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Summary

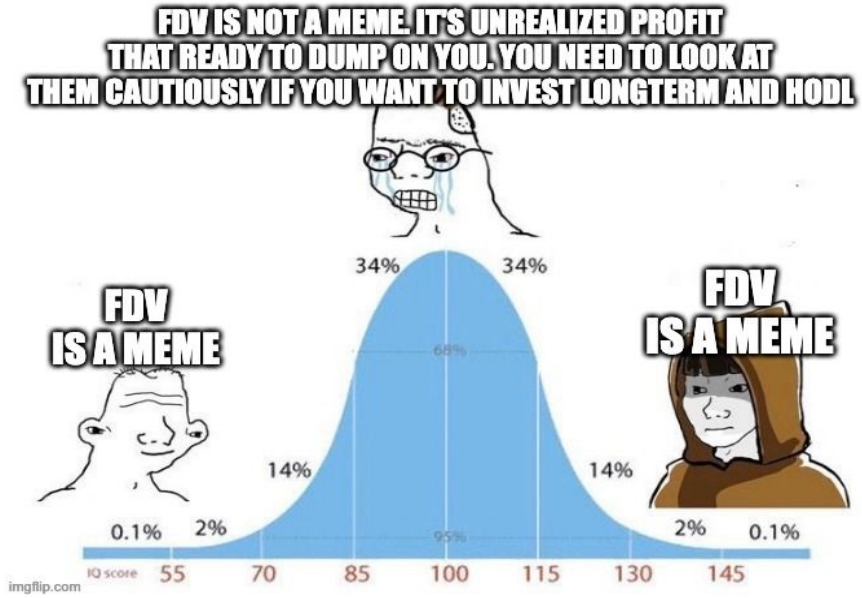
- Fully Diluted Valuation (FDV) is a commonly used metric to assess the total worth of a project. While most projects release tokens gradually over time, FDV calculates the the project's value by assuming all tokens are unlocked at the current price. This differs from market cap, which uses circulating supply.

- The MC/FDV ratio for the top 10 projects launched in 2024 is around 0.12, indicating that only 12% of the total tokens are circulating, and over $60 billion would be needed in the next five years just to sustain the current price. With new projects emerging every day, the market requires increasingly more notional capital inflow to sustain the current growth pace.

- While remaining bullish on the crypto's long-term growth potential, we caution investors to be wary of unlock schedules and valuation metrics to guard against supply pressure. Unlike the past bull market where everything moved together, a different dynamic could emerge, where "just HODL until the bull market" no longer works. The ability to pick winners would become ever more critical under such an environment.

Figure 1: Is FDV a meme?

Source: imglip.com



Similar to the stock market, where not all shares are immediately available for trading, the crypto market sees projects begin with a limited number of tokens in circulation, influencing price actions and creating unique market dynamics not observed in other markets. With this in mind, this article aims to offer a concise overview of what FDV is, the current market situation, and investment implications.

FDV vs MC

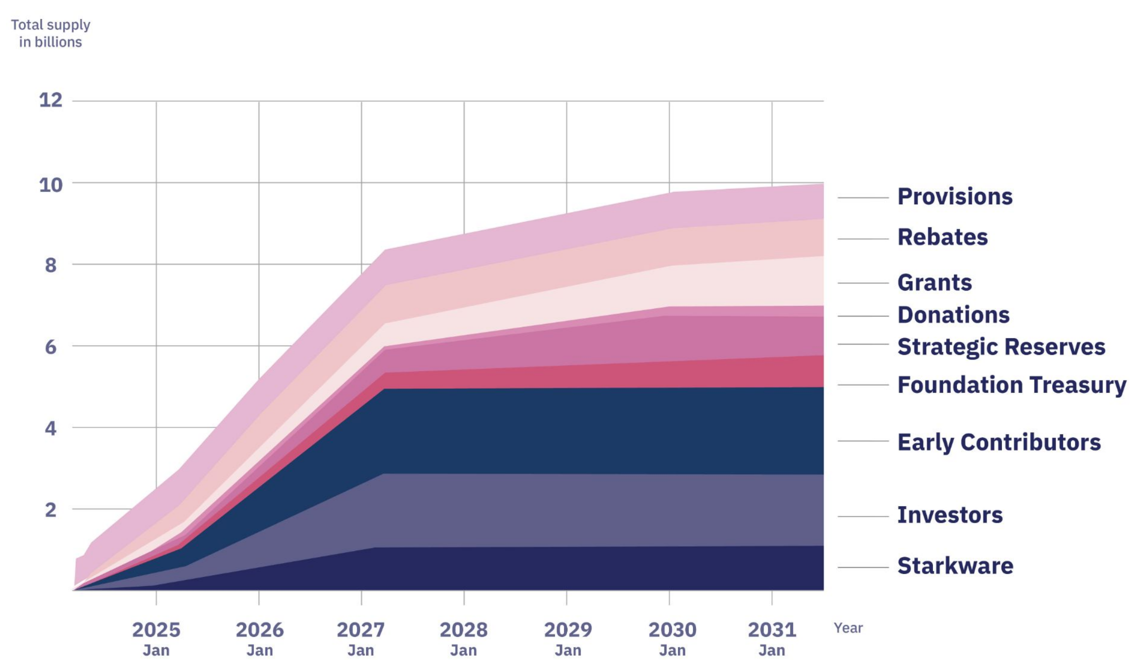
When discussing cryptocurrency valuations, market cap (MC) and fully diluted valuation (FDV) are the most used metrics. They both aim to gauge the total worth of a project, but differ in the definition of supply: market cap uses circulating supply, whereas FDV uses total supply.

- Market Cap = Token Price x Circulating Supply
- Fully Diluted Valuation = Token Price x Total Supply

The difference between circulating and total supply arises due to the vesting schedule in crypto projects. As per today's standard, 10-20% of the total supply is unlocked at launch, and the rest of the tokens unlock linearly over an average span of 3-4 years.

Figure 2: Sample Vesting Schedule

Source: Starknet



FDV & MC distortions: three examples

Understanding the concepts behind the FDV and MC helps you see through distortions and identify unsubstantiated market narratives. We list three examples below.

(1) We observe that the top 30 cryptocurrencies vary between market cap and FDV terms. In particular newly launched projects tend to rank high in FDV terms as they have a high price but low circulating supply.

Figure 3: Top 30 Cryptocurrencies by MC vs FDV

Source: Presto Research, Coingecko

Top 30 Market Cap			
1	Bitcoin	16	Polygon
2	Ethereum	17	Internet Computer
3	BNB	18	Litecoin
4	Solana	19	LEO Token
5	XRP	20	Uniswap
6	Dogecoin	21	Aptos
7	Toncoin	22	Hedera
8	Cardano	23	Ethereum Classic
9	Shiba Inu	24	Cronos
10	Avalanche	25	Cosmos Hub
11	TRON	26	Pepe
12	Polkadot	27	Immutable
13	Bitcoin Cash	28	Mantle
14	Chainlink	29	Filecoin
15	NEAR Protocol	30	Stellar

Top 30 FDV			
1	Bitcoin	16	Ethena
2	Ethereum	17	Filecoin
3	BNB	18	OKB
4	Solana	19	Sui
5	XRP	20	TRON
6	Worldcoin	21	Celestia
7	Toncoin	22	Polkadot
8	Shiba Inu	23	Arbitrum
9	Cardano	24	Jupiter
10	Dogecoin	25	Aptos
11	Cheelee	26	Bitcoin Cash
12	Avalanche	27	Bittensor
13	Chainlink	28	Ondo
14	Starknet	29	NEAR Protocol
15	Optimism	30	Wormhole

(2) When Solana recently reached $200, despite being $50 lower than its all-time high in price terms, it reached an all-time high in terms of market cap and FDV due to an increased circulating supply.

Figure 4: Solana Price vs MC

Source: Presto Research, TradingView

(3) As a fun fact, when $WLD reached its all-time high price at $11, its market cap was approximately $1.75 billion. However, its FDV stood at $90 billion due to its low circulating supply, surpassing OpenAI's estimated valuation.

Altcoin Supply Outlook

**Disclaimer: For the sake of discussion, the calculation in the following section is kept simplistic and does not account for idiosyncrasies in tokenomics. Some tokens may incorporate deflationary mechanisms or may not release their full token supply schedule.*

If we aggregate the top 100 cryptocurrencies by market cap and FDV respectively, excluding stablecoins, the total MC/FDV ratio is around 0.85, indicating that 85% of the supply is circulating.

Figure 5: MC/FDV Ratio of Top 100

Source: Presto Research, Coingecko

	Name	Market Cap	FDV	MC/FDV
1	Bitcoin	1,169,943,750,431	1,247,568,343,909	0.94
2	Ethereum	358,964,315,443	358,964,315,443	1.00
3	BNB	86,615,468,454	86,615,468,454	1.00
4	Solana	62,016,520,945	79,748,371,851	0.78
5	XRP	28,698,474,364	51,949,771,842	0.55
6	Dogecoin	19,224,487,862	19,224,690,602	1.00
7	Toncoin	18,339,255,720	26,961,517,850	0.68
8	Cardano	15,994,089,780	20,372,107,117	0.79
9	Shiba Inu	13,553,470,298	23,000,297,456	0.59
10	Avalanche	12,865,565,725	14,855,089,346	0.87
		(...)		
90	Decentraland	806,236,094	948,549,995	0.85
91	Axelar	789,384,935	1,398,669,383	0.56
92	Gnosis	782,924,304	907,006,058	0.86
93	Pyth Network	782,700,720	5,218,004,798	0.15
94	ApeCoin	762,793,677	1,214,947,394	0.63
95	Safe	761,157,174	1,782,569,494	0.43
96	ORDI	754,870,917	754,870,917	1.00
97	Kava	725,238,157	725,238,157	1.00
98	IOTA	714,757,460	1,012,079,283	0.71
99	NEXO	703,143,472	1,255,613,323	0.56
100	PancakeSwap	663,464,804	983,757,141	0.67
	Total	**1,996,311,059,869**	**2,345,303,284,659**	**0.851**
		FDV - MC:	348,992,224,790	

	Name	Market Cap	FDV	MC/FDV
1	Bitcoin	1,169,943,750,431	1,247,568,343,909	0.94
2	Ethereum	358,964,315,443	358,964,315,443	1.00
3	BNB	86,615,468,454	86,615,468,454	1.00
4	Solana	62,016,520,945	79,748,371,851	0.78
5	XRP	28,698,474,364	51,949,771,842	0.55
6	Worldcoin	971,574,348	48,026,172,851	0.02
7	Toncoin	18,339,255,720	26,961,517,850	0.68
8	Shiba Inu	13,553,470,298	23,000,297,456	0.59
9	Cardano	15,994,089,780	20,372,107,117	0.79
10	Dogecoin	19,224,487,862	19,224,690,602	1.00
		(...)		
90	ENS	466,335,025	1,495,564,944	0.31
91	Algorand	1,485,302,976	1,485,303,007	1.00
92	SPACE ID	308,783,060	1,432,085,484	0.22
93	KuCoin	943,958,377	1,411,893,803	0.67
94	Axelar	789,384,935	1,398,669,383	0.56
95	Aave	1,262,109,882	1,363,361,830	0.93
96	XDC Network	489,441,924	1,333,756,785	0.37
97	Flow	1,304,515,012	1,304,515,012	1.00
98	The Sandbox	980,095,729	1,302,319,002	0.75
99	NEXO	703,143,472	1,255,613,323	0.56
100	DeXe	731,187,113	1,235,712,221	0.59
	Total	**1,988,326,647,045**	**2,384,014,853,015**	**0.83**
		FDV - MC:	395,688,205,970	

However, with the recent bull market, listing activities have been much more active than before, especially with major anticipated projects like Starknet and Wormhole launching their tokens in Q1. If we examine the top 10 crypto projects launched in 2024 by FDV, we can see that the average MC/FDV ratio is 0.12, indicating that only 12% is unlocked as of today.

Figure 6: MC/FDV Ratio of 2024 Launched Top 10 Source: Presto Research, Coingecko

Launched in 2024 by FDV (US $M)						
		MC	FDV	MC/FDV	Launched Date	Est. Full Unlock
1	Starknet	944	12,960	0.07	Feb, 2024	2031
2	Ethena Labs	1,150	12,120	0.09	Apr, 2024	2028
3	Jupiter	1,390	10,320	0.13	Jan, 2024	N/A
4	Ondo Finance	1,180	8,270	0.14	Jan, 2024	2029
5	Wormhole	1,310	7,290	0.18	Apr, 2024	2028
6	ether.fi	441	3,830	0.12	Mar, 2024	2030
7	AltLayer	415	3,770	0.11	Jan, 2024	2028
8	Dymension	474	3,310	0.14	Feb, 2024	2029
9	Saga	297	3,260	0.09	Apr, 2024	2028
10	ZetaChain	357	2,830	0.13	Feb, 2024	2028
		7,958	67,960	0.12		
		FDV - MC:	60,002			

What does this mean? We would need over $60 billion in the next couple of years, most likely within the next 5 years as most projects tend to fully unlock in 2028/2029, just to sustain the current price of these 10 projects. For example, in order for $W to remain at its current price of $0.73 in 2028, we would need $6 billion, and for $ZETA to maintain $1.3 in 2028, an additional $2.5 billion would be required.

Thoughts on valuation, tokenomics, and alt season

Valuation

The primary question arising here is whether FDV accurately reflects a project's valuation and serves as a reliable metric for comparing projects. Two projects with identical FDVs but differing vesting schedules, or one utilizing a "burn" mechanism, may demonstrate significant price divergences over time. Furthermore, as of today, FDV appears to overstate a project's value by assuming that the token will maintain its price despite its inflationary nature. Therefore, when investors evaluate projects, they must consider additional indicators alongside the FDV number, recognizing that FDV serves as just one metric among many for project comparison.

Tokenomics

Determining what constitutes good tokenomics remains a challenge given the crypto industry's relatively short history. Currently, many cryptocurrencies lack tangible utility, essentially functioning like a pseudo-equity instrument. Consequently, continuous dilution exacerbates this issue, placing investors in a precarious position unless the project demonstrates its worth, often resulting in FDV peaking upon the project's release.

To justify value, it's necessary for projects to delve deeper into tokenomics. This entails exploring alternatives to continuous dilution, such as integrating a burn mechanism (like stock buyback), which could create deflationary tokenomics. Moreover, the industry needs to fine-tune the current vesting practice to better align incentives, such as adding a contingency clause on the release so that investors can be safeguarded from extreme dilution where projects get paid without achieving certain milestones.

On this topic, the recent memecoin rally ironically can serve as a model. Unlike cryptocurrencies in other sectors that often suffers from substantial unlocks— for example, those with an initial circulating supply of 10%—most memecoins have 100% unlocked at launch, thus avoiding continuous dilution. While one cannot attribute memecoin rallies solely to their tokenomics, it undoubtedly plays a significant role in their appeal and sustained interest.

Figure 7: Memecoins offers a good lesson

Source: Crypto Narratives

Name	Circ.Supply (%)
Dogecoin	100
Shiba Inu	99.96
Pepe	100
dogwifhat	100
Bonk	65.19
Floki Inu	95.71

	Category	MC/FDV
1	Memecoins	92.60%
2	Gaming	40.80%
3	AI	39%
4	ETH L2s	33.40%
5	RWA	31.40%

Altcoin season…?

Most investors tend to believe that growth in a project leads to a surge in price, which is true in most markets. However, as mentioned above, the supply schedule of cryptocurrencies is much more extreme, with only 10% to 15% unlocked at the beginning and a continuation of dilution over next 4 to 5 years.

With that in mind, we could see a different dynamic from the past, where all cryptocurrencies showed the same price actions (“BTC Beta”) regardless of their fundamentals. During the last bull market, most cryptocurrencies tended to show high correlation, surging and falling together. However, as more projects launch with low initial circulating supplies, we could start to see their price action de-couple from BTC’s due to the lack of capital inflow required to absorb growing circulating supplies. The strategy of ‘HODLing until the bull market and it will somehow take your bags with it’, will no longer be a winning formula. This is especially true for new projects that seem attractive due to its association with "new technology," but are launched with a low initial circulating supply model that almost certainly spells huge dilution risk. The ability to pick winners from the crowd has never been more important.

About Presto

Presto is a Singapore-based algorithmic trading and financial services firm founded in 2014. Presto focuses on delivering exceptional value for clients through rigorous research-driven approach to investment and trade execution. With more than a 100 million trade executions in a day, Presto is a leading financial services firm in both digital assets and traditional finance markets.

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