

Crypto Chrismukkah Arriving Early - Liquid Markets Up, Private Markets Thawing, Companies Talking About IPOs Again

Monthly Insights

December 06, 2023

- The crypto recovery has broadened to all market segments, with Bitcoin and Solana leading in November.
- A surge of blockchain activity among traditional financial institutions: launch of programmable payments by J.P. Morgan/ONYX, a first cross-border repo with a digital bond, CBOE Digital's planned launch of margined Bitcoin & Ether futures, and SocGen digital bonds.
- The stablecoin and staking sectors have demonstrated significant growth and innovation over the last year and now emerge well-prepared to benefit from the market recovery. Major players, like Circle, are renewing their IPO plans, and major consumer brands have continued NFT-powered innovation loyalty programs.
- In a major positive de-risking event for the space, Binance reached a historic \$4Bn settlement with U.S. regulators, and its CEO CZ stepped down. The existential risk of Binance's failure has been greatly reduced.

KEY THEMES

Circle Plans IPO Early Next Year

- It has been reported that Circle has started talking to advisers about a possible second run at the public markets (an IPO). The company is the first and largest U.S.-regulated stablecoin issuer and payment infrastructure provider. Bloomberg [reports](#) the company had over \$1Bn in cash on the balance sheet as of Q2'23 and generated \$779M in revenue and \$219M in EBITDA in 1H'23.
- Circle's compliance approach, close ties to the U.S. banking system, and strict regulations are some of the reasons its market share has been lagging behind its unregulated competitor, Tether.
- Last year, Circle was valued at \$9Bn in a Goldman Sachs-backed SPAC transaction, which was called off in December 2022 due to market conditions.
- **10SQ View:** *Fantastic news. The digital asset space needs more public benchmarks outside COIN and the Bitcoin miners. Circle is a strong business, generating revenue and benefitting from market growth and macro tailwinds in a high-rate environment. See p.3 for more insights on the stablecoin sector.*

[Link](#)

Programmable Payments Launched By JPM Coin

- Onyx by J.P. Morgan has launched programmable payments for blockchain-based accounts on JPM Coin. The solution allows users to program their transactions using an 'If-This-Then-That' interface, which frees clients from setting standing orders for a particular time or amount.
- On November 6, Siemens AG completed its first payment using the feature, and FedEx and Cargill will go live with the solution in the next few weeks.
- **10SQ View:** *There has been a surge of blockchain activity among financial institutions in the past few months. Programmability has always been one of the critical advantages of using blockchain for payments. We see significant demand for such payment infrastructure from corporate treasurers in the current high-interest-rate environment, which allows them to earn more on deposits.*

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TenSquared (10SQ) is a growth equity firm focused on mid-stage **Inflection Point Investing** where Digital Asset Ecosystem (DAE) companies transform into future technology leaders

KEY THEMES

Binance Reached A Historic \$4Bn Settlement With U.S. Regulators, Its CEO CZ Stepped Down

- Binance and its CEO CZ pleaded guilty to criminal and civil charges, resulting in CZ stepping down and over \$4Bn in company penalties and \$150M in personal fines.
- Binance will continue to operate but under close monitoring by U.S. regulators and new management, with new CEO Richard Teng taking the reins.
- **10SQ View:** *This news removes a long-standing overhang in the industry that kept many investors at bay, worried about sudden action and frozen funds. Binance's influence and market share had been declining in 2023, softening the impact of the actions. In the long-term this is a positive outcome for regulated players like Coinbase, Kraken, and Gemini as they become beneficiaries of institutional flows.*

[Link](#)

CBOE Digital To Launch Margined Bitcoin & Ether Futures In January 2024

- CBOE Digital will become the first U.S.-regulated crypto native exchange and clearinghouse to enable spot and leveraged derivatives trading on a single platform.
- CBOE Digital's launch of crypto futures will complement its existing offering of Bitcoin, Bitcoin Cash, Ether, Litecoin, and USDC trading on its spot crypto market.
- **10SQ View:** *This initiative by CBOE Digital will bring more trust and transparency to the crypto spot and derivatives markets. Interestingly, Coinbase recently also received CFTC approval and announced the launch of similar derivative products for its U.S.-based customers.*

[Link](#)

World's First Cross-border Repo With A Digital Bond Completed By UBS, SBI and DBS

- The transaction automatically and instantly settled a repo, natively-issued digital bond purchase, and redemption using regulated digital payment tokens on a public blockchain across regulated entities in three jurisdictions (Japan, Singapore, Switzerland).
- **10SQ View:** *Suddenly, it's everywhere - blockchain can enable cross-border settlement of capital markets in a flexible and cost-effective way.*

[Link](#)

New CF Benchmarks' Staking Index Series For Institutional Clients

- CF Benchmarks launched a new staking index series for institutional clients called the CF Staking Reward Rate Series, which has been registered with the European Union's Benchmark Regulation.
- The new indices provide investors with the reward rates from certain Proof-of-Stake protocols; the reward rate data comes from four institutional non-custodial staking providers.
- **10SQ View:** *Indices like the CF Staking Reward Rate Series have the potential to become a core infrastructure for a new generation of products and services that enable investors to gain exposure to this potential high-yield activity. See more news on this topic on p. 5 of the newsletter.*

[Link](#)

Media Giant Disney Strikes An NFT Partnership With Dapper Labs

- Dapper Labs launches a new brand, Disney Pinnacle. Users can trade digital "pins," modeled off the popular physical collectible category, featuring Disney-related IP.
- Dapper Labs is a Vancouver-based blockchain firm with experience building successful, consumer-facing Web3 apps, including NBA Top Shot.
- **10SQ View:** *Large brands are continuing to experiment with NFTs. Dapper, with its Flow protocol, is attacking the specific use case of digital collectibles. We believe gaming and art will be the gateways to Web3 tech adoption.*

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A SPOTLIGHT ON THE STABLECOIN SECTOR

- The TenSquared research team published “A Spotlight on the Stablecoin Sector” report on November 30, 2023.
- Stablecoins have become critical financial infrastructure, enabling the transfer of value, facilitating trades, and acting as a safe haven against the volatility of other cryptocurrencies. This report guides the reader through the creation and growing importance of stablecoins, leading companies to monitor in the space, emerging trends likely to guide how the industry develops, and how the increasing adoption of stablecoins will impact the broader blockchain ecosystem.

[VIEW REPORT](#)

Takeaways:

- Since the start of 2020, stablecoins have continued to grow in importance alongside the broader digital asset economy. At the beginning of 2020, there was just over \$4Bn in stablecoins, and that has since grown to over \$130Bn¹ in total stablecoins issued now.
- Stablecoins are also being used beyond the facilitation of trading on crypto exchanges. Users have sent \$11Tn in stablecoins on-chain in peer-to-peer transactions.
- Key drivers shaping the sector include higher interest rates, emerging opportunities to generate on-chain yields, progress in implementing central bank digital currencies, and increased demand for transparency to prove the reserves backing stablecoins.
- Growth opportunities in the stablecoin ecosystem cover the companies operating in the following areas: stablecoin issuance, on-chain yield, financial and blockchain infrastructure, crypto exchanges, payment, and custody infrastructure.

1) The Block, as of October'23

TAM: ANNUAL NET REVENUE GENERATED BY STABLECOIN ISSUERS PROJECTED TO REACH \$3.0BN-\$5.0BN IN 2028

(\$ in Billions)

| 2023 Stablecoin Supply | Stablecoin Supply Growth Rate | 2028 Stablecoin Supply | 2028 Interest Rate | 2028 Stablecoin Gross Revenue | Yield Shared With Holder | 2028 Stablecoin Net Revenue |
|------------------------|-------------------------------|------------------------|--------------------|-------------------------------|--------------------------|-----------------------------|
| \$133 | 7.5% | \$191 | 3.0% | \$5.7 | 90.0% | \$0.6 |
| \$133 | 7.5% | \$191 | 4.0% | \$7.6 | 70.0% | \$2.3 |
| \$133 | 7.5% | \$191 | 5.0% | \$9.5 | 50.0% | \$4.8 |
| \$133 | 15.0% | \$268 | 3.0% | \$8.0 | 90.0% | \$0.8 |
| \$133 | 15.0% | \$268 | 4.0% | \$10.7 | 70.0% | \$3.2 |
| \$133 | 15.0% | \$268 | 5.0% | \$13.4 | 50.0% | \$6.7 |
| \$133 | 25.0% | \$406 | 3.0% | \$12.2 | 90.0% | \$1.2 |
| \$133 | 25.0% | \$406 | 4.0% | \$16.2 | 70.0% | \$4.9 |
| \$133 | 25.0% | \$406 | 5.0% | \$20.3 | 50.0% | \$10.1 |
| \$133 | 50.0% | \$1,010 | 3.0% | \$30.3 | 90.0% | \$3.0 |
| \$133 | 50.0% | \$1,010 | 4.0% | \$40.4 | 70.0% | \$12.1 |
| \$133 | 50.0% | \$1,010 | 5.0% | \$50.5 | 50.0% | \$25.2 |

Note: Net revenue is revenue available to stablecoin issuers after paying out yield to token holders

Source: 10SQ Research



By 2028, a stablecoin issuer with a 10% market share can be generating \$300M-\$500M in annual revenue

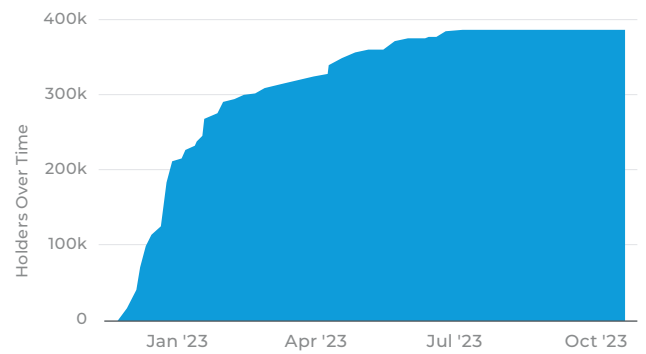
CONSUMER BRANDS CONTINUE TO INNOVATE LOYALTY PROGRAMS BY USING NFTS

- NFTs can create many growth opportunities for brands, including tapping into new user bases and building an engaged community around the brand.
- It has been less than three years since the earliest initiatives around brands and NFTs began. Brands like Adidas, Nike, TIME, and Gucci recognized the opportunity early and initiated their Web3 experiments during the NFT bull market in 2021 – 2022.



- Nike is among the first and most successful major brands to embrace Web3.
- The acquisition of RTFKT, a native Web3 studio, marked Nike's initial exploration into Web3. In 2022, Nike launched .SWOOSH, a Web3-enabled platform, to create an "inclusive digital community and experience and a home for Nike virtual creations."
- In less than a year, 385k+¹ people have minted their .SWOOSH ids. Being part of the .SWOOSH community allowed members to participate in creating their 1st NFT collection, the Our Force 1 (OF1) digital sneaker, which generated \$1.97M in revenue from 99k mints and attracted 52k unique minters.
- Nike's total NFT revenue has reached around \$190M, with \$93M in primary NFT sales. Its \$1.34Bn secondary NFT volumes beat the 2nd brand, Adidas, by 7.5x².
- Over the last two years, Nike's top-3 Web3 collections generated 1.45Bn social engagements, nearly as much as the Nike brand itself, and around 800k social mentions, about 6.5x more than Nike's total mentions in the same period, according to Dematerialzd.xyz.

.SWOOSH ID Holders Nears 400K Mark

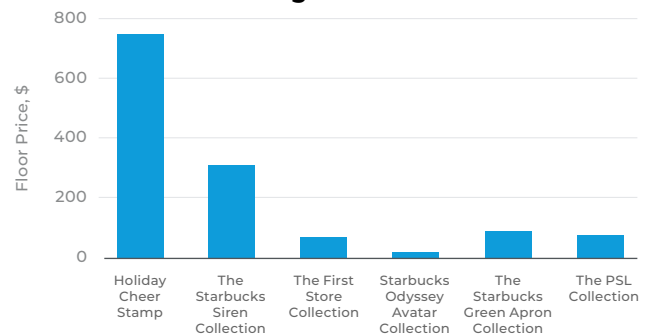


Source: Delphi Digital, Dune Analytics



- Starbucks' Web3 loyalty experience is among the most recognized in the industry. It launched its Web3 loyalty program "Starbucks Odyssey" in December 2022, and it was very successful.
- It lets users collect stamps by completing gamified, branded journeys. These stamps generate points that unlock rewards. Odyssey has about 42k+¹ members now.
- Starbucks' usage of NFTs is allowing thousands of its customers to use blockchain technology in their day to day life without any speculative elements.
- The program generated about \$1.3M¹ of NFT sales. The Holiday Cheer Stamp and the Siren Collection command the highest price premium of all the Odyssey stamp collections.
- Key strengths of the program are its simplicity and focus, the user experience, the mechanism around collecting, and gamification.

Holiday Cheer Stamp Boast the Highest Floor Price Among Starbucks NFTs



Source: Delphi Digital

¹) Delphi Digital, as of October '23

²) Dematerialzd.xyz

STAKING IS A NEW INSTITUTIONAL SOURCE OF YIELD

- Proof-of-Stake (PoS) is an alternative transaction validation method to Proof of Work which underpins Bitcoin's transaction validation methodology. Proof-of-Stake and Proof-of-Work are consensus mechanisms regulating the process of verifying and adding transactions to a blockchain's ledger.
- Staking is part of the new architecture around the new PoS consensus mechanism that increases the number and viability of blockchain use cases and allows for faster validation and greater scalability on the blockchain.
- PoS assets took center stage in Q3'23, which saw a surge in staking rates across the top 35 stakable assets. The average stake rate—the percentage of tokens from the circulating supply staked in a particular cryptocurrency network—for these assets has hit an all-time high in Q3'23, spiking to 52.4% from 49.3% in the previous quarter¹. As a result of the sharp increase in stake rate, the value of staked assets reached \$73.5Bn (+3% Q/Q).

Takeaways From Staking Summit By Stan Miroshnik

Istanbul, Turkey

November 10-11, 2023

[VIEW FULL DISCUSSION](#)



- It was great to be back in Istanbul after all these years, and the conference did not disappoint.
- CEOs of all the major players and developer teams from across the globe, convened to announce key product developments and product launches and cover the latest trends.
- I enjoyed my panel with Rico Muller from Signum, Praneeth Srikanti from Ethereum Ventures, and Nick Matthew from Figment Capital, all of whom are looking at early-stage investments.
- The industry has grown significantly over the last two years, especially as discussions of securitizing staking yield have gained widespread traction among traditional financial institutions, with companies like Ethena creating infrastructure to transform Ethereum into crypto-native yield-bearing synthetic instruments - both dollars and bonds.
- The overall themes revolved around de-risking staking by introducing Distributed Validator Technology (DVT) and Protocols (DVP) into workstreams of centralized staking services providers.
- Additional excitement this year was added by EigenLayer, who received mass acclaim for its ETH restaking solution, and Diva for its approach to de-risking Lido. All of this added muted concerns about introducing additional sources of leverage and rehypothecation into the industry, which is already prone to overleverage.
- Our portfolio companies, Figment and Blockdaemon, were well represented, and we spent a fair amount of time with some of the names on our watchlist: Obol Labs, Kiln, Tenderize, P2P, Stroom, Alluvial, Chainproof, ChorusOne, Lido, and EigenLayer.
- We continue our research on the size of the addressable market for this nascent industry and believe some of these companies will be in the 10QS investment fairway in the next eighteen months.

¹) The State of Staking report by Staked and Kraken, Q3'23, Decrypt



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