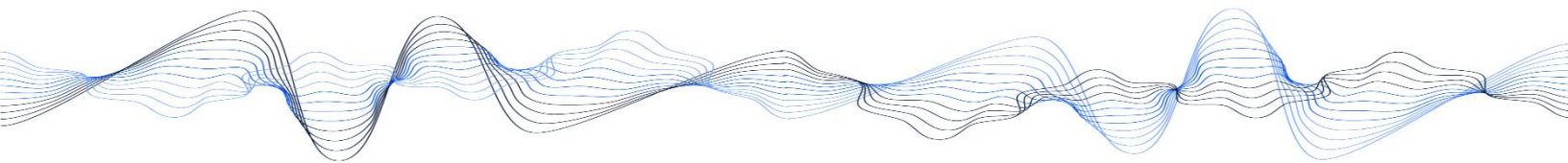




Digital Pulse Report: Value Creation \neq Value Capture



29 June 2023

Coinbase Asset Management



Value Creation ≠ Value Capture: Incentive structure is a differentiator for crypto assets. This year, Ethereum has generated about \$523 million in validator revenue, nearly double the nearest competitor, Tron (Source: Token Terminal). Those revenues, coupled with ether's recent price stability, underscore the importance of well-crafted token incentives for network contributors. Ethereum competitors have learned that reduced transaction costs may offer a competitive edge, but low costs don't eliminate the need to materially incentivize network participants. Over the past year, protocols like Polygon have aggressively pursued network value creation, investing over [\\$1 billion](#) in infrastructural developments and strategic partnerships. By the end of 2022, consumer applications accounted for over [50%](#) of Polygon's transactions, indicating a promising shift away from the DeFi niche. As the use of the Polygon network grew, token price lagged. Following a [32%](#) price decline amidst regulatory scrutiny over the last month, Polygon is making changes to its token economics. Enter [Polygon 2.0](#), an upgrade to expand utility and increase the value of the MATIC token by making supply adjustments and improving governance rights. But value capture isn't an overnight phenomenon. Will MATIC holders wait patiently for the market to discount new benefits? The Digital Pulse already suggests fewer participants than one might have hoped. The invaluable truth should be held dear: value created but not captured is value lost to competitors.

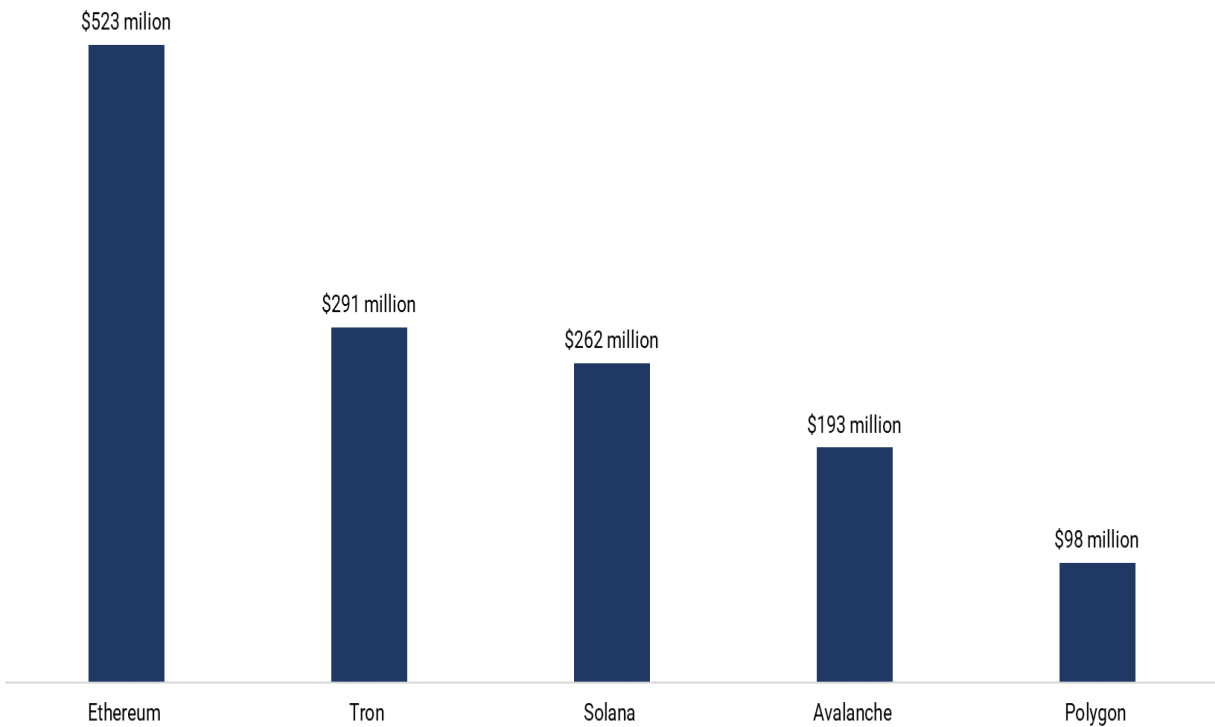
WEEKLY BEATS

1. Chart of the Week – Validator Revenue Leaderboard
2. Fundamental Pulse – Neutral
3. Ethereum’s Value Creation
4. Polygon- Building Sustainability
5. Polygon 2.0

1. VALIDATOR REVENUE LEADERBOARD

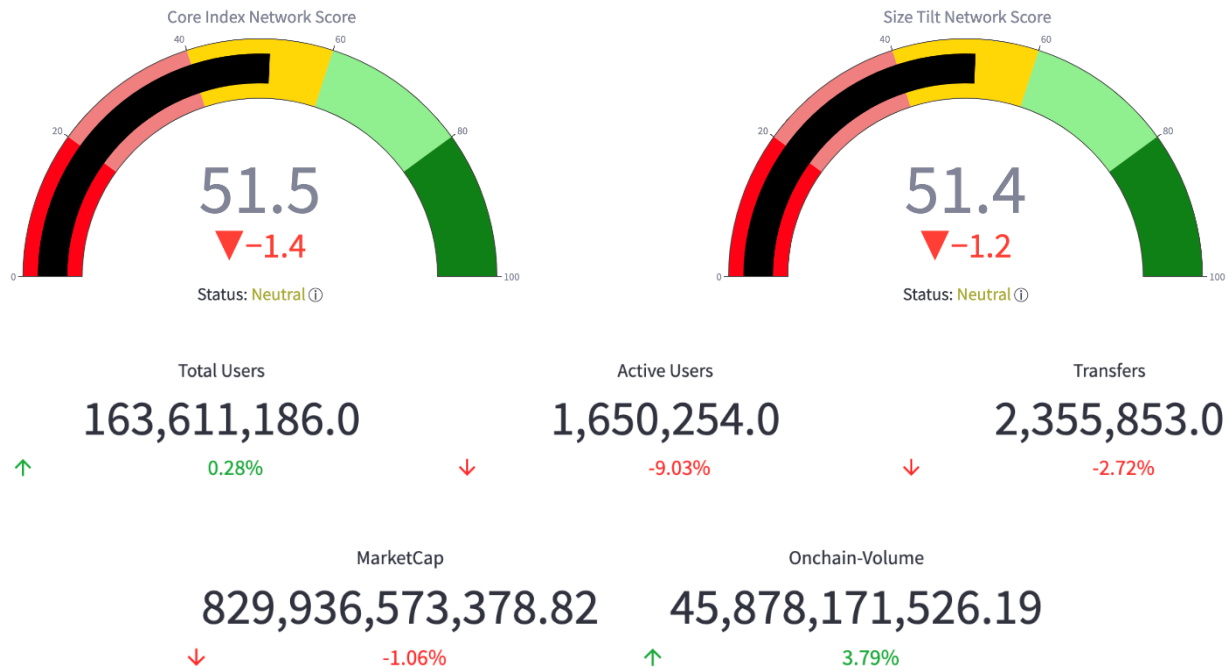
Network contributors can be motivated - if the incentives are right. Ethereum continues to lead smart contract platforms in revenue generation this year. Polygon is behind in the rankings.

Total Staking Rewards Distributed to Validators in 2023



Source: Token Terminal.

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



Polygon’s Pulse rebounds towards healthier levels from the selling pressure observed earlier this month. However, its score of 41 over the past year demonstrates the decline in user growth and transaction activity.

Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Coinbase Core	51	-1	0	35	69	64	48	52	8	83
Coinbase Size Tilt	51	-1	-1	41	62	58	49	54	16	80
Bitcoin	53	-2	1	32	85	68	35	50	0	99
Ethereum	48	0	-3	39	35	61	79	54	22	44
Polygon	41	3	15	47	23	28	42	45	14	85
Litecoin	50	-10	-22	44	55	36	46	52	34	84
Cardano	67	3	-1	92	68	28	27	90	66	100

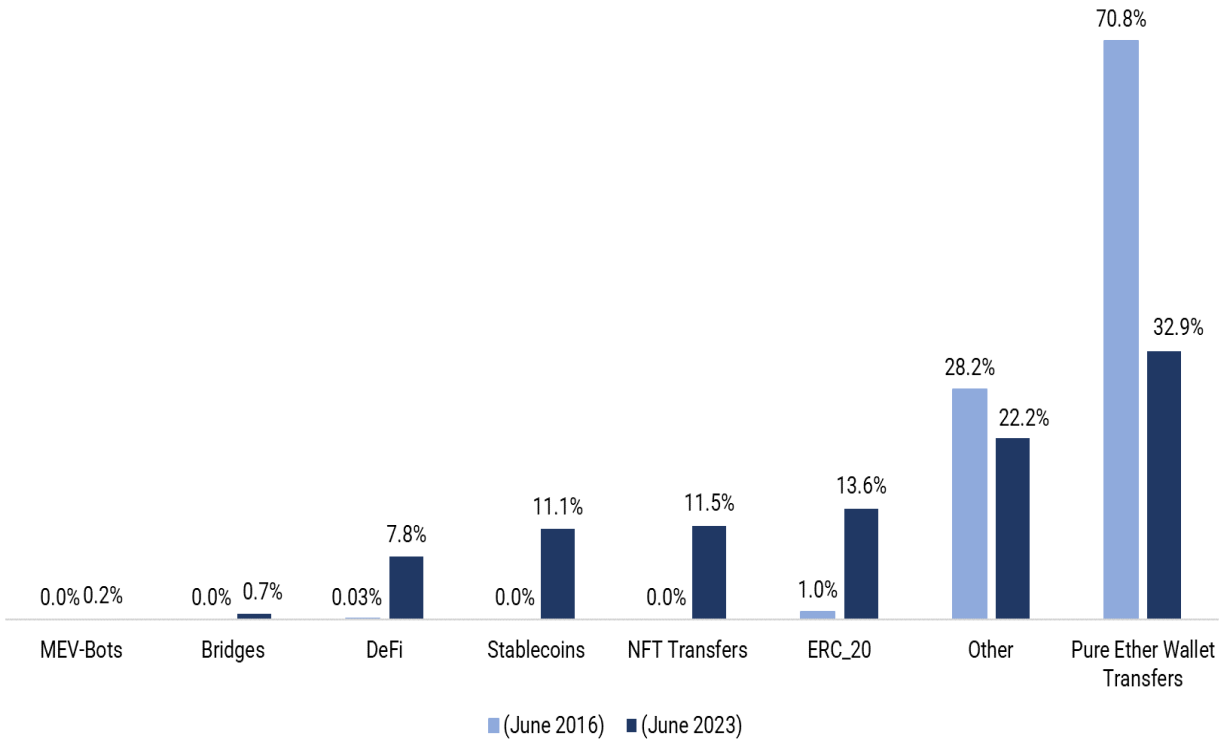
*Snapshot from the Coinbase Asset Management Pulse on 6/29/2023. Seven-day change in the Core and Size-Tilt Index Scores.

Notes: Status- High > 60, Neutral 40 to 60, Low < 40. A score of 54.5 means the Index value is better than 54.5% of its values in the past 365 days. Due to incomplete data coverage, index scores exclude Solana. Asset Scores are unique and sensitive to changes in a particular asset. Readers should not compare Asset Scores across assets. See MVIS for more information on the [Coinbase Core Index](#) and [Coinbase Size Tilt Index](#).

3. ETHEREUM'S VALUE CREATION

Ethereum continues to diversify. Initially dominated by wallet-to-wallet transfers of ETH, the network has evolved towards a broader array of transactions indicating growing utility as general-purpose technology infrastructure. For now, Ethereum, along with its Ethereum Virtual Machine (EVM), define the core of the digital ecosystem's activity.

Ethereum Transaction Share - 2016 & 2023

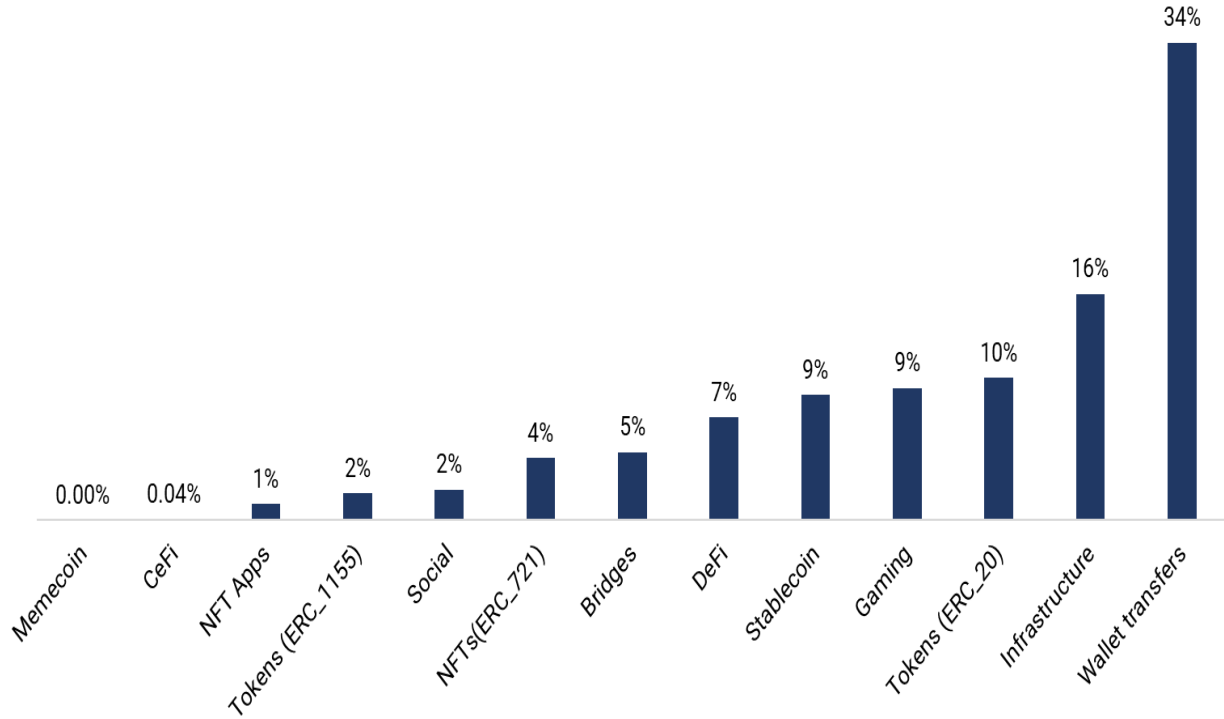


Source: Glassnode.

4. POLYGON – BUILDING SUSTAINABILITY

Polygon is evolving much like Ethereum. Its transactions have naturally diversified into infrastructure and consumer applications, enhancing the overall relevance and utility of the Polygon network.

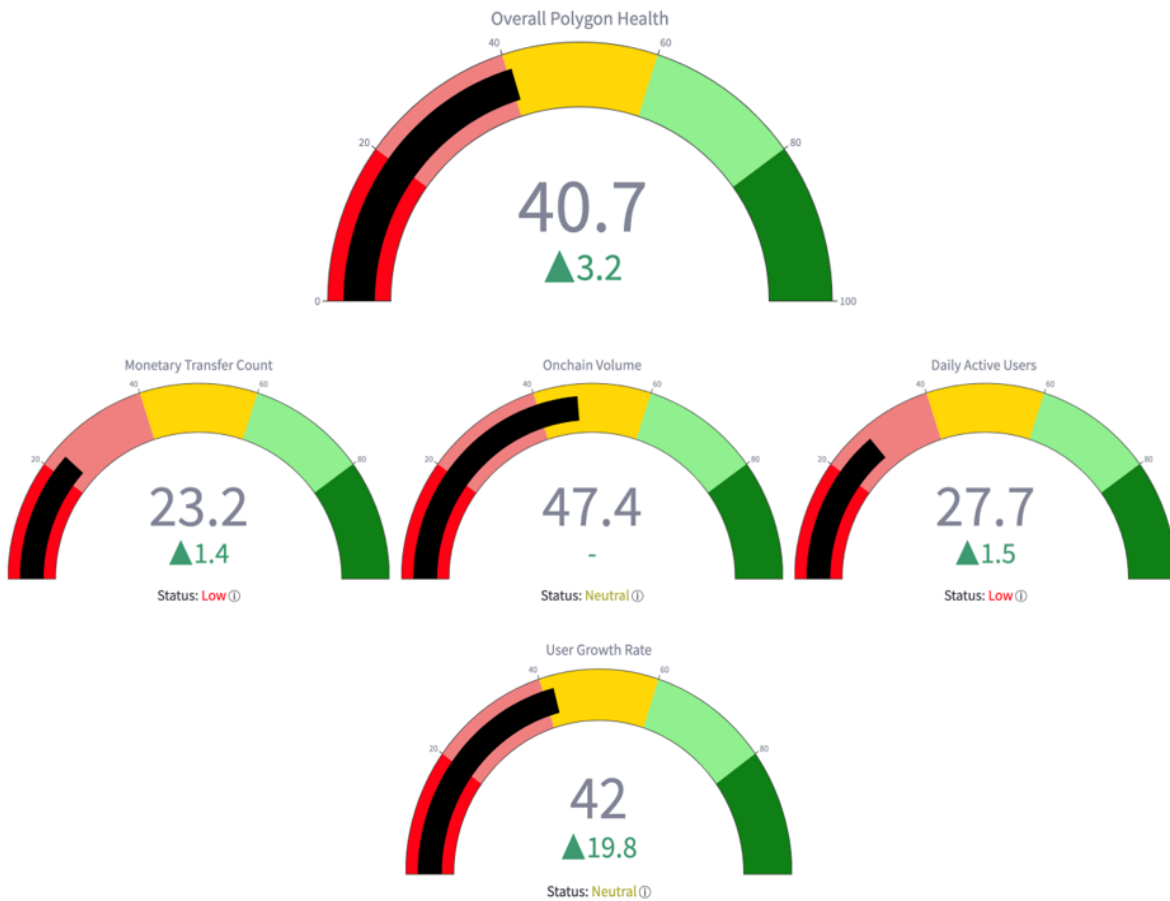
June 2023 Polygon Transaction Share



Source: Artemis.

5. POLYGON 2.0

While Polygon has excelled in securing corporate partnerships as well as infrastructural growth, its native token, MATIC, lags. The Digital Pulse demonstrates key metrics – active users and transaction count now at the lows. Polygon 2.0 aims to resolve this issue by introducing enhanced token economics in a bid to become the “[value layer of the internet.](#)”



Source: Coinbase Asset Management Pulse.

Metric Definitions

1. Volume – The aggregated value of native units transferred between addresses on-chain.

2. Transfer Count – The sum count of transfers between addresses. It becomes more valuable when used in conjunction with Volume.

2.1 Low Transfer Count & High Volume: High volume but transferred by a few addresses.

2.2 High Transfer Count & Lower Volume - Indicates higher retail activity or exchanges amongst small accounts.

2.3 Lower Transfer Count & Lower Volume: Indicates slower network usage and low network demand.

2.4 High Transfer Count & Higher Volume- indicates high network usage. A persistent trend is substantial.

3. Active Users: Number of addresses active in the network as recipients or originators of ledger change. This includes value transfers, signing blocks, and other forms of ledger change activity.

3.1 High Value: High network usage and high demand.

3.2 Low Value: Low network usage and low demand.

4. User Growth Rate: The rate at which new addresses with non-zero balances are added to the network.

4.1 High Value: Indicates users being added to the network at an increasing rate.

4.2 Low Value: Indicates users being added to the network at a slower pace.

5. Valuation: This metric compares the on-chain volume to the realized capitalization representing the value of the network. Realized capitalization is a revised form of market capitalization that accounts for the value of the coin at the time the coin was last spent. A lower volume compared to the high value of the network indicates the network could be overvalued and vice versa.

5.1 High Value: Indicates the network is closer to its real value based on the on-chain volume.

5.2 Low Value: Indicates the network is very close to being overvalued considering the activity on the network.

5.3 Medium value: Asset is reasonably valued—sustainable demand for transactions.

6. Velocity –This indicator shows the turnover of coins in the network as measured by on-chain volume divided by active supply. The primary use of this metric in this instance is to help access an asset’s market-relevant supply.

6.1 High Value: There is greater circulation of coins in the network and use for payments.

6.2 Lower Value: There is lower circulation of coins in the network and use for payments.

7. Network distribution – The metric used, the SER ratio, compares the smallest accounts (sum held by accounts with a balance less than 0.00001% of the supply) against the richest accounts (sum held by the top 1% addresses).

7.1 High value: Signifies high distribution of supply and higher decentralization.

7.2 Low value: Low supply distribution and heavy concentration amongst a few wallets.

Disclaimer

One River Digital Asset Management has been acquired by Coinbase and is now Coinbase Asset Management. Additional details on the transaction may be found on the [Coinbase blog](#). References to One River Asset Management and One River Digital Asset Management may be contained herein during the transition period but are subject to change.

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