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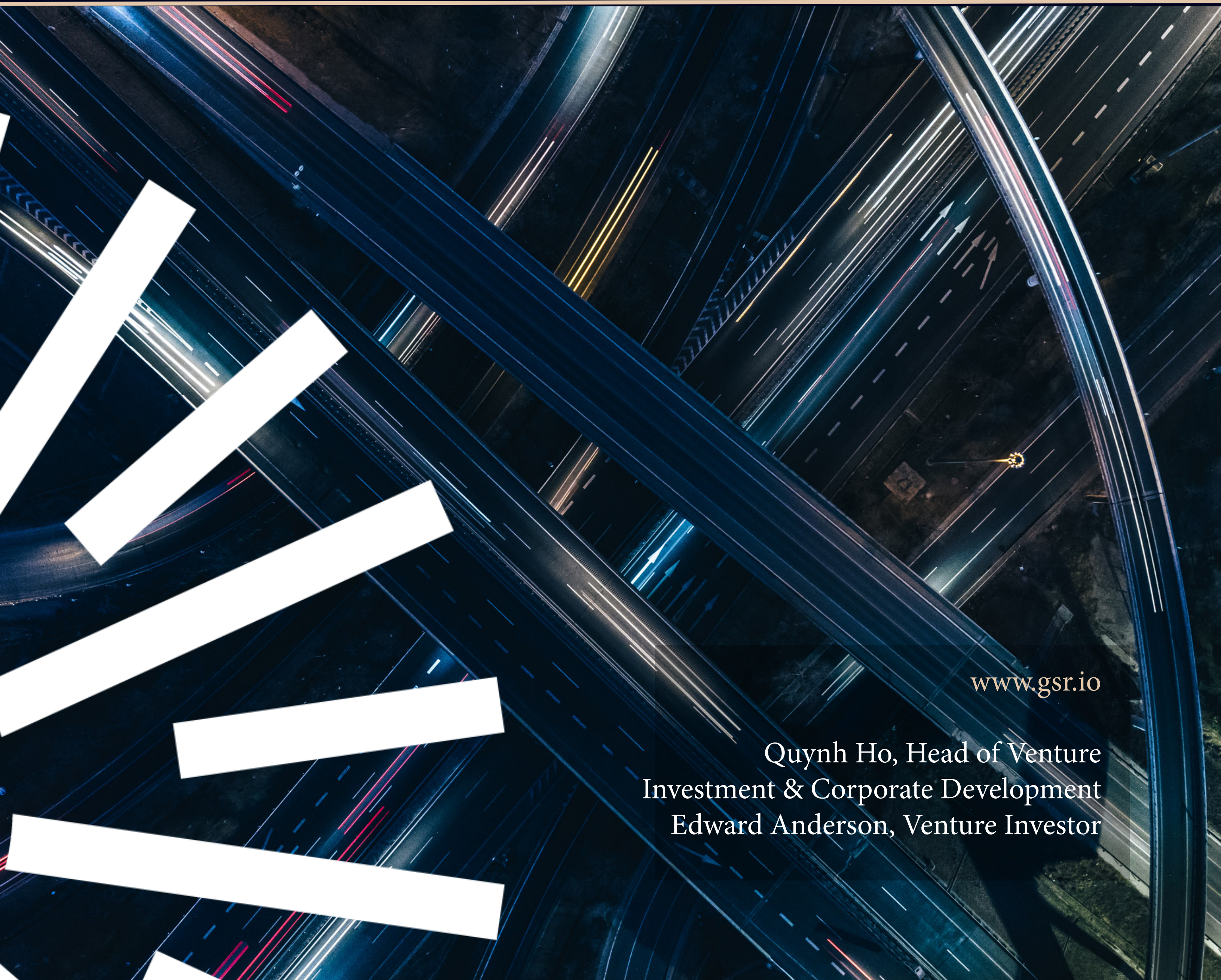
GSR Venture Investments

Looking Ahead 2025



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GSR Venture Investments - Looking Ahead 2025

A look back to 2024

As we step into 2025, let us look back at the mammoth year 2024 was for our space. Central banks' pivot to monetary easing, coupled with over 50 elections globally, and most importantly the US presidential outcome, created a supportive environment that catapulted Bitcoin to surpass the historic $100,000 milestone and doubled the crypto market cap to almost $4 trillion. The regulatory landscape also evolved considerably, with the approval of spot Bitcoin and Ethereum ETFs adding almost $50bn institutional flows, bringing institutional adoption closer than ever before.

The year also saw remarkable innovation across multiple sectors, from Polymarket's accurate election predictions to Ethena's novel stablecoin approach. TON experienced astronomical growth to an astonishing 17.4 million users, 1,400 mini-apps, and seamless integration for Telegram's 950 million users. Projects like Hyperliquid and Pendle advanced DeFi capabilities, while the restaking revolution gained momentum through Eigenlayer and EtherFi. The memecoin phenomenon exploded with Pump.fun and Moonshoot, while Echo and Legion re-pioneered fair launch mechanisms. Several of our portfolio companies achieved unicorn status credited to our early investments in stablecoin issuers, liquid restaking, AI and infrastructure.

Entering a new era for crypto

Looking ahead to 2025, we are witnessing a remarkable shift in the cryptocurrency landscape, particularly with the changing regulatory environment under the incoming US administration. After years of navigating complex legal challenges and enforcement actions in the US, the industry is entering a more favorable regulatory phase, which has generated significant market optimism.

The macroeconomic backdrop for 2025 presents an intricate tapestry of factors that could further catalyze crypto adoption. We're seeing a pivot to a rate-cutting cycle by central banks, though this occurs against a backdrop of regional economic divergence and complex geopolitical dynamics, particularly in Europe. The industry is also moving past several historical challenges, with progress in major cases like the

MtGox repatriation, FTX bankruptcy proceedings, Do Kwon's extradition, and 3AC's liquidation proceedings. This resolution of legacy issues, combined with the new regulatory paradigm and strong institutional momentum, suggests 2025 could indeed mark crypto's transition from a speculative asset class to a legitimate part of the global financial system. The focus is shifting from short-term speculation to long-term value creation, with increased emphasis on sustainable growth rather than hype-driven cycles.

Our 2025 outlook

2025 will continue to be a transformational year for crypto innovation, as we move closer to a future where crypto technology becomes as ubiquitous as the internet – a world where we no longer distinguish "crypto companies" from other businesses.
While today only 30,000 active developers build on blockchains compared to 25 million developers worldwide, we anticipate significant growth driven by crypto's continued success and its convergence with AI.
The crypto industry's maturation mirrors historical patterns in equity markets. Tokens have proven to be powerful incentive mechanisms, revolutionizing capital formation.
With only 5-10% of crypto holders being currently active users, we believe 2025 will be the year of activation. While price movements may initially attract users, the utility keeps them engaged.

Let's dive into the trends that will shape 2025:

Capital formation

1. **Renaissance of fair launches:** The fundamental promise of crypto finance – eliminating intermediaries and gatekeepers – will see renewed focus. We expect a surge in participatory capital formation mechanisms that enable equal access and ownership. Fair launch tokens, offering everyone equal early participation opportunities, will drive broader adoption of native tokens and democratize access.
2. **The rise of mega rounds and IPOs:** following the 2021-2023 regulatory uncertainty that kept PEs and growth funds on the sidelines, we anticipate the IPO market opening up for infrastructure companies that secured late-stage funding in 2021/22. However, public market scrutiny requires careful

consideration – with BTC/ETH spot ETFs now available, companies must demonstrate robust business models and readiness for public market obligations.

3. **Strategic consolidation within crypto:** the question of equity exit has long been a difficult one for crypto companies. For companies with revenue below $50-$100 million to serve as an IPO candidate, M&As will become crucial exit paths. The return of mega-rounds and late-stage capital will facilitate these transactions. Companies with single products or limited distribution will seek consolidation to offer comprehensive solutions, driven by cost synergies and cross-selling opportunities.
4. **Crypto activation for Web2**: The trend of non-crypto companies acquiring crypto infrastructure continues, exemplified by payment companies integrating stablecoin capabilities. We expect increased acquisition activity from firms such as fintech and asset managers seeking to offer crypto products through existing distribution channels. Traditional businesses, particularly in ecommerce and micropayments, will leverage crypto mechanisms to transform their business models, addressing coordination inefficiencies that currently manifest as higher operating costs or deteriorating unit economics.

RWA and Tokenization

1. **Every asset class will be on-chain:** while full asset migration won't materialize in 2025, the trajectory is clear: blockchain technology is revolutionizing traditional asset management by eliminating intermediaries and enabling seamless composability. The potential for blockchain to process trillions of dollars in assets more efficiently is driving this transformation across industries.
2. **TradFi x Crypto yield emergence through synthetic on-chain assets:** crypto users increasingly demand access to TradFi assets without leaving the blockchain ecosystem. RWAs serve dual purposes – providing yield opportunities across both DeFi and CeFi while offering crypto markets as an efficient funding source for traditional issuers. Bonds, stocks and treasuries will seamlessly integrate onto blockchains. Synthetic assets, which transfer economic exposure without underlying redemption rights, are particularly

promising. The tokenization of RWAs will unlock unprecedented liquidity and accessibility, especially for traditionally illiquid securities, attracting global capital seeking diversification opportunities.

3. **Looking ahead, tokenization itself will become commoditized.** The key differentiator will be seamless, single-click access across CeFi, DeFi, and TradFi platforms. This evolution will progress toward a closed-loop incentive ecosystem where assets function simultaneously as collateral, liquidity sources, and reserves, enabling frictionless transfer and trading capabilities.

Stablecoins - the great stablecoin abstraction

1. **Evolving beyond payments** - stablecoin supply will reach $500bn by year-end 2025, expanding far beyond simple payments into sophisticated financial instruments. With only a fraction of the T-Bill market currently on-chain, growth potential remains substantial. Users will access diversified yields from private credit, bonds, and equities. Stablecoins are becoming essential savings vehicles, efficient payment alternatives, and crucial tools for financial inclusion in underbanked regions. The key innovation lies in abstraction – users benefit from stablecoin technology without needing to understand the underlying complexity, while accessing transparent, diversified yields.
2. **2025 will prioritize infrastructure and integration development, focusing on orchestration layers and platforms that enable seamless stablecoin movement** across currencies, countries, and chains. This infrastructure will power B2B payments, cross-border remittances, and fintech applications that invisibly leverage stablecoin rails to solve real-world problems. These stablecoin rails will fundamentally transform traditional financial services, enhancing efficiency and accessibility.
3. **Democratization of issuance** - stablecoin-as-a-service will change how companies engage with digital assets, allowing them to issue their own stablecoins and share value with stakeholders. This democratization, supported by robust reserve management and stability mechanisms, creates multiple revenue streams: interest on reserves, reduced transaction costs within ecosystems, monetization of on/off ramps, and enhanced customer engagement and loyalty.

DeFi

1. **Widespread participation through CeDeFi:** CeFi remains the primary entry point into crypto for retail and institutional players due to its familiarity, ease of use, and faster-to-build-or-innovate nature. CeFi in the front, DeFi in the back structures, such as Coinbase x Morpho integration, will set the new standard. New users and institutions are expected to enter the DeFi space more aggressively as regulatory frameworks become clearer. This adoption will enhance liquidity and credibility within the DeFi ecosystem, leading to the development of more sophisticated financial products tailored to institutional needs. There will be more appetite for solutions allowing seamless integration with traditional payment systems, making it directly transferable between off-chain bank accounts and Web3.
2. **Regulatory easing with clearer rules for the crypto industry is expected to help DeFi thrive** in the upcoming US administration. More fee switch implementations are emerging, which will hopefully enable a legal route to disburse protocol revenue to token holders in the form of dividends and allow for better tokenomics.
3. **Greater curation will become necessary due to the overproliferation of DeFi applications.** With countless TVL opportunities available, DeFi and CeFi yields are converging, as each sector increasingly offers yields to the other. Platforms are competing fiercely on UI design and the breadth of products offered, yet the sustainability of DeFi trading hinges on closed-loop incentive systems that effectively align user and protocol goals. External frontends and solver systems are playing a growing role, as they enhance trade execution by optimising routing paths and minimising slippage.
4. **BitcoinFi is expanding as Bitcoin remains the most popular digital asset for enterprises and investors, with over 500k BTC ($52bn) on enterprise balance sheets.** Adding utility to Bitcoin represents one of the largest underexplored opportunities in digital assets. Innovation will finally allow founders to build on top of the largest and most robust crypto networks. Even if only 1%-2% of the mostly idle $2 trillion capital becomes productive through DeFi, payments, and other decentralized applications, it could activate $20-40bn of on-chain

capital. This increased functionality can also help solve Bitcoin's declining security budget, stemming from its capped supply and block reward halvings.

AI

1. **AI is becoming integral to our digital lives, with crypto serving as the pick-and-shovel infrastructure for AI agents to navigate traditional systems**. DeAI encompasses several key sectors: decentralized compute, open data networks, autonomous AI agents, and specialized dApps. This infrastructure enables AI agents to transact and interact seamlessly within both Web2 and Web3 environments.
2. **We will see an entire economy built for agents and by agents** - AI stablecoin, AI L1, AI lending, insurance, credit, and more. On top of that, we will see more multimillion-dollar revenue companies with less than 5 employees by deploying AI agents.
3. **We anticipate blockchain development following a similar trajectory, where creating onchain applications becomes as intuitive as conversing with AI.** Each advancement in developer tools will attract new waves of talent to the space. With approximately $1.5bn in private investment, the AI-crypto intersection mirrors web development's evolution from complex coding to no-code solutions.
4. **The emergence of tokenized, autonomous AI agents marks a significant evolution beyond simple meme coin trading.** These agents will share memories and compose enhanced use cases, execute complex trading strategies, lending, route transactions more efficiently, provide sophisticated recommendations, and operate as "Agent Oracles," creating verifiable service hubs for agent-to-agent commerce, manage crypto wallets and assets independently, and even participate in DePIN.
5. **As AI-generated content proliferates, IP protection becomes crucial.** Moving IP on-chain offers several advantages: programmable licensing systems, automated, real-time revenue distribution, streamlined creator collaborations, global standardization replacing jurisdictional systems, IP financialization, enhanced AI-IP integration for collaborative creation, and structured model training frameworks

6. **More miners will diversify their operations due to the surging demand for computational capacity,** transforming their businesses from crypto-focused operations into decentralized AI compute providers. As the profitability of traditional mining continues to decline, their vast GPU networks, advanced cooling systems, and scalable power setups will be increasingly repurposed to address the global shortage in AI HPC. This shift can also catalyze the convergence of AI and blockchain ecosystems, giving rise to decentralized supercomputing networks that reshape the AI infrastructure landscape.

Infrastructure x Consumer App

1. **Privacy becomes an even more crucial aspect as AI and crypto converge, necessitating robust privacy-preserving mechanisms.** Underlying encryption and computation technology like zkTLS, 2PC-MPC, and FHE is becoming more popular in the space taking data validation from off-chain to onchain, even in decentralised environments. zk-proof-based L2 scaling, identity verification, and privacy are prevalent in every layer of the stack. Each aspect unlocking new possibilities in KYC/KYB, DeSci, data monetization, and general confidential computation.
2. **The "Fat Protocol" thesis is evolving as value creation shifts toward application layers. We will see protocols serve as foundational infrastructure, products evolve into super or quasi-super apps**, and successful applications emerging in social, betting, trading, gaming platforms, digital collectibles, and tokenized culture. Teams are increasingly hyper-focusing on consumer-focused crypto applications and infrastructure. Integration of crypto will move beyond entertainment and trading, into integral parts of daily lives: Digital Commerce, Payments, Online Banking, Credit, Insurance, Identity, Voting, and Data.
3. **We will see more app chains capitalizing on distribution and monetization with enhanced capabilities for apps, builders, and creators.** Fee-switch mechanisms coupled with regulatory tailwinds are emerging. IP value capture, as demonstrated by Abstract and Pudgy, is proving successful. Unichain is positioned to emerge as a leading L2 by transaction volume, particularly if it can capture 50% of Uniswap volume, with similar potential for Hyperliquid.

Performant infrastructure becomes the building block for better UX and therefore sticky user retention.

4. **Access to crypto will expand through established Web2 platforms,** with integration into major fintech gateways like Telegram and Meta platforms. Billions of monthly active users are being reached through WhatsApp bots, while cash-out options at ATMs and retail locations are increasing. The rise of mainstream tools such as Pump.fun, DAO.fun, Moonshot, enabling users to generate substantial revenue, and emphasize community involvement. The TON mini apps ecosystem and defensible distribution models from Berachain, Hyperliquid, and Abstract are further facilitating access. NFTs will re-emerge as gated communities and exclusive membership mechanisms.
5. **The memecoin phenomenon will likely continue throughout 2025 with more celebrity-endorsed tokens.** While 90% of memecoin traders either lose money or see minimal profits, stories of massive profits dominate social media, though these are outliers with only 0.5% making $10K+. Despite the risks, memecoins serve as a cultural catalyst driving crypto awareness and providing an entry point for new users into the ecosystem. They've created household names like DOGE and SHIBA, and evolved into community-building tools. While speculative and hype-driven, memecoins have brought fun and attention to crypto, often serving as many people's first exposure to the ecosystem. Though risky, they remain a prominent component in drawing attention to the broader ecosystem. Large-scale memecoin trading is gradually becoming a test of a highly performant infrastructure.
6. **Alt season is here with emerging ecosystems that focus on users continuing to gain mindshare.** Technological breakthroughs are finally enabling mass adoption: chain abstraction, smart wallet implementation, gas sponsoring via Paymasters, zk-rollup technology optimization, and more. Move is projected to become the third largest developer community, while platforms like Berachain, MegaETH, Movement, Base, and Monad are enabling applications at speeds that weren't possible before, paving the way for new consumer-oriented crypto adoption.

Closing thoughts

While narratives may evolve, our approach defines and prioritizes who we invest in:

Founder-market fit - we have been very fortunate to work with some incredible founders, and time and time again we are shown that exceptional founders will consistently deliver.
Novel ideas - At the end of the day, we are all here due to the innovation that crypto can unlock. Infrastructure is constantly evolving so we seek to invest in areas that weren't possible before and are stretching what will be possible in the future.
Demonstrating early product-market fit - fundamentals matter, what is needed to take an idea past a proof of concept.

We look ahead to 2025 as a full-swing bull cycle year with many positive tailwinds. Whether that is Bitcoin might break $200,000, stablecoins might reach $500bn by year-end, the crypto market might double again in 2025, we onboard 1bn users to crypto, DEX volume might flip CEX volume or we will have a $1bn revenue crypto protocol. Anticipating a strengthening crypto landscape, we foresee continued validation of its long-term ambitions for the future. We are here for the ride.

About GSR Venture Investment

GSR is an active, multi-stage investor in more than 200 crypto companies and protocols building the future of finance and technology. Since 2020, we have invested over $150m into the ecosystem and formed lasting relationships with our portfolio companies through our vast network, extensive suite of services, and a global team.

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