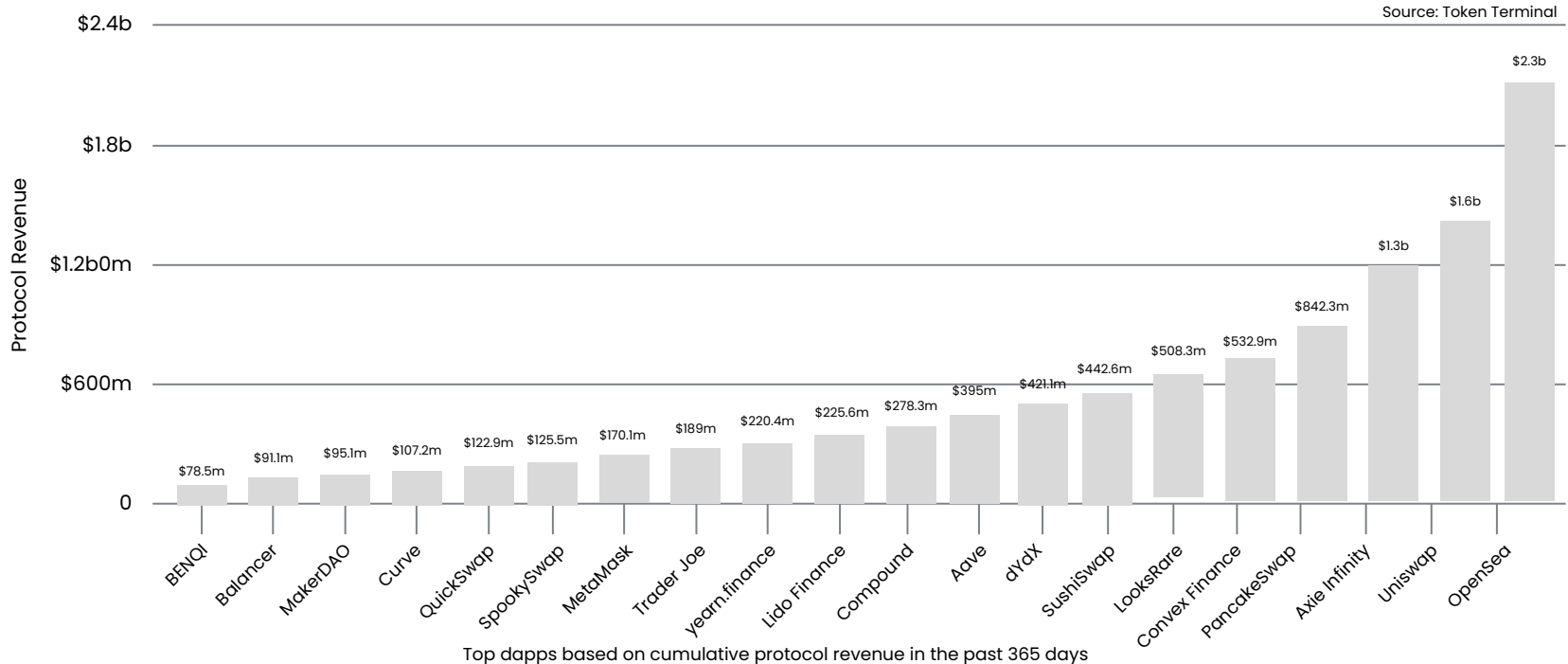
- **Arweave is AWS** of Web 3
- Total revenue just over **\$1 million**
- **YoY** transaction growth averaging **67%**



Why DeFi, NFTs, and Gaming Have Similar Valuation Approaches to Traditional Companies

- Revenues and user growth are the two main metrics to evaluate blockchain applications

- Traditional valuation techniques that can be used:
 - Earnings models
 - Relative valuations
 - DCFs



An Axie Case Study: **How it Works**

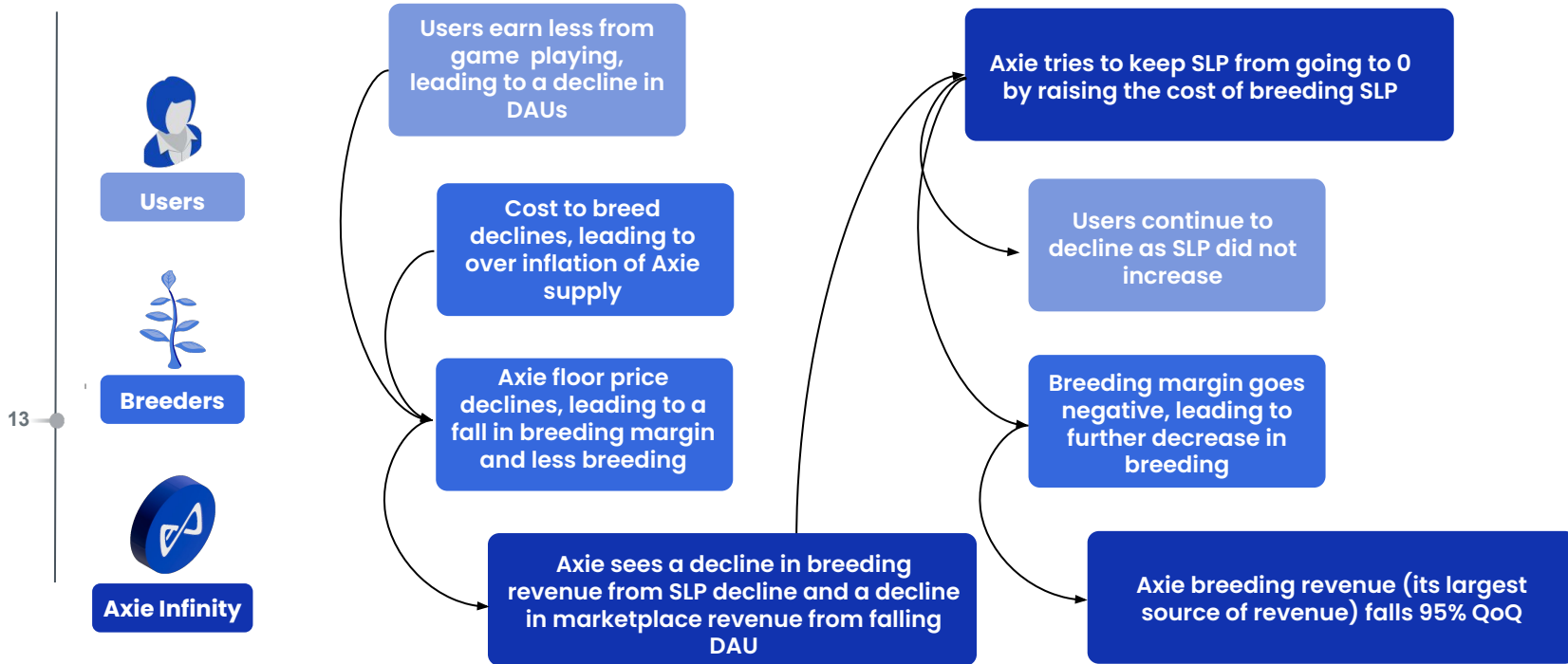
Axie Infinity is the digital asset project that made Play-to-Earn (P2E) popular.

Key Valuation Drivers

Quarter (\$, mm unless specified)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	2021	2022
DAUs (#)	10,000	80,770	1,164,782	2,411,045	1,963,443	1,865,271	1,781,334	1,709,189	1,164,782	1,781,334
Axie Floor Price (\$)	n/a	\$181.85	\$341.32	\$164.02	\$58.75	\$35.00	\$35.00	\$35.00	\$164.02	\$35.00
Marketplace Rev	\$0.85	\$7	\$87	\$64	\$9	\$7	\$7	\$7	\$158	\$31
Breeding Rev	\$0	\$9	\$695	\$400	\$18	\$10	\$8	\$6	\$1,104	\$42
Number of Breeds (#)	3,722.55	115,583.69	2,415,611.52	4,404,142.84	278,517.81	224,405.78	180,806.9	4	145,678.74	6,939,060.6
ARPU (\$)	\$100.38	\$196.76	\$671.06	\$192.40	\$14.05	\$9.23	\$8.42	\$7.71	\$290.15	\$9.85
Breeder Margin (\$)	n/a	\$104.71	\$53.68	\$73.16	(\$7.43)	(\$8.50)	(\$8.50)	(\$8.50)	\$77.18	(\$8.23)

An Axie Case Study: What Went Wrong

The impact of SLP price decline on users, breeders, and Axie Infinity.

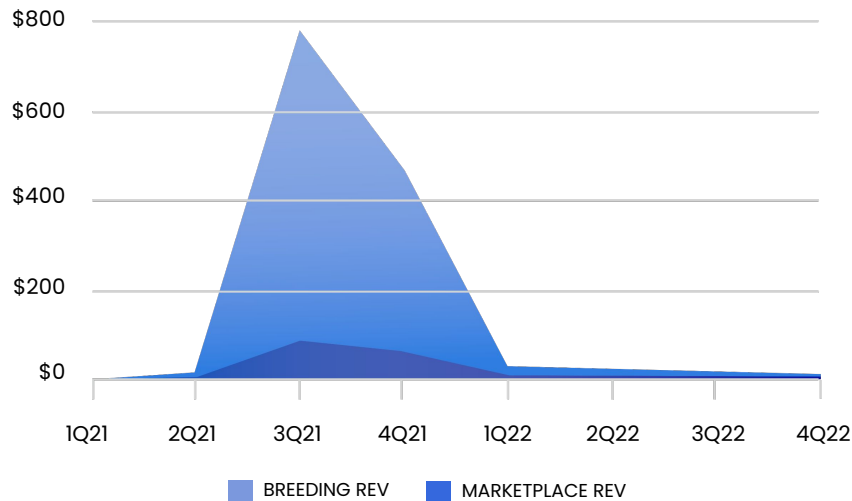


SLP fell from a high of \$0.39 to \$0.016 from 3Q21 to 2Q22

Valuation: An Art More than a Science

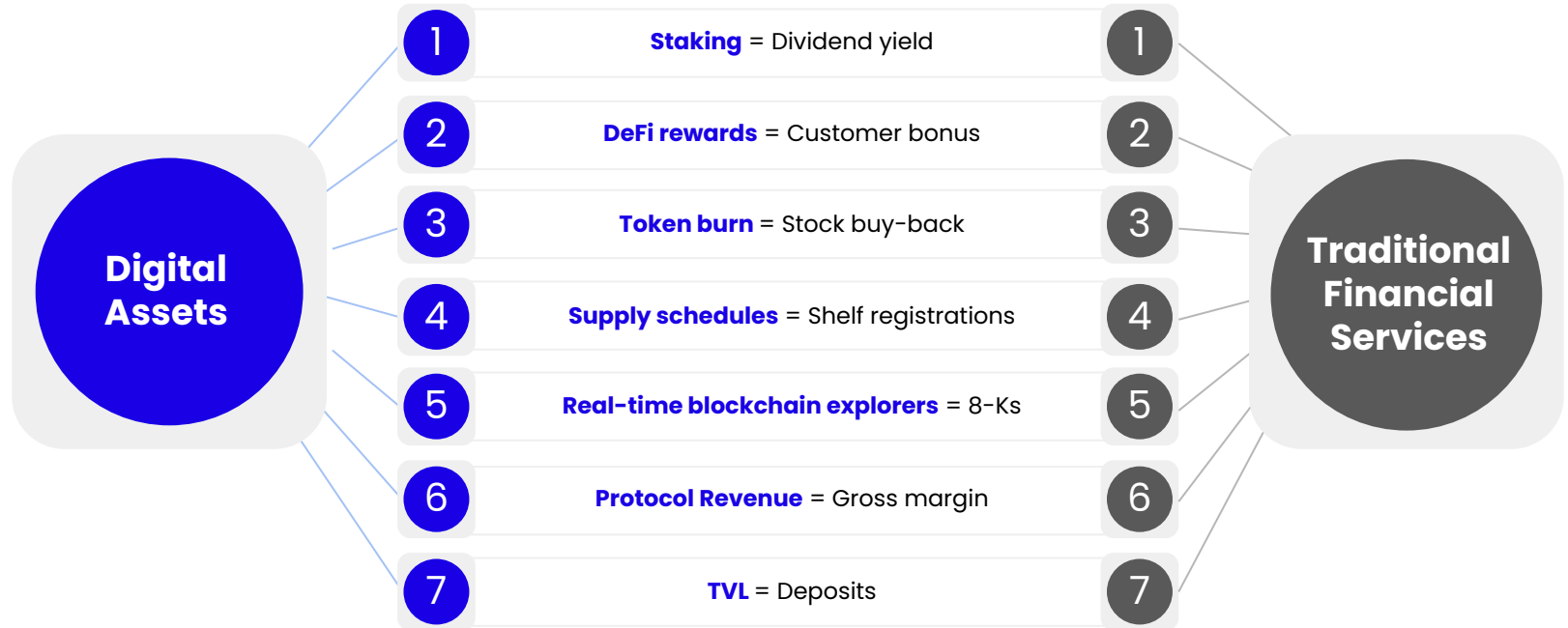
- Inputs and sensitivity analysis are significantly more important than price target
- Understanding key inputs enable the projection of forward revenues and earnings, and the application of an expected multiple
- Sensitivity analysis of how the revenue flywheel collapses captures price appreciation from growth and removes risk when key red flags emerge

Axie Quarterly Revenues



TradFi Analogies

Comparing digital asset nuances with traditional financial services events can generate your *Aha!* moment.



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Questions?



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