



# The companies of the digital economy

By Michael Sonnenshein, CEO at Grayscale Investments

Grayscale believes the digital economy represents the future of finance. By the digital economy, we are referring to the work of companies innovating at the intersection of finance, technology, and digital assets. Together, these firms are heralding a new era of online trust, reshaping business models, reorganising competitor dynamics, and redistributing value across industries – in the process, creating greater utility for consumers.

Broadly speaking, these companies fall into seven sub-sectors of interest, which we will take a closer look at below.

Digital Asset Miners operate a globally distributed infrastructure of data centres that support blockchain networks, earning revenue from newly issued digital asset supply and fees paid by users. Revenues from Bitcoin and Ethereum miners alone grew to ~USD35 billion, compared to revenues



of ~USD90 billion for infrastructure-as-a-service companies.<sup>1</sup> Like cloud providers, miners achieve high EBITDA margins, but trade at significantly lower multiples (e.g. Marathon (MAR) trades at 7.2x), due in part to volatile prices. By demonstrating consistent revenues from fees over time, miners may well experience a significant rerate in line with traditional cloud companies, like Equinix, which trades at 24.2x.

Exchanges & brokerages serve as platforms for customers to buy, sell, send, earn, and store digital assets. Increasingly, platforms like Coinbase have started offering e-commerce alternatives to traditional payment methods for SMBs and micro-merchants, which comprise ~55 per cent of net revenues flowing to merchant acquirers/processors.<sup>2</sup> The platforms also connect individuals and businesses to Decentralised Finance (DeFi) services

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and provide a marketplace for tradeable digital goods. Global banking revenues were USD5.5 trillion in 2019.<sup>3</sup> Exchanges are positioning themselves to compete across a range of consumer and commercial diversified banking services.

Hardware providers enable enterprises to build trust in the speed and security of distributed cloud networks. This hardware is increasingly contributing to the growth of IoT applications, like smart homes and agriculture. Hyperscale data centres are expected to spend ~USD55 billion in cloud-related CAPEX in 2022. Continued adoption of distributed computing technology could give hardware providers the opportunity to capture greater share of that CAPEX.

Asset managers seek to profit from buying, selling, and lending digital assets, or holding a portfolio of businesses engaged in the digital asset ecosystem. By leveraging Application Programming Interface (API) models, these digitally-enabled banks are arbitraging global prices around the clock, creating more efficient markets, financing underserved segments, and attracting young investors who have historically eluded legacy institutions. Even if the crypto market were to remain flat, digital asset management revenues could grow by ~24x, simply by shifting individual-dominated ownership mix towards institutions, in line with US equity markets.<sup>4</sup>

Energy & resource management providers aim to optimise the energy and power required for digital asset mining. Providers aim to support miners as they digitise distributed energy resources and facilitate the development of solar alternatives and storage. Improved microgrid management and the digitisation of electricity networks could offer an estimated ~USD80 billion per year in energy savings, freeing capital for investments in new electricity infrastructure.<sup>5</sup>

Payment platforms aim to streamline payment processes and reduce fees by removing intermediaries and directly authorising and settling digital asset-to-digital asset or digital asset-to-fiat

transactions. Fees for mid-sized merchants often reach ~2.50 per cent of the total transaction amount, which is distributed between several intermediaries. In 2021, on-chain payment volumes reached ~USD25 trillion across stablecoins, bitcoin, and Ethereum – with a blended-fee take rate of 0.04 per cent.<sup>6</sup> The global payment market stands at ~USD260 trillion per year. By maintaining direct consumer and merchant relationships, payment platforms have the opportunity to shift the competitive dynamics in their favor, away from legacy institutions.

Blockchain technology providers enable blockchain-based applications, and offer systems, solutions, or software that support the wider ecosystem. For instance, Block – formerly Square – is developing software for the bitcoin network. In North America alone, banks spend USD115 billion a year on IT, the majority of which goes towards outdated systems.<sup>7</sup> As adoption of updated digital infrastructure continues, these new technology investments are building a competitive advantage over traditional institutions bogged down by their legacy systems.

The confluence of finance, technology, and digital assets are creating new and exciting opportunities for investors to explore. The digital economy is still nascent, but the companies that are operating in this space could have the potential to define the future of finance. ■

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Footnotes:

1. Grayscale estimates, Coinmetrics, Bloomberg, Date: 12/31/2021
2. Credit Suisse estimates as of: 1/24/2020, Net fees represent the amount that goes to the acquiring/processing provider less the amount that must be paid to other intermediaries such as card networks or banks, Net represents the approximate net fees that acquiring/processing providers yield from merchants as a percent of their total payment volume.
3. McKinsey, data as of 2019
4. Tradingview, Crypto Fund Research, SIFMA, data as of 9/30/2021, revenue based on 2 per cent management fee applied to total crypto market value of current institutional fund assets and adjusted institutional fund assets based on US Equities 60 per cent allocation.
5. IEA November 2017 Report
6. Date: 1/1/2017 to 12/31/2021, Grayscale Estimates. Take rate represents USD fees paid to the blockchain network as a percentage of the USD total transaction value sent during the period. Blended-fee take rate calculated as the USD total Bitcoin and Ethereum network fees divided by the USD total Bitcoin, Ethereum, and Stablecoin on-chain adj-transaction value per Coinmetrics (assumes stablecoins are issued on Ethereum; does not adjust for fees paid by other applications, which could cause take rates to be lower; actual take rate costs may differ).
7. Credit Suisse (2016-2018 Actual; 2019-2021 Estimated)