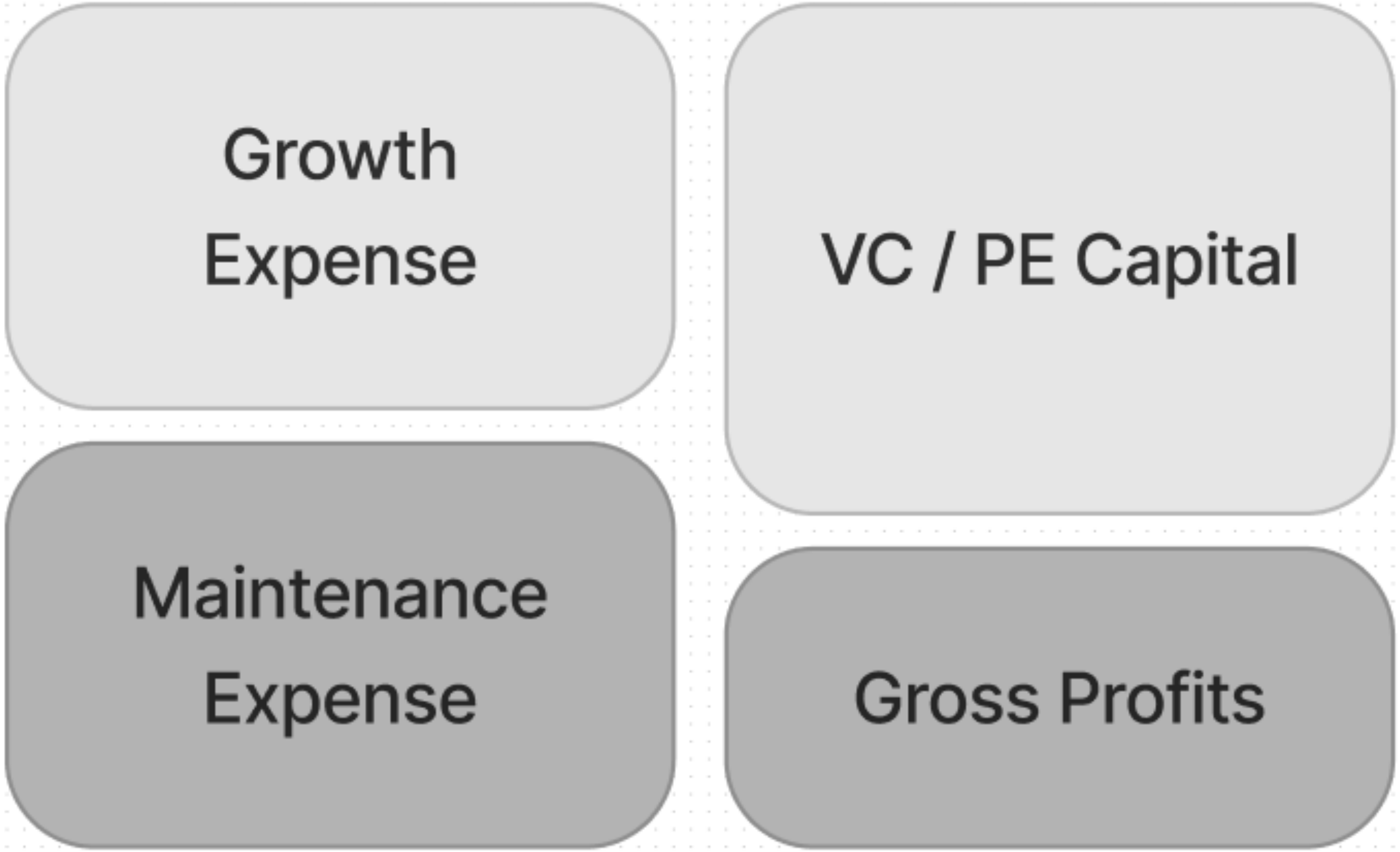
Scaling Software with Web3 (Pt. 1)

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

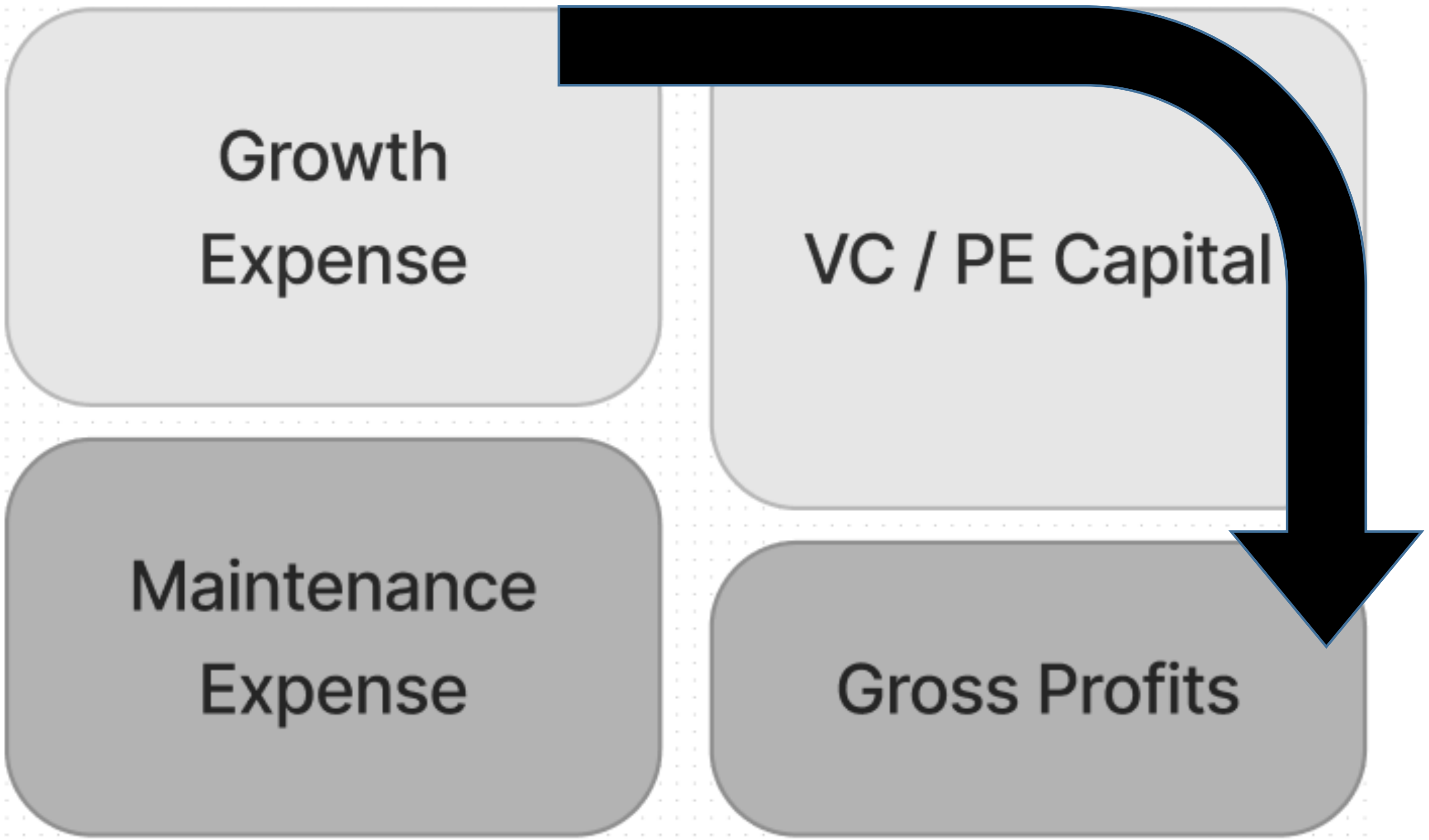
Escape Velocity
Rocket fuel for networks.

For 25 Years, There's Been One Way to Scale a Software Biz.



What Defines a Great Software Biz? LTV/CAC

LTV/CAC ≈ how much gross profit can I add for every $1 of growth expense?*



*relative to VC/PE cost of capital

**without running out of runway

The Levers for Creating Value in Software are Well-Understood.

VC-Backed Software	PE-Backed Software
New products	Raise prices
Improve products	Platform lock-in
New channels	Leverage
Vertical expansion (ads/fintech)	Horizontal expansion (rollups)

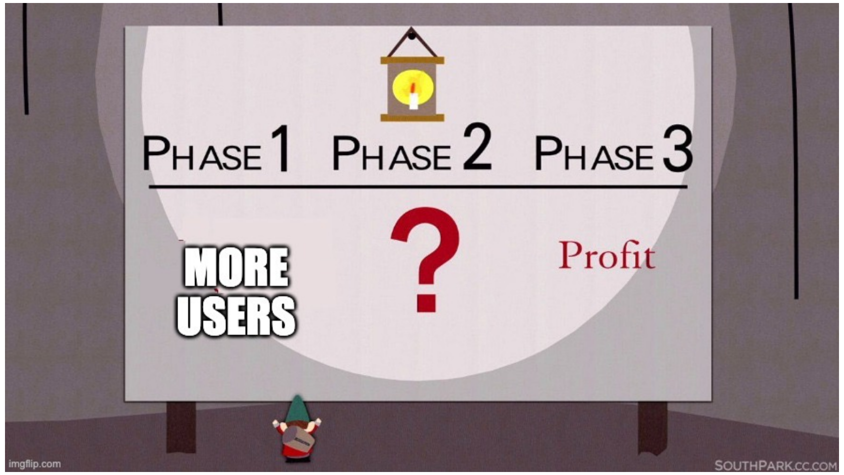
The Math Works! For Many Businesses…

Canva	gusto	snyk	Cloudinary		LaunchDarkly
HashiCorp	HIGHSPOT	YARDI	contentful	BrowserStack	freshworks
toast	KLAVIYO	zapier	exabeam	shippo	grammarly
PLAID	Icertis	yotpo.	Podium	VTS	GUILD
Figma	MessageBird	invision	KEEP TRUCKIN	loom	papayaglobal
miro	mailchimp	cedar	Rapyd	6sense	Culture Amp
TANIUM	netskope	POSTMAN	Dataminr	workato	AXONIUS
attentive	rubrik	Lucid	MAMBU	BigID	hopin
FORTER	scale	AUTOMATTIC	avidxchange	FanRuan	OneTrust
Fivetran	talkdesk	Razorpay	TripActions	Own{backup}	Outreach
Airtable	ThoughtSpot	Airwallex	Grafana Labs	Socure	samsara
Amplitude	GONG	pendo	riskified	Cockroach LABS	ServiceTitan
AUTOMATION ANYWHERE	braze	INTERCOM	sisense	highradius	GitHub
carta	Calendly	outsystems	ActiveCampaign	MX	Notion
Checkr	checkout.com	Benchling	Flutterwave	Kong	
Collibra	COHESITY	weave	DISCO	webflow	ATLASSIAN
celonis	GitLab	Chainalysis	entrata	DataRobot	databricks
Dropbox	slack	workday.	box	xero	Office

…But It Doesn't Work for *Every* Great Software Business.

"Niche" Markets

VCs force growth-at-any-cost, degrading the product experience for core users.



Typical VC Investor

Values-Driven Communities

PE pricing is too transactional / extractive for values-driven communities.

Typical PE Investor

Web3 Offers a New Path for Mission-Driven Founders.

1. Make a bigger global impact, while staying true to community values.

2. Leverage new/better tools for engaging users, communities & partners.

3. Set your cap table in stone from day one.

…But Token Networks Follow a New Set of Physics.

Growth
~~Expense~~ Incentives

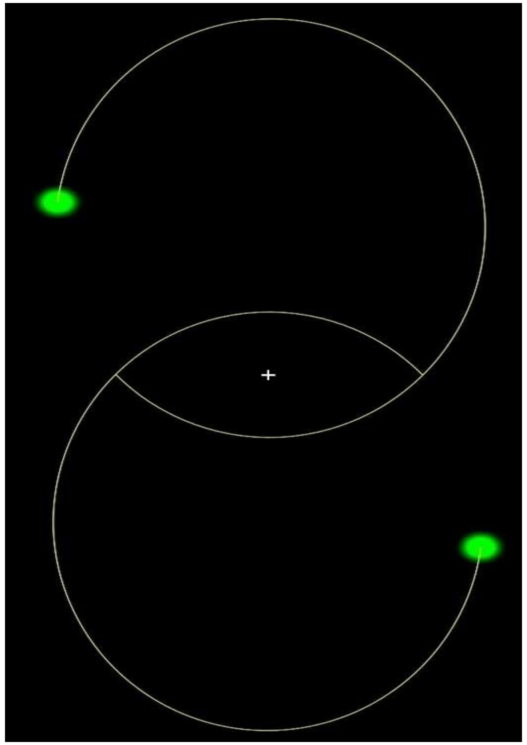
Speculative
~~Capital~~ Demand

Maintenance
~~Expense~~ Incentives

Structural
~~Profits~~ Demand

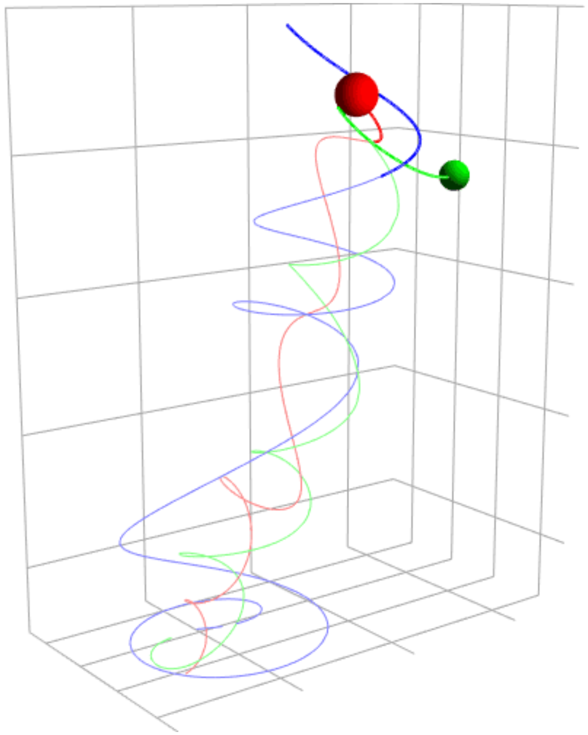
In Crypto, Unit Economics Becomes a 3-Body Problem.

LTV/CAC



f(x): acquisition cost
g(y): gross margin
h(z): cost of capital

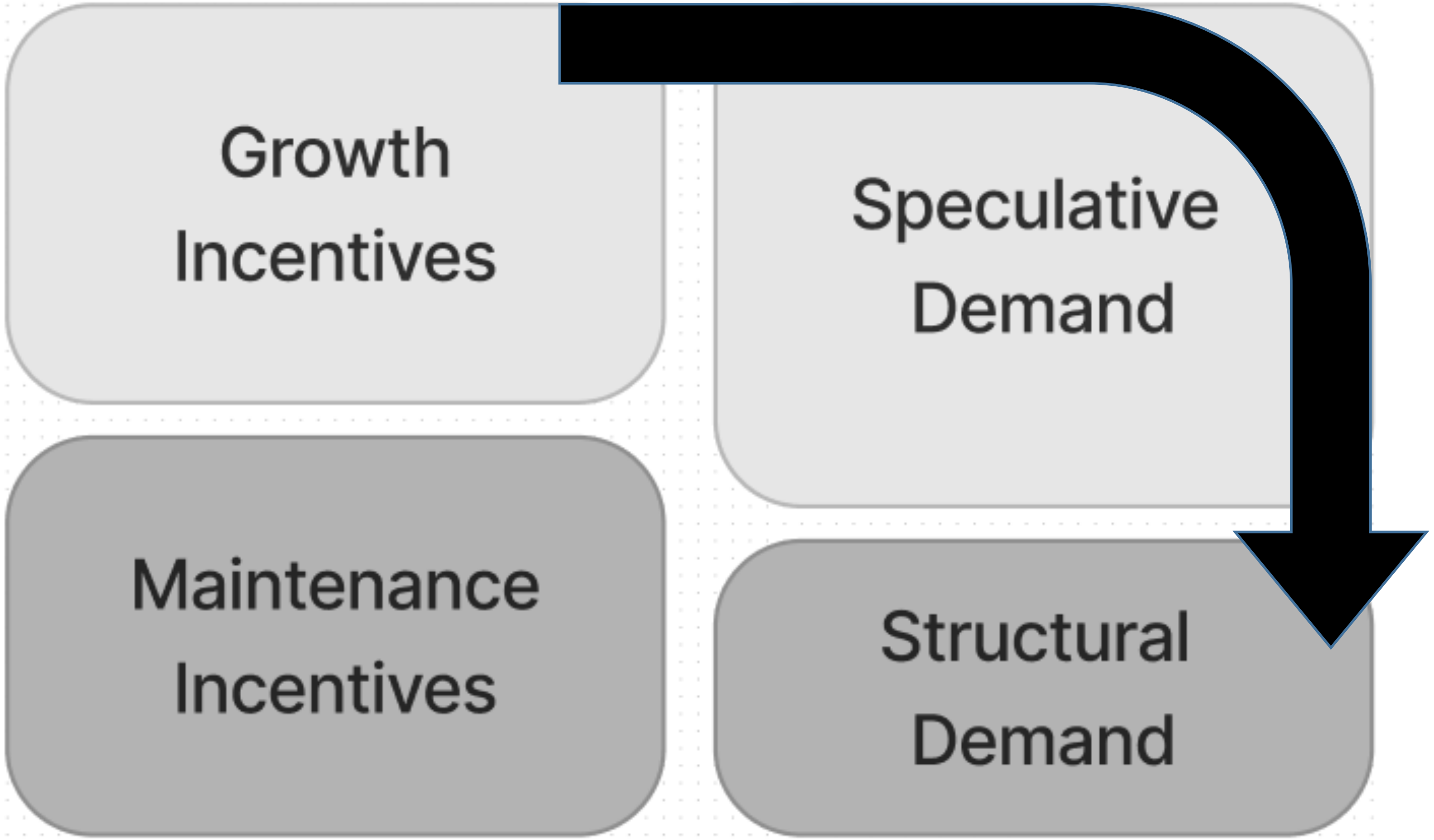
ROID



f(p, x): inflation
g(x, y): coverage
h(p, y): yield

The Golden Rule becomes Return on Incremental Dilution

ROID ≈ how much structural demand can I add for every $1 of growth incentives?*

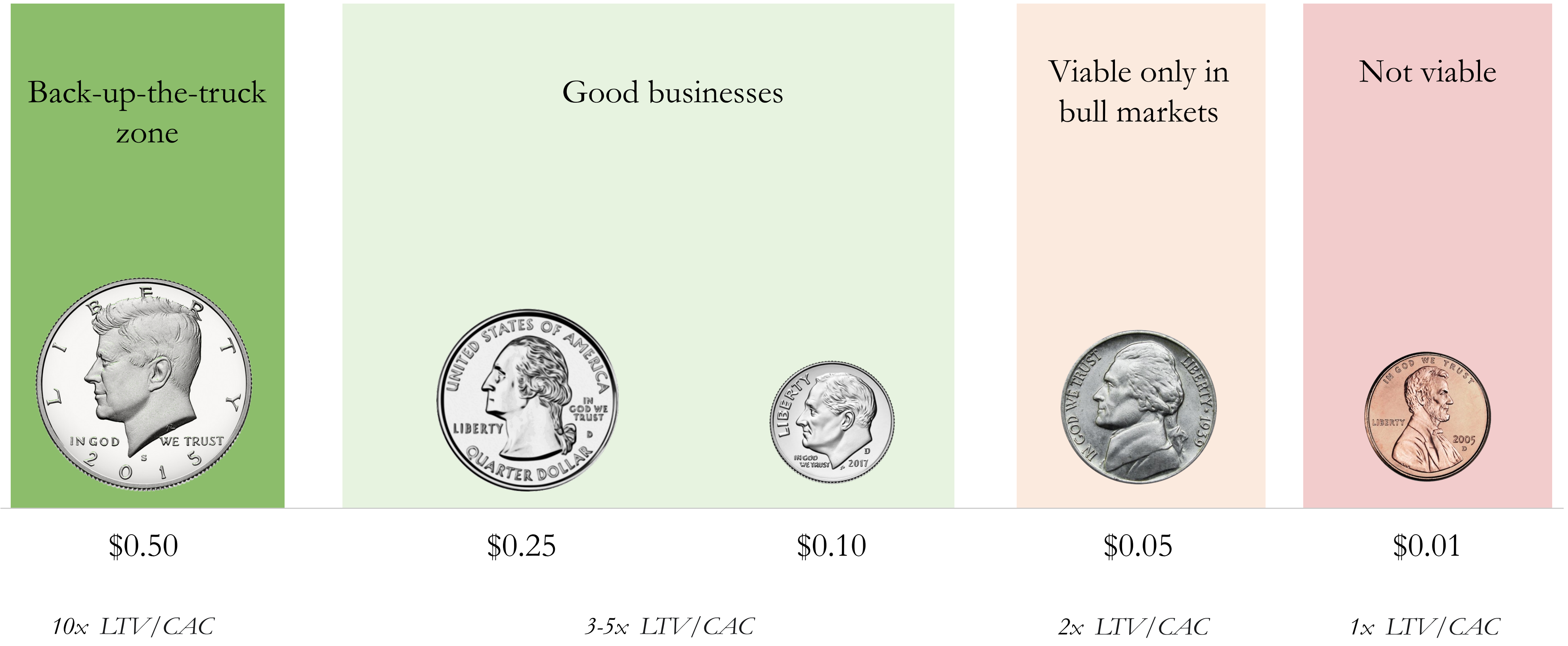


*relative to insider token allocations

**without running out of tokens

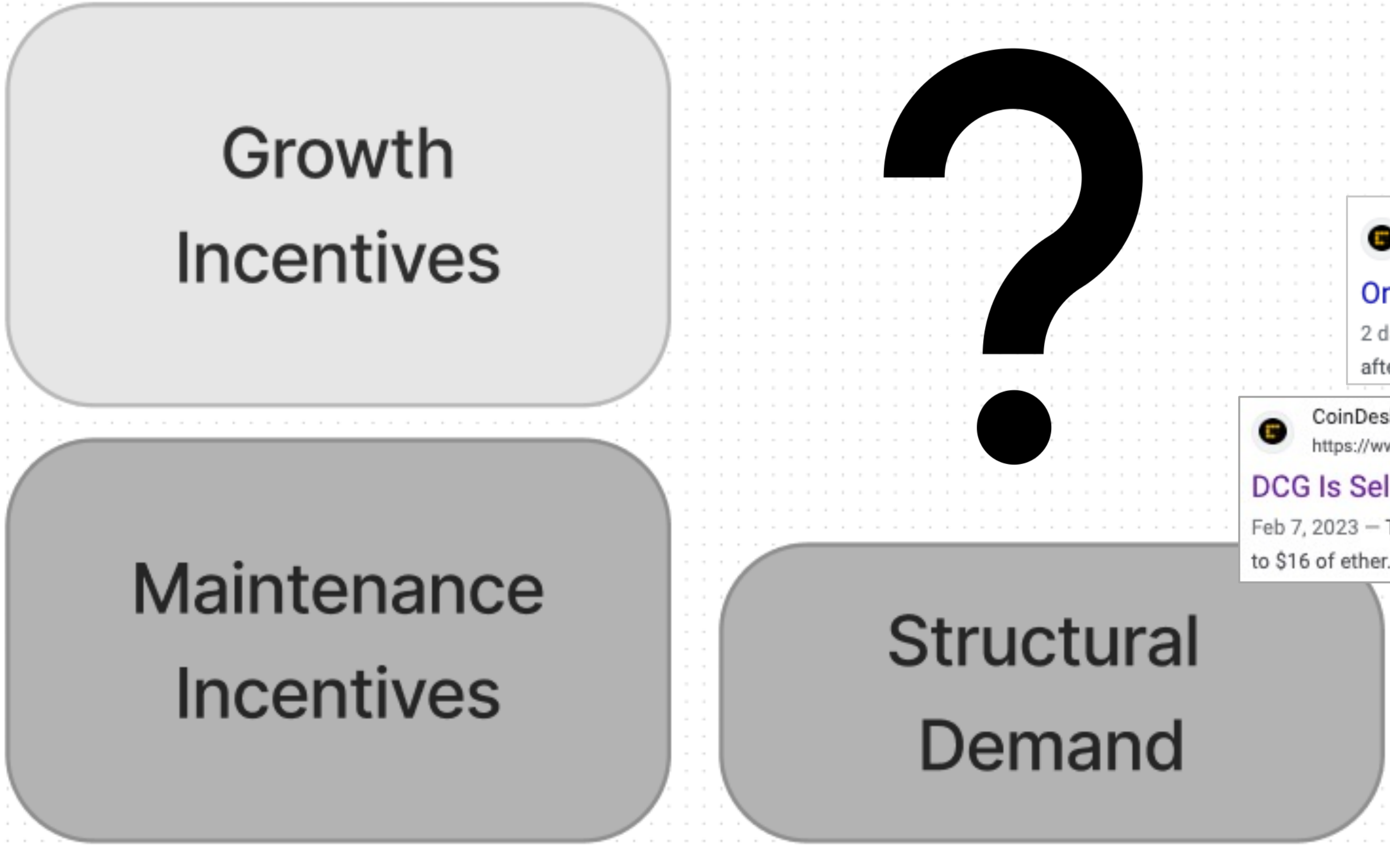
The Principles of Great Businesses Don’t Change.

ROID ≈ how much net new structural demand per $1 of growth incentives (annualized)



…But the Principles of Capital Markets Do Change.

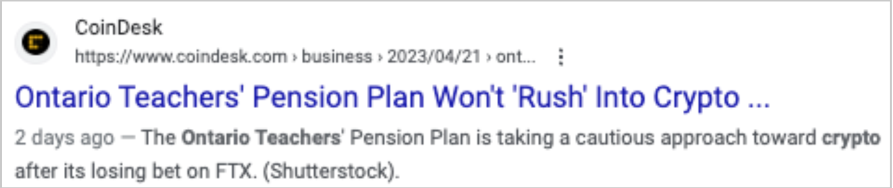
Unlike VC/PE capital, speculative demand can disappear overnight.




Vinny Lingham
@VinnyLingham

We were wrong. Web 3.0 isn't crypto. It's AI.

3:48 PM · Apr 19, 2023 · 67.1K Views


CoinDesk
https://www.coindesk.com › business › 2023/04/21 › ont...

Ontario Teachers' Pension Plan Won't 'Rush' Into Crypto ...

2 days ago — The **Ontario Teachers**' Pension Plan is taking a cautious approach toward **crypto** after its losing bet on FTX. (Shutterstock).


CoinDesk
https://www.coindesk.com › business › 2023/02/07 › dc...

DCG Is Selling Holdings in Several Grayscale Trusts

Feb 7, 2023 — The company is **selling** at about $8 per share, despite each share's claim to $16 of ether. "This is simply part of our ongoing portfolio ...

Reminder: Today, Most of Web3 Earns Revenues in Tokens.

Structural demand in tokens.

$100B+ Combined Market Cap

DEXs
(% on trading volumes)

Money Markets
(% on borrow/lend)

Liquid Staking
(% on staking rewards)

Structural demand in fiat.

<$1B Combined Market Cap

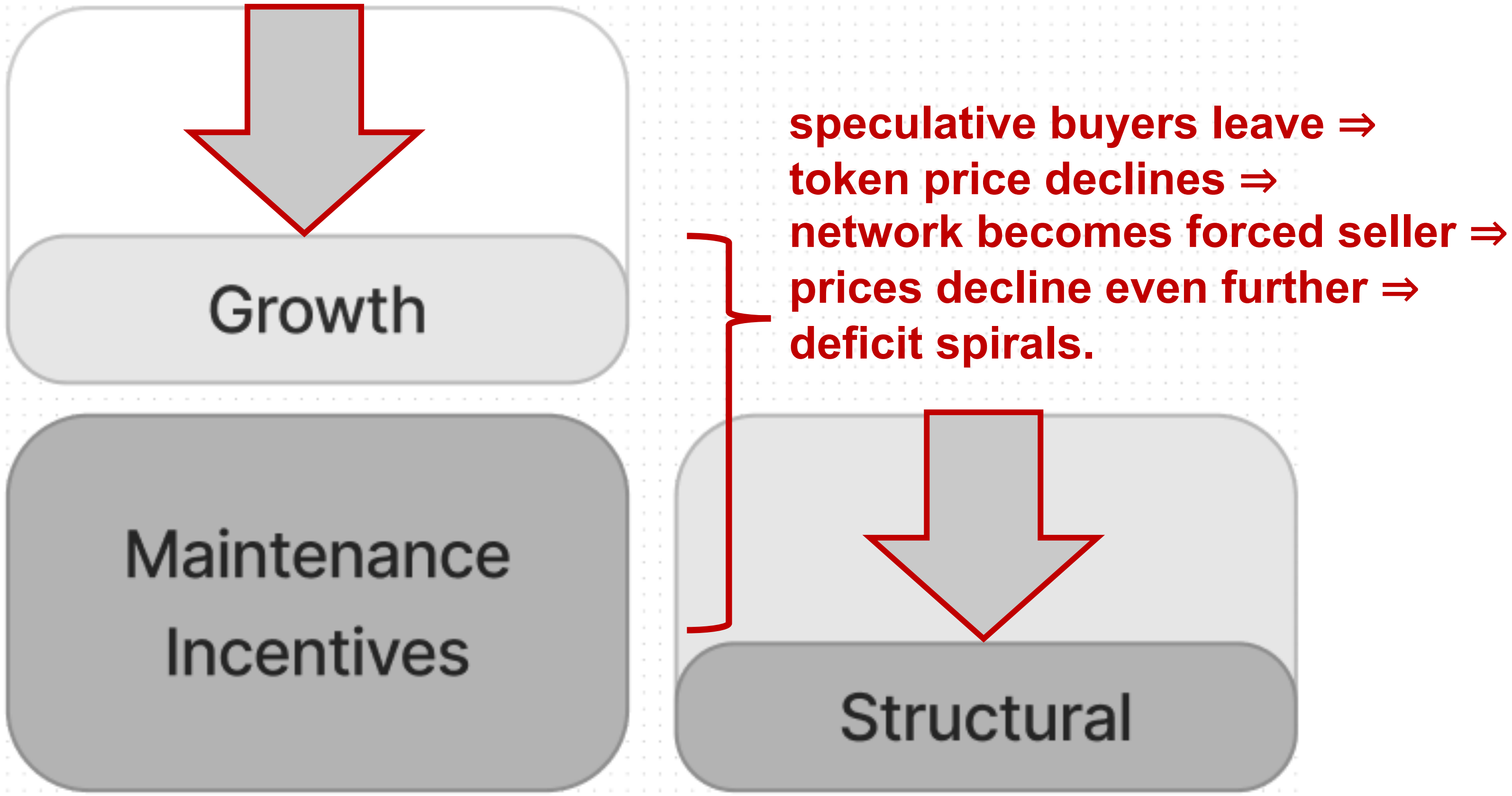
Connectivity
($ per GB)

Energy
($ per kWh)

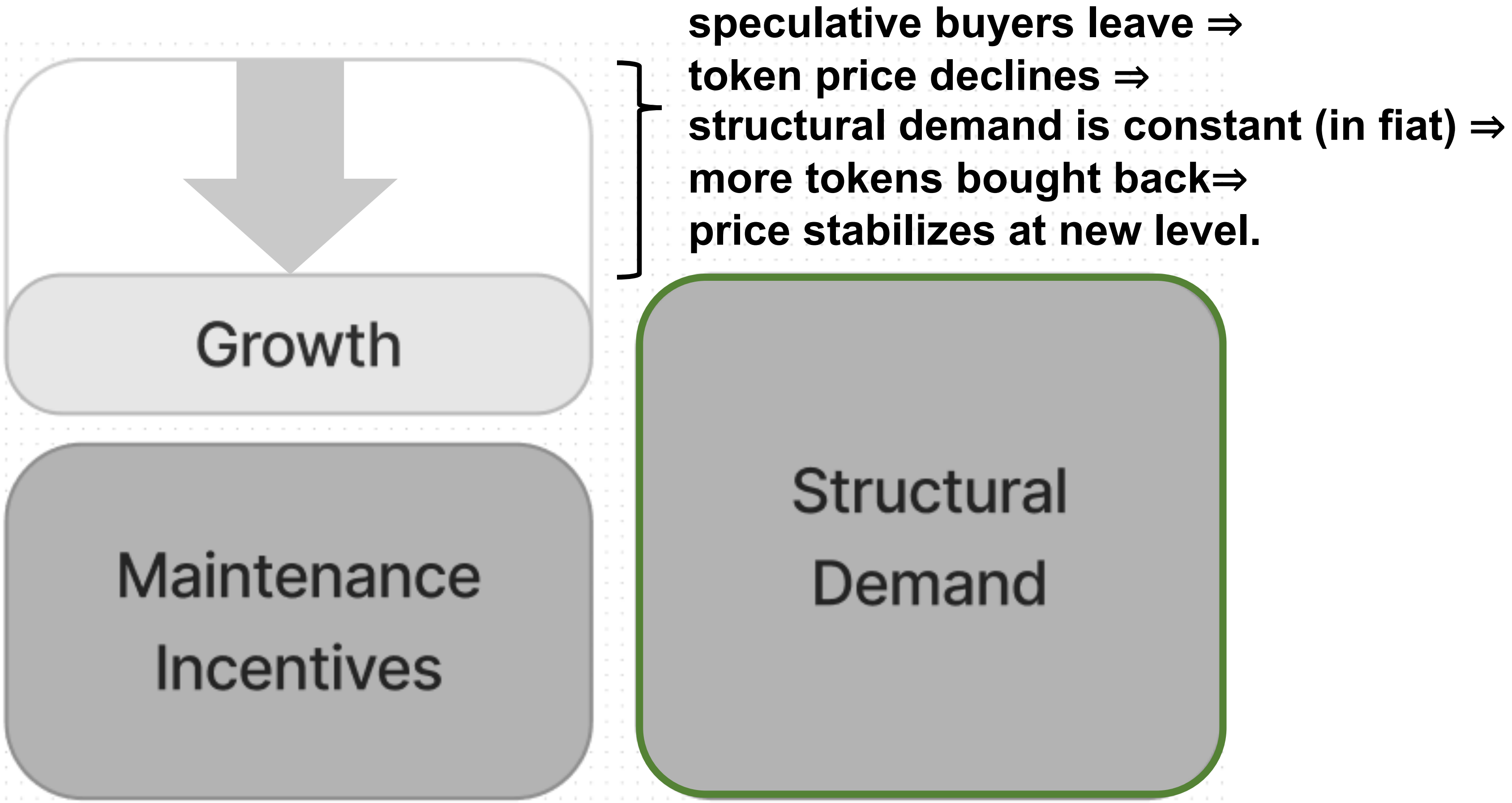
Transportation
($ per mile)

Advertising
($ per referral)

In Bear Markets, Networks with Token-Denominated Revenues Face Vicious Cycles of Dilution.



…But Networks with Fiat-Denominated Revenues are Resilient.



A Handful of Web3 Networks Earn Fiat Revenues Today.

	sweatcoin	livepeer	GEODNET	rndr	helium	
Monthly Protocol Net Revenues	$1.5m	$40k	$8k	$85k	$250k	Combined <$2m ARR
(%) Token Price	$0.006	$4.50	$0.02	$1.50	$1.50	
Monthly Token Buyback	**250m**	**9k**	**400k**	**55k**	**17k**	
	Source: Medium	*Source: Messari*	*Source: Discord*	*Source:: Medium*	*Source: Dune*	

Annualized Yield Token Burn / Circ Supply	**50%** (vs 5.9b circulating)	**0.4%** (vs 28m circulating)	**2%** (vs 22m circulating)	**0.2%** (vs 365m circulating)	**0.01%** (vs 145m circulating)	**High yield** = cheap and potentially-undervalued **Low yield** = upside is already priced-in
Coverage Ratio Token Burn / Token Issuance	**17%** (vs 1,500m/mo issuance)	**5%** (vs 200k/mo issuance)	**10%** (vs 4m/mo issuance)	**2%** (vs 3m/mo issuance)	**0.7%** (vs 2.5m/mo issuance)	**High coverage** = low speculative premium **Low coverage** = needs speculation to sustain price
Yield-to-Worst Token Burn / Max Supply	**13%** (vs 22.5b max supply)	**0.4%** (vs 28m max supply)	**0.04%** (vs 1b max supply)	**0.1%** (vs 521m max supply)	**0.01%** (vs 223m max supply)	**High YTW** provides structural price support IF revenues are truly uncorrelated to token price… or, suggests markets are appropriately discounting risky/low-quality revenue streams.

Source: CoinGecko, Messari, project websites/blogs/APIs; as of Apr'23.

…But They All Still Rely on Speculation to Fund Growth…

How much ownership do tokenholders lose each year to dilution?

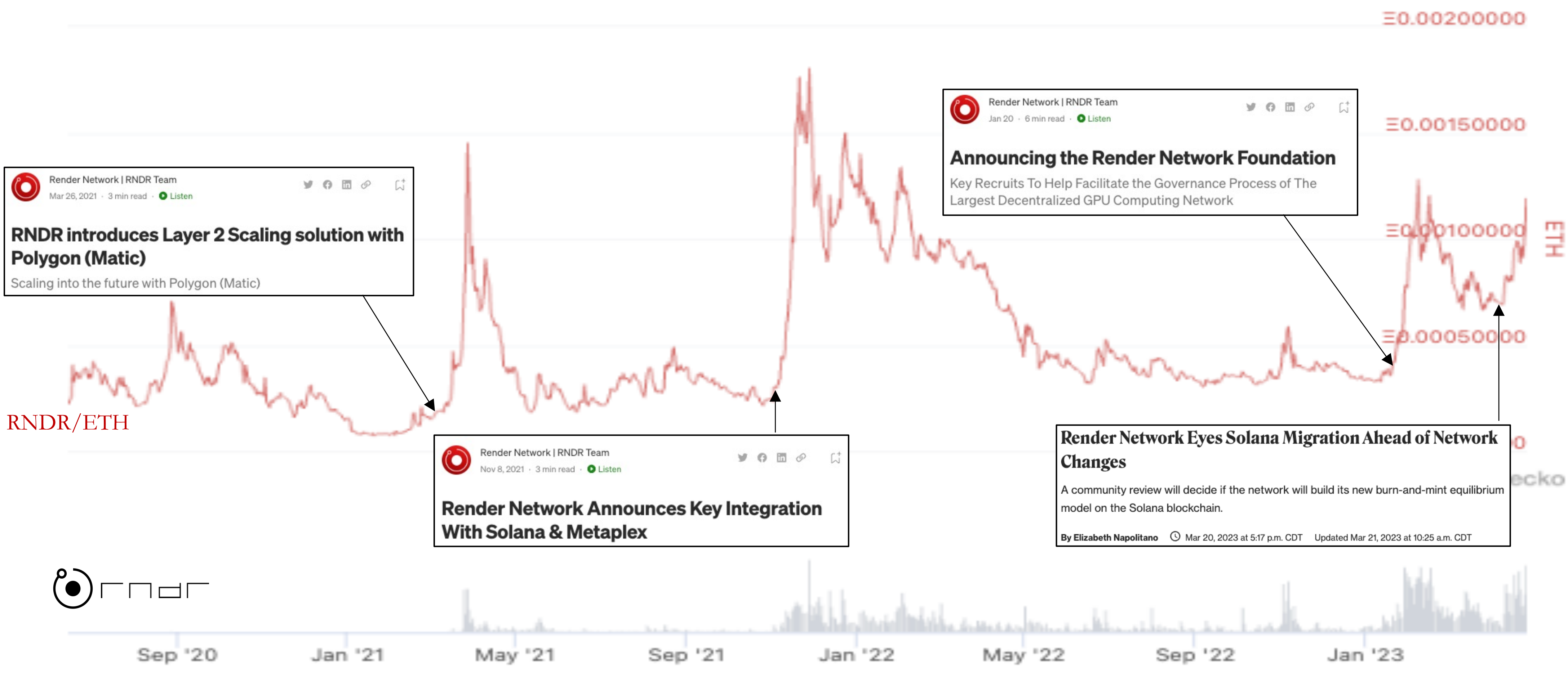
Annualized Dilution

Yield	Coverage Ratio: 90%	75%	50%	20%	10%	1%	0.1%
0.1%	0.0%	0.0%	0.1%	0.4%	1%	9%	62%
1%	0%	0%	1%	4%	9%	61%	100%
5%	1%	2%	5%	18%	35%	98%	∞
10%	1%	3%	9%	31%	56%	100%	∞
25%	2%	7%	20%	58%	85%	∞	∞
33%	3%	9%	25%	67%	90%	∞	∞
50%	4%	13%	33%	79%	96%	∞	∞

Market Pricing In Future Growth

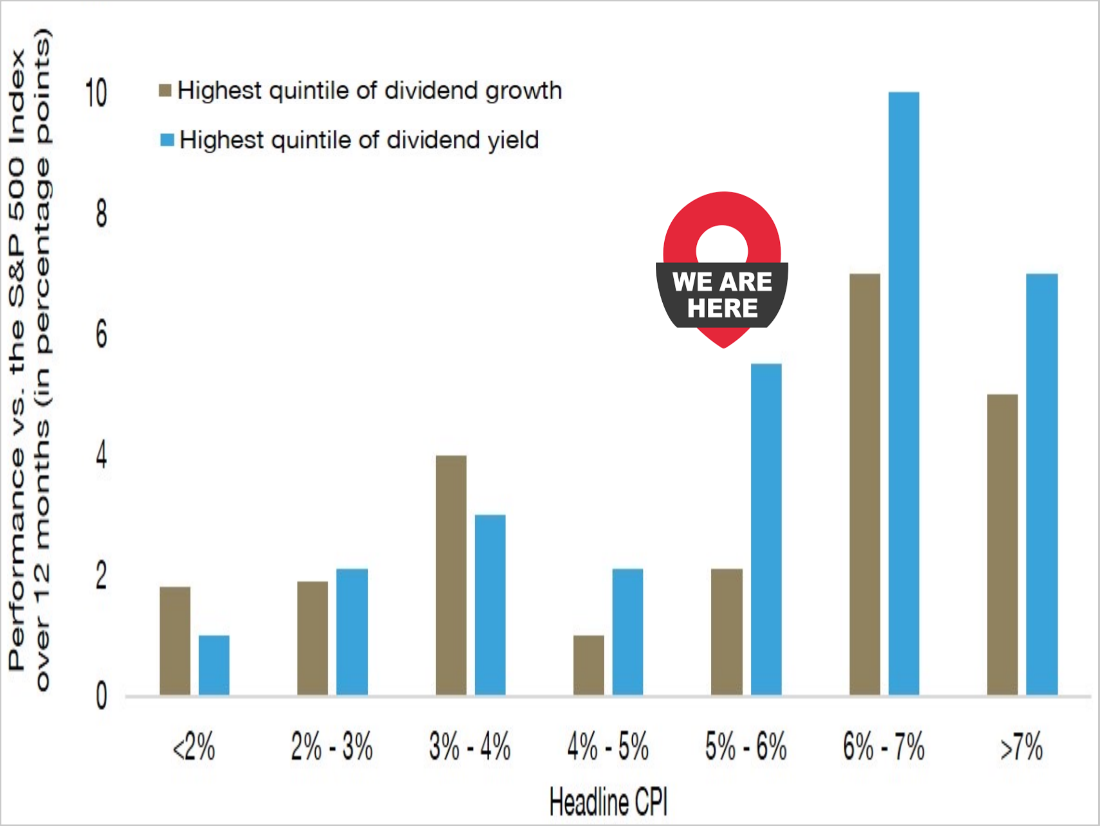
More Speculation Needed to Sustain Current Price

…And Rely On Narratives to Drive Price Discovery.

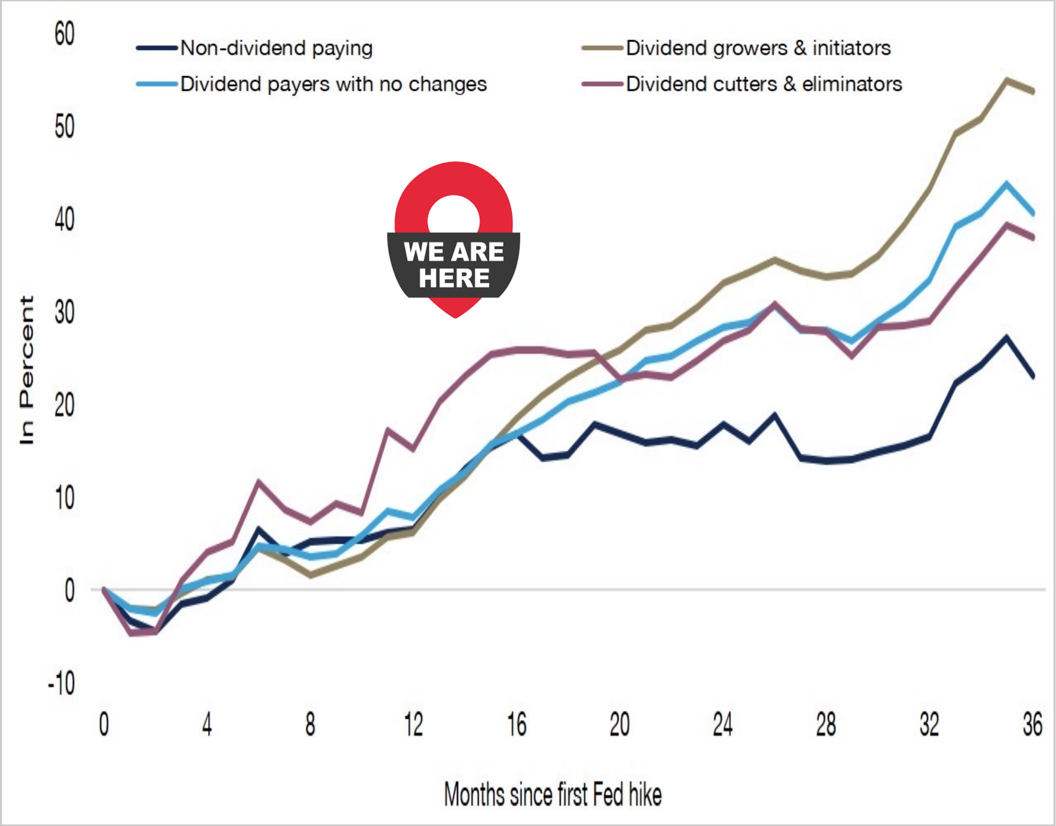


In Today's World, Fundamentals >>> Narratives.

Outperformance of Dividend Stocks in
Low- vs High-Rate Environments (1970-2021)



S&P500 Performance since First Rate Hike,
by Dividend Policy



Source: Guardian Capital, Goldman Sachs Investment Research, Ned Davis Research, Guardian Capital LP
Note: Performance is calculated using 12-month median returns. Highest quintile of dividend growth is based on trailing 12-month dividend growth.
Note: Data is the average monthly performance in the months following the first Fed rate hike of a tightening cycle. Includes rate hike cycles starting May 1983; March 1988; February 1994; June 1999; June 2004; and December 2015

We Think Great Web3 Software Businesses Have:

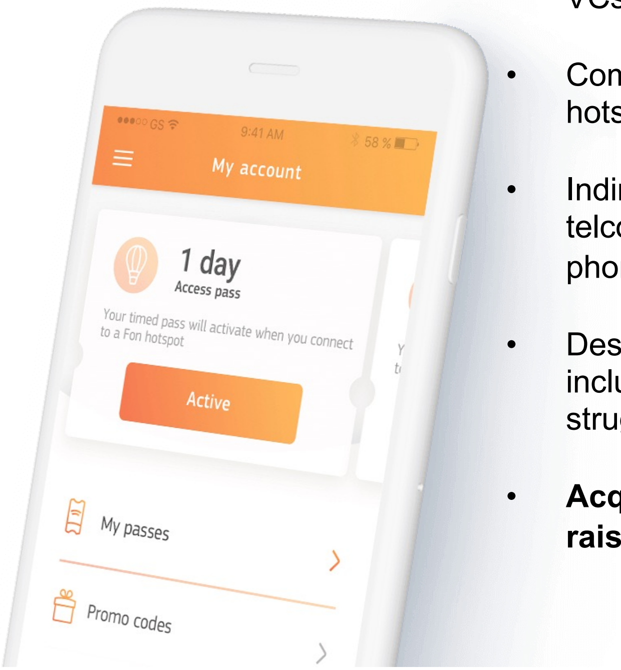
	And avoid:
1 Existing base of highly-engaged users.	*High churn.*
2 Strong community and/or proprietary dataset.	*Tools with no network/community.*
3 Day-one cash flows for token buybacks.	*Chicken-and-egg scenarios.*
4 Right-to-win in a large category.	*Small end-markets.*
5 Clean cap table with little/no equity raised.	*VC/PE stakeholders.*
6 Global user bases.	*US regulatory risk.*

Case Study: Community-Built WiFi.

WiFi Map

Web2: Fon

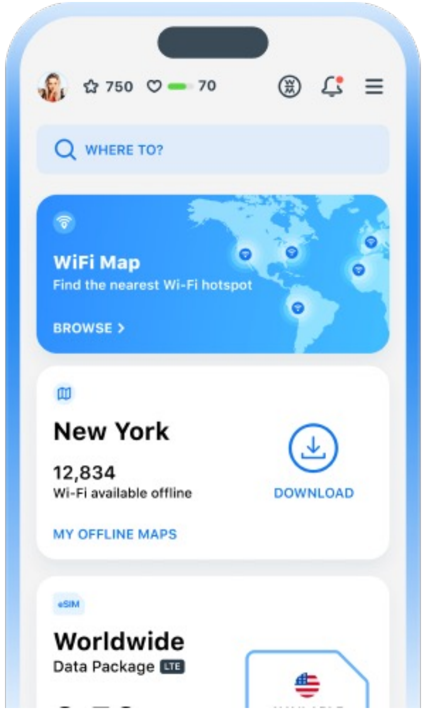
fon



- Founded in ‘05; raised $70m+ from VCs; grew to 150+ employees
- Community-built map of 23m+ WiFi hotspots globally and 100k
- Indirect path to monetization - large telcos pay Fon to route customer cell phone traffic through Fon’s network
- Despite partnerships with tier-1 telcos including BT and DTK, the company struggled to monetize at scale
- **Acquired for $5m in ’21, after raising more than $70m from VCs**

Web3: WiFi Map

WiFi Map



- Founded in ‘14; bootstrapped to 30+ employees
- Community-built map of 14m+ active WiFi hotspots globally
- Direct path to monetization: 10% of all eSIM/VPN sales used for token buybacks
- Launched token network Q1’22, driving +300% growth in eSIM sales vs before token launch
- **Network valued at $60m+ FDV, even before disclosing amount of token buybacks**

https://fon.com/

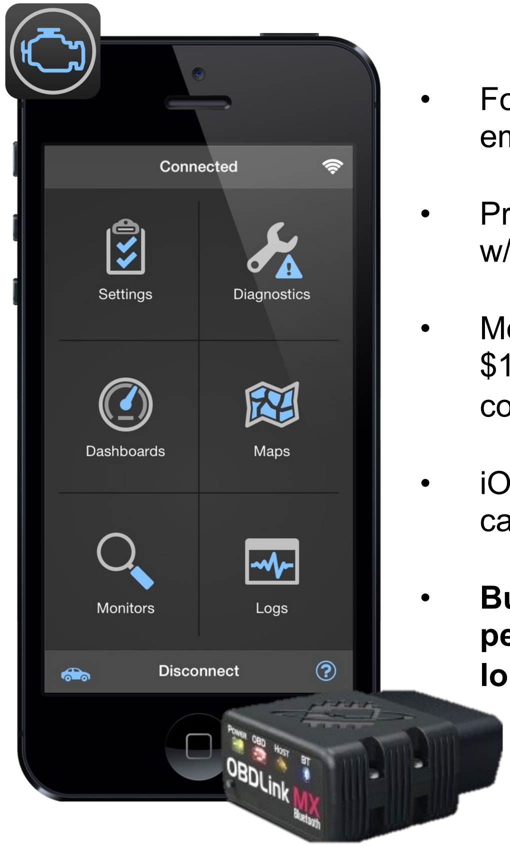
https://www.wifimap.io/

Case Study: Software-Enabled Vehicle Scanner.

DIMO

Web2: OBD Fusion	Web3: DIMO

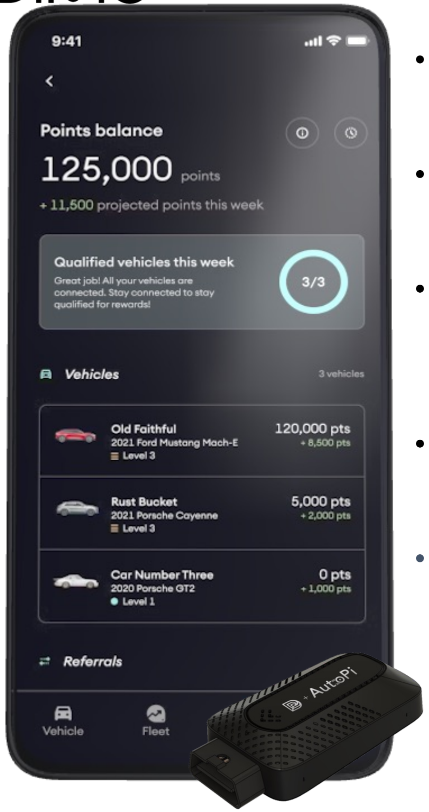
Web2: OBD Fusion



- Founded in ‘09; no outside capital; no employees
- Product-market fit: app has 16k+ reviews w/ 4.7 star rating, all organic
- Monetization is a single bite at the apple: $10 app download fee plus $10-$15 commissions on hardware
- iOS/Google take 30% of app revenue, capping long-term margins at 70%
- **Business generates $20 of gross profit per-user up front… but creates zero long-term equity value**

Web3: DIMO

DIMO



- Founded in ‘20; raised $9m from VCs; grew to 30+ employees
- Launched token in Q4‘22: onboarded 9k+ cars to date growing 20%+ MoM
- Infinite bites at the apple: 11% of all future fees from OBD data flow to the protocol (1% net of validators)
- Cuts out the middleman, returning most of the 30% rake back to users
- **Network valued at $200m+ FDV, or $20k+ per connected car, even before announcing token buybacks**

https://www.obdsoftware.net/

https://dimo.zone/

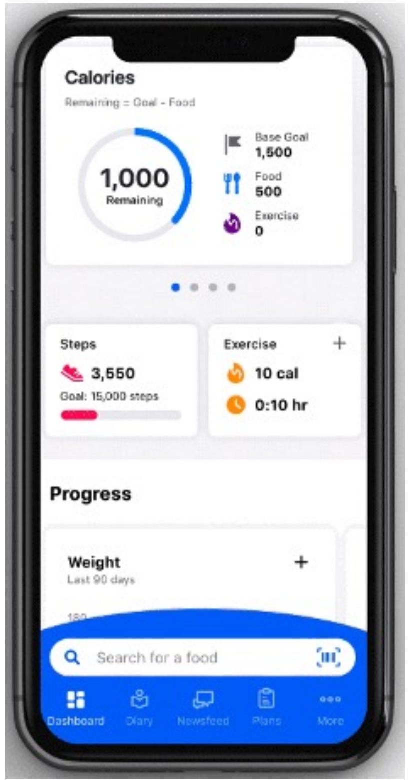
Case Study: Fitness/Lifestyle Community.

sweatcoin

Web2: RunTracker	Web3: Sweatcoin

Web2: RunTracker

myfitnesspal™

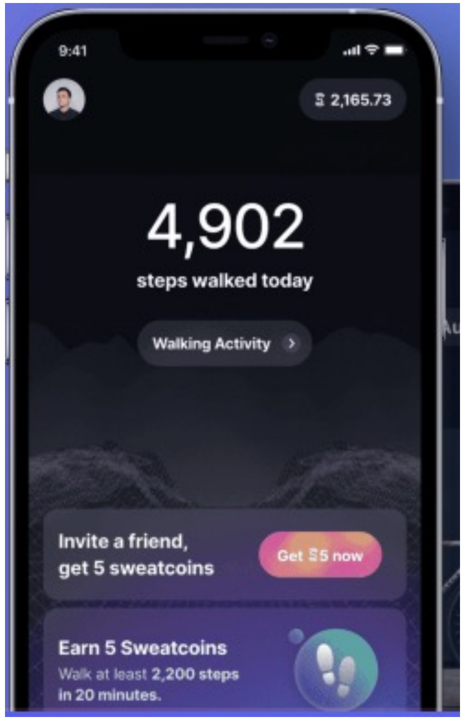


- Founded in ‘05; raised $20m+ from VCs
- Food data tracking app that grew to 80m+ users, but struggled to monetize as an independent business
- Ultimately sold to Under Armour for $475m in ’15 ($6-20 per user)
- **Under Armour sold the business at a loss five years later for $345m ($2-10 per user)**

https://www.myfitnesspal.com/

Web3: Sweatcoin

sweatcoin



- Founded in ‘14; raised $15m from VCs; launched token in ‘20
- Global fitness-oriented community with 150m+ downloads and 2m+ monthly active users
- App does ~$3m/mo in advertising and brand partnerships revenue, of which 50% flows to buybacks
- Network is buying back 8% of total token supply on an annualized basis at current prices
- **Network valued at $230m FDV, equivalent to $115 per MAU or 12x token buybacks**

https://sweatco.in/

Escape Velocity

Rocket fuel for networks.

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

Twitter: @DAnconia_Crypto and @MoneroMahesh

Telegram: @salgala and @moneromahesh