

CHAPTER TEN

NFTs

CRYPTO CONSENSUS VIEW

The popularity of NFTs demonstrates the potential of DApps.

UNBOUNDED CAPITAL VIEW

The popularity of NFTs to-date has largely been due to speculative fervor: another flavor of digital gold, a use case informed by the unscalability of the projects' underlying blockchains which prioritize decentralization over efficiency.

NFTs, or non-fungible tokens, have existed in the crypto space for several years. Crypto Kitties, the project mentioned in Chapter 2, was so popular that it temporarily rendered the Ethereum network effectively unusable in 2017, simultaneously becoming an early NFT success story and unscalable blockchain cautionary tale. Unfortunately for its users and creators, its success became its own demise as the blockchain it depended on was unable to accommodate the high transaction volume demands of any successful internet application. Since the days of Crypto Kitties, and the original publication of this book in May 2020, NFTs have grown in popularity – both in terms of their reach and market value. In 2022, it's not uncommon to see NFTs sold in commercials while watching nationally televised NBA games, and the **prices that the highest ticket items demand today dwarf the cost of big ticket Crypto Kitties from 2018**. This all sounds very positive for

DApps, but are NFTs proof-positive of the market's desire for applications leveraging decentralized technologies?

Drawing this conclusion may be a mistake. Are NFTs an example of a novel application built on decentralized blockchains or are they simply a variation on the theme of digital gold? The most financially successful NFT projects like Crypto Punks and Bored Apes have risen in price from sub \$100 mint fees (the price to purchase them on day 0) to ~\$340,000, the price of the cheapest Bored Ape on the market in the middle of bull market, and then back to \$300-400 in the bear market. While these projects emphasize the community aspect of their NFTs, this value prop is clearly secondary to the ROI that investors have seen and expect to continue. The Bored Ape physical events may be very enjoyable today, but their attendance visibly dropped once the ROI on the NFTs turned red, indicating that the community aspect is less a value prop of its own, and more accurately a side effect of their real value prop: massive appreciation.

From our point of view, NFT projects focused almost entirely on the use case of creating rare collectibles that leverage cryptographic signatures to make digital ownership and resale simple on liquid online exchanges (sound familiar?) are especially vulnerable to a shift in market sentiment. If the blockchains that support these collectibles are unable to scale to their use beyond their collectible, speculative value, we think their long term potential will be severely limited. Projects like Crypto Kitties, which aspire to on-chain utility beyond speculation, in the form of fun gameplay, are likely better positioned for success, so long as the blockchains they are built on understand the necessity to prioritize efficiency and scale over decentralization.

Today, we see many such examples of applications that explore how NFTs can be used to enable more than digital gold in JPEG form. [NFTY Jigs](#), and its flagship game, [Duro Dogs](#), are exploring what efficient and scalable NFTs can unlock for games and the creator economies that develop around gaming. Unlike Bored Apes or Crypto Punks (or Bitcoins), Duro Dogs are not valuable because they are limited in amount. In fact, the supply of Duro Dogs is uncapped, similar to other popular and highly profitable digital items like digital "skins" in a game like Fortnite, which generates billions of dollars in sales annually. In Duro Dogs, there can be hundreds of millions of dogs, but each one is a one-of-a-kind NFT with a unique combination of attributes. Because the dogs are NFTs, they are able to be sold directly to consumers, outside the context of any particular game. Their existence as NFTs doesn't stop at enabling uniqueness and tradability. Because the data that defines the Duro Dogs lives and references an immutable public ledger, they are easily

accessible to game developers who want to leverage the user base of Duro Dog owners to build games and apps which incorporate them. From the player perspective, this creates an interoperable gamespace where their dogs can play and move between a growing list of games and experiences. From the creator perspective, this provides a plethora of opportunities to add value by extending an existing franchise and monetizing it directly to end users who are excited to enter a new experience with their digital pet.

Platforms like NFTY Jigs and their application Duro Dogs have more value propositions to offer their customers from the innovation of NFTs because of the underlying blockchain's (BSV) scalable nature. Minting millions of NFTs, selling them for a median price of \$0.99, and facilitating hundreds of millions of transactions updating, moving, and using those NFTs is only economically feasible when the underlying technology scales in such a way that the average fee paid for each of those actions is well under \$0.01. Projects like Crypto Punks that use blockchains like Ethereum, and that have seen Crypto Kitties play out, know that high volume use cases are not in the cards. This economic reality has implications on what value proposition a project like Bored Apes can offer their customers. Thus far, most successful NFT projects have had the through lines of creating limited collections and measuring their success via the ROI for early owners. At Unbounded Capital, we think that, while interesting, these throughlines are indicative of a limitation. Are NFTs only valuable for speculative collectibles OR are most NFT projects building on platforms that limit their options to this digital gold 2.0 use case? Once unconstrained by the limitations imposed by unscalable blockchains, NFTs can be used to supercharge creator economies, as NFTY Jigs is focusing on, but the potential extends to a myriad of other use cases. All unique digital items that would benefit from operating on an efficient public database can be transformed. Think of event tickets, coupons, or even digital rights to goods like music, as discussed in our Spotify example earlier in this book. While NFTs have become a household word, their potential has barely begun to be realized when limited to the collectible use case.