

## Beyond Crypto Trading - Real-Life Applications In Loyalty And AI

Monthly Insights

February 26, 2024

- Coinbase's recent performance highlights its resilience and adaptability in response to market dynamics, positioning itself for continued growth in crypto industry.
- Growing trend of institutional involvement in blockchain initiatives continues: Citibank's exploration of private fund tokenization on the Avalanche blockchain and UBS's issuance of tokenized warrants on the Ethereum blockchain.
- Expanding use cases of blockchain technology across various industries. Companies like Telefónica are partnering with blockchain projects like Chainlink and Helium, demonstrating real-life applications of blockchain technology beyond finance.
- 10SQ is exploring next-generation blockchain-based loyalty and integrated commerce solutions that could re-imagine and upgrade existing Web2 loyalty programs.
- 10SQ research team published the "Web3 and Artificial Intelligence: The State of Play" report.

## KEY THEMES

### Coinbase (COIN) Posted A Solid Top-line Performance And A First Quarterly Profit Since 2021

- On February 15th, the company published its latest financial report for 2023. COIN shares were trading up after hours following the announcement, while the share price went **up 170% last year**<sup>1</sup>. The exchange reported a \$273M net profit in the fourth quarter. For the full year of 2023, it earned \$95M on \$3.1Bn in revenue.
- Transaction revenue, the firm's core business, grew 83% Q/Q and came in better than expected, mainly due to another quarter of take-rate outperformance. The exchange is the **custodian partner for eight of the 11 approved ETFs**, which provides momentum for the revenue. 2023 transaction revenue was \$1.5Bn, down 36% Y/Y.
- Coinbase emphasized its **growing international presence and firm positioning for institutional clients**. As of Q4 2023, it onboarded one-third of the top 100 hedge funds by assets under management.
- In 2024, Coinbase will focus on 1) driving revenue through core trading and USDC, 2) driving utility in crypto with experiments in payments using USDC and Base, and 3) continuing to drive regulatory clarity for the industry.
- **10SQ VIEW:** Despite the recent macro and industry headwinds, Coinbase has evolved into a more diversified and globally positioned player focusing on profitability and product innovation.

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### Telecom Giant Telefónica (TEF) Partners With Chainlink And Nova Labs

- Telefónica and Chainlink will first collaborate on utilizing Web3 technology for fraud prevention in SIM cards. The first use case in the partnership will involve the SIM SWAP API, introduced by the Global System for Mobile Communications Association Open Gateway — a mobile network that provides Application Programmable Interfaces for developers. Telefónica is a member of GSMA.
- In January 2024, Telefónica announced that it is rolling out mobile hotspots in Mexico City and Oaxaca in partnership with Nova Labs, which is built on the Helium blockchain.
- **10SQ VIEW:** These are some of many real-life use cases of blockchain. Telefónica is another example of a Web2 company that has started to widely use blockchain technologies due not only to their versatility but also the security and trust they offer. The broad real-life adoption of blockchain is inevitable.

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<sup>1</sup>) Yahoo Finance

## KEY THEMES

### Citi Explores Private Fund Tokenization In Blockchain Bet

- Citibank, together with Wellington and WisdomTree, tested the tokenization of private equity funds on the Avalanche blockchain. The new test also included end-to-end token transfers, secondary transfers to enable trading, and new capabilities through collateralized lending.
- In April 2023, Franklin Templeton announced that the Franklin OnChain U.S. Government Money Fund would use the Polygon blockchain to process transactions and record share ownership.
- **10SQ VIEW:** Traditional financial institutions continue to open new real-life blockchain use cases. It is great to see that financial institutions have started exploring products on public blockchains in addition to private enterprise blockchains.

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### Ethereum Staking Skyrockets, With 25% Of All ETH Locked Up

- Over 30M ETH—or about \$ 74Bn worth of the cryptocurrency—has been locked up in staking, according to Nansen. Last year, the Ethereum network was upgraded, allowing users to withdraw staked ETH easily. Since then, liquid staking protocols have boomed—allowing users to seamlessly lock up and withdraw their crypto.
- Two other catalysts are driving interest in ETH - an upcoming Dencun upgrade, which is expected to go live on the main net by March 13, and a potential approval of an ETH ETF.
- Staking-as-a-Service companies, like Blockdaemon and Figment (10SQ portfolio companies), are recognizing the lucrative potential for expanding their businesses.

**10SQ VIEW:** Staking is a new institutional source of yield and an appealing strategy for Ethereum and proof-of-stake token holders during a risk-off market environment. Staking is growing into a massive ecosystem.

[Link](#)

### UBS Issues Tokenized Warrant On Ethereum Blockchain

- UBS announced the issuance of an investment-grade tokenized warrant in Hong Kong. It was a call warrant on Xiaomi stock and was sold to OSL Digital Securities.
- The bank has been expanding tokenization initiatives recently: in 2022, it issued \$50M in digital debt securities and participated in multiple public blockchain trials as part of Singapore's Project Guardian. Beyond public blockchain trials, UBS is in production with intraday cross-border repo.
- **10SQ VIEW:** Big finance is waking up to blockchain's transformative potential for legacy infrastructure. Enterprise blockchain holds immense potential in financial services.

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### Funds Stolen From Crypto Platforms Fall More Than 50% in 2023

- In 2023, funds stolen decreased by approximately 54.3% to \$1.7Bn, though hacking remains a significant threat as the number of individual hacking incidents grew from 219 in 2022 to 231 in 2023, according to Chainalysis.
- The considerable drop in stolen funds was primarily due to a decline in DeFi hacking.
- **10SQ VIEW:** Crypto platforms are becoming more sophisticated in their security and responses to attacks. As these processes improve, funds stolen from crypto hacks will likely continue to decline.

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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.

# WHY SHOULD BRANDS CARE ABOUT NFTS

## Convert Customers To Owners / Evangelists

- NFT-based loyalty programs allow customers to own the points/rewards they earn. The very act of ownership can grant additional perceived value to the points through the endowment effect.
- Ownership also strengthens the sense of community and loyalty. A company's brand can be one of its most valuable assets and point of differentiation. Converting customers to "true fans" is a key priority for management.
- **10SQ VIEW:** Consumers are overwhelmed by the number of loyalty programs; brands can use NFTs to provide a sense of ownership and unique experience to differentiate themselves.

16

Average number  
of loyalty programs  
enrolled per U.S.  
consumer

&lt;50%

Engagement  
rate with loyalty  
programs

Source: BCG

## Direct Relationship With Customers

- NFTs issued to a customer's wallet allow a brand to interact directly with its customer. Companies can also see previous transactions their customers have completed and other NFTs the customer holds.
- Given new government regulations around data privacy and Apple's decision to increase the difficulty for companies to track and target its advertising to customers, wallets, and NFTs can serve as the new bridge between a customer and a brand.
- **10SQ VIEW:** Increasing customer retention rates and, therefore, the lifetime value of a customer is increasingly important to brands as the cost of targeted advertising to acquire new customers increases.

82%

Consumers that said  
they are willing to  
exchange data for  
more personalized  
services

&lt;25%

Programs that are  
personalizing  
experiences based  
on customer data  
and preferences

Source: Deloitte, PWC

- 10SQ is exploring next-generation blockchain-based loyalty and integrated commerce solutions that could re-imagine and upgrade existing Web2 loyalty programs.

# HOUSEHOLD BRANDS ARE EMBRACING NFTS

## Major Brand Flagship NFT Collection Launches



**47% of the top 100 global brands<sup>1</sup> have launched an NFT collection**

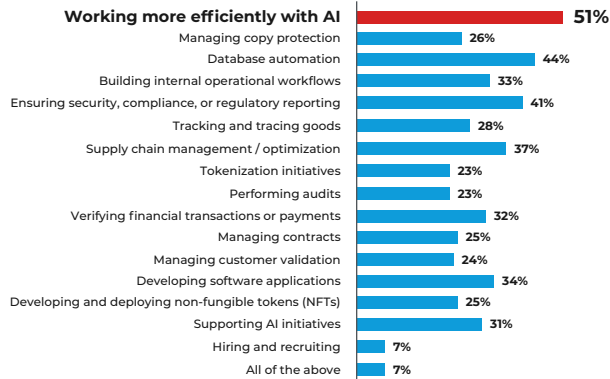
<sup>1</sup>) Brands as ranked by Interbrand

Source: CBInsights, banklesstimes.com, Messari, Dematerialz

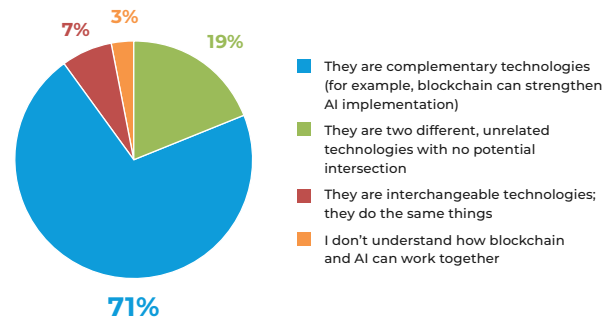
# BUSINESSES OVERWHELMINGLY VIEW BLOCKCHAIN AND AI AS COMPLEMENTARY TECHNOLOGIES

- According to a recent Casper Labs survey, a growing number of organizations are using blockchain to ensure their AI systems are operating more efficiently and securely.
- The compound benefits of blockchain+AI demonstrate that they are, in fact, complementary solutions that reinforce one another.

## Which of the following best describes how your organization uses blockchain technology today?














## How does your organization view the intersection of AI technology and blockchain technology?



Casper Labs, Survey: Blockchain Meets AI: Exploring the Challenges and Opportunities of Integration, November 2023. Casper Labs commissioned Zogby Analytics to conduct an online survey of 608 IT decision-makers in six countries: the US, the UK, China, Germany, Austria, and Switzerland.

# GROWING INTEREST FROM WEB2 TO WEB3 AI PROJECTS

- The growing number of partnerships between Web2 and Web3 AI companies reflects the emerging interest in decentralized solutions in the AI domain.

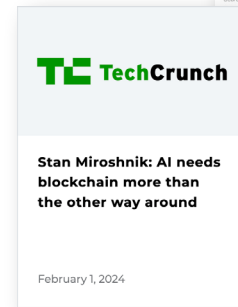
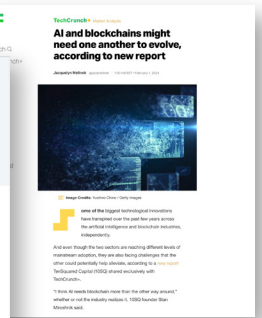
	Crypto Projects	Category	Partnership	
	SingularityNET (AGIX)	AI Marketplace	■ Cisco	September 2019
	Fetch.ai (FET)	AI Marketplace	■ Bosch via Fetch Foundation	February 2023
	Ocean Protocol (OCEAN)	Data share market	■ Mercedes-Benz	July 2020
	Filecoin (FIL)	AI infrastructure	■ Seagate, EY and AMD via Decentralized Storage Alliance	October 2022
	iExec (RLC)	AI infrastructure	■ NVIDIA Inception & IBM	October 2020
	Akash (AKT)	GPU compute	■ Equinix Metal	March 2021
	Render Network (RNDR)	GPU compute	■ Potential partnership with Apple via parent company OTOY	June 2023
	Phoenix (PHB)	AI infrastructure	■ WeChat, Tencent, JD.com	2021-2023
	WorldCoin (WLD)	AI infrastructure	■ OpenAI CEO (Sam Altman) ■ Multiple integrations <sup>1</sup>	2023
	Alethea (ALI)	Generative AI	■ AWS	October 2023
	IMGN AI	AI generated images	■ NVIDIA Inception	October 2023

- 10SQ VIEW:** We see the untapped potential for complementary growth and the emergence of startups focusing on blockchain+AI solutions. Despite the slowdown in VC funding in 2023, the Web3+AI was one of the most popular categories among investors in blockchain startups.

<sup>1</sup>) - Integrations with Discord, Talent Protocol, Okta's Auth0, Minecraft, Reddit, Telegram, Shopify, Mercado Libre, Minecraft, Reddit, Telegram, Shopify, and Mercado Libre

# REPORT: WEB3 AND ARTIFICIAL INTELLIGENCE: THE STATE OF PLAY

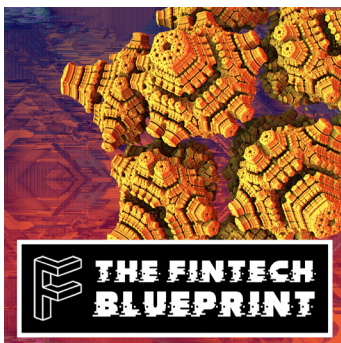
The TenSquared research team published “Web3 and Artificial Intelligence: The State of Play” report on February 1st, 2024. A deep dive into Web3+AI by the TenSquared research team. The 30-page report illuminates the dynamic growth and current landscape of the Web3+AI ecosystem, viewed through the prism of blockchain technology and the progress of Web3 companies.


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## Takeaways

- As the technologies advance, blockchain+AI could complement and elevate each other, resulting in a more diverse and enriched technological landscape.
- The research and development activity in the blockchain+AI field has been consistently rising over the last five years and resulted in 6.9k blockchain+AI -related GitHub repositories and 539k GitHub pull requests, 1.5k filed patents, and 5.6k research publications as of December 31, 2023.<sup>1</sup>
- There is a wave of new startups working at the intersection of blockchain+AI and developing code writing tools, decentralized data storage, compute infrastructure for AI, content authenticity, privacy, and AI-enabled Web3 security solutions.
- Besides driving the formation of new startups, AI technology could significantly affect existing digital asset companies by helping them to optimize expenses, increase revenues, and build moats.

## PODCAST: INVESTING IN FRONTIER CAPITAL MARKETS WITH TENSQUARED CAPITAL MANAGING PARTNER STAN MIROSHNIK



Lex chats with Stan Miroshnik, founder and managing partner of TenSquared Capital, discusses his early experiences in financial services and his journey into the world of digital assets and crypto. He talks about the challenges of navigating the ICO market and the importance of price discipline in investing. Miroshnik also shares his insights on the current state of the market and the opportunities he sees in sectors such as infrastructure, consumer applications, data analytics, and financial services. He also discusses the potential of security tokens and real-world asset tokenization.

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1) - GitHub, World Intellectual Property Organization, Dimensions.ai





## IMPORTANT DISCLOSURES

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