

# NFT Potential Extends Far Beyond Digital Art



**Brijesh Jeevarathnam**  
Partner & Co-Head of  
Global Venture Fund  
Investments, Primary  
Investments

**Robin Murray**  
Partner & Head  
of Growth Equity  
Investments

## KEY TAKEAWAYS

- The market for Non-Fungible Tokens (NFTs) is expanding exponentially, with trading volume surging almost 43,000% in 2021, according to some estimates.<sup>1</sup>
- The potential for this nascent sector extends far beyond digital art, encompassing digital identities, secure health records, finance, sports, and more.
- NFTs provide opportunities for creators to disintermediate markets such as music by communicating and transacting directly with customers.

Non-fungible tokens (NFTs) made global headlines in March 2021 when artist Mike Winkelmann, better known as Beeple, sold his digital collage **“Everydays: The First 5000 Days”** for \$69 million at Christie’s.<sup>2</sup>

Five months prior, the most Winkelmann had ever sold a print for was \$100.<sup>3</sup>

In the analog, physical world, a non-fungible asset is something unique that can’t be exchanged, such as a piece of art. This differs from a fungible asset such as cash – a \$5 bill is always worth \$5 and is no different from every other \$5 bill.

## Digital Serial Number

Similarly, in the digital realm, NFTs are secure tokens with a unique blockchain identifier that cannot be modified, copied, subdivided, or substituted. Acting like a digital serial number, this code can be used to verify ownership and the authenticity of a digital asset.

NFTs let us create and trade digital assets without the need for the same third-party verification required for the transfer of physical assets such as a property deed or car title.

Many NFTs, such as the popular **Bored Ape Yacht Club** art series, are purchased using Ethereum and authenticated by its blockchain. While one ether token is the same as any other, making it a fungible cryptocurrency, the Ethereum blockchain on which it is based contains additional information that can verify whether an NFT associated with it is genuine.



## Surging Demand

While they might seem esoteric, the market for NFTs is expanding. Leading marketplace [OpenSea](#) facilitated nearly 88% of **total trading volumes** for NFTs in 2021, amounting to more than \$12.5 billion, according to The Block Research.<sup>4</sup> That figure is a colossal increase over the \$33 million in total volumes the prior year.

This surge in interest is one reason why Adams Street is keeping a careful watch on the sector. It is an area of fast-moving innovation and growth that is likely to create use cases that we have yet to imagine and which we believe have the potential to produce attractive long-term returns.

Disintermediation is one area of significant potential.

## Direct Access

NFTs, in conjunction with audience-building social media platforms, present opportunities for creator communities to transact directly with customers to monetize their work in a greatly simplified and cost-effective way.

Take the music industry. Rights can be split between recording, publishing, and performance that differ by country. This creates a labyrinth of rules that make it difficult for streaming companies, radio stations, and others to know who to pay for what and how much. NFTs have the potential to greatly simplify transactions, ensuring that the rightful asset owner gets the payment that they are due.

Take that further and an NFT can become a concert ticket that can be used at a venue to purchase merchandise, food and drinks for lower transaction costs as the artist can sell directly without the need for ticket agents and other middlemen.



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## Financial Collateral

Taken to an even greater extent, that NFT purchased directly from a creator can be used as collateral for a loan from a decentralized finance provider. The transaction can be based on a smart contract that automatically returns the asset when the obligation is fulfilled or transfers ownership to the lender in the event of a default.

Video game producers are also exploring ways to build continuous revenue streams by creating NFTs of rare in-game “skins” and other identifiers that players purchase to boost their digital status in the metaverse. That NFT can then be sold via in-game fixed price or auction marketplaces, with the game publisher receiving a portion of every trade.

## Major League Sports

This application is also being explored by professional sports leagues such as the National Basketball Association<sup>5</sup> and the National Football League.<sup>6</sup> Adams Street portfolio company Sorare creates and sells NFTs for players in its fantasy soccer leagues, for example, with their value fluctuating according to demand on the transfer market.

## In Summary

NFTs might also be used to secure our digital identities, to maintain accurate and comprehensive health records, to create car and property titles, to create unique fashions, and more. NFTs have myriad potential applications across multiple sectors that extend far beyond digital art, which is why this still nascent corner of the tech universe needs to be closely observed for investment potential. ■

1. Source: <https://www.theblockcrypto.com/linked/128676/nft-trading-volume-surpassed-13-billion-in-2021>
2. Source: <https://onlineonly.christies.com/s/beeple-first-5000-days/beeple-b-1981-1/112924>
3. Source: <https://www.theverge.com/2021/3/11/22325054/beeple-christies-nft-sale-cost-everydays-69-million>
4. Source: <https://www.theblockcrypto.com/linked/128676/nft-trading-volume-surpassed-13-billion-in-2021>
5. Source: <https://nbatopshot.com/>
6. Source: <https://nfl.live-nfts.com/>



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