

Rating

63/100 ★


Note: All data is from 1/26/2022

Snapshot	
Ticker	MC
Current Price:	\$2.40
Market Cap:	\$192,689,156
Circulating Supply:	~80,341,868
Token Type:	ERC-20
Sector:	Gaming

Executive Summary

Merit Circle is a project that seeks to act as a “metaverse/play-to-earn index fund” structured as a DAO. What does this mean? It means that Merit Circle, through investments in gaming projects, gamers, and in-game assets, seeks to turn a profit and provide broad exposure to the crypto gaming industry while operating as a decentralized organization. The MC token serves as the foundation for all of this by giving holders a say in decision making.

Some of the apparent strengths, and my initial draws, to Merit Circle are the growing play-to-earn economy, their strong team, and a large treasury. However, Merit Circle is a relatively new project; their MC token just released back in early November. This “nascency” is something that will become obvious as we continue on through the rest of

this report, for both positive and negative reasons.

Operations

Merit Circle’s operations can be divided into three categories: investments in projects, investments in gamers, and investments in in-game assets. Let’s go through each of these to get a better picture of what Merit Circle does and how it looks to turn a profit.

Investments in Projects

Merit Circle has a treasury worth, as of December 31st, 2022, about \$125 million. Most of this is set to be used for investing in early crypto gaming projects at the discretion of the investment committee using frameworks defined by governance (which makes decisions using discussions and votes by MC token holders). Games in development that are looking for funding can make proposals to governance to request funding, but most of the investments so far have happened at the discretion of the investment committee. You could compare it to a venture capital type model. Profits are taken in accordance with a framework defined by governance that helps MC lock in profits while still being a good, healthy partner for portfolio projects.

Merit Circle has already begun making these investments, but, with how young the play-to-earn/crypto gaming space is, great opportunities don’t come around every day. With many investment rounds only requiring \$100-200k, most of these funds have not been put to work yet. However, there have already been multiple new investments in 2022 into in-development games including Heroes of

Mavia (a crypto game resembling Clash of Clans; Merit Circle invested \$200k invested in their private sale) and WonderHero (a mobile RPG game; Merit Circle invested \$300k in their NFTs).¹ We should expect these types of investments to be a main focus of the DAO going forward and to produce the biggest winners in terms of returns. Additionally, some DAO members are working on their own projects such as EdenHorde, which will direct all revenue to the Merit Circle DAO and give members early access.² Early access to specific games and NFTs is another perk that the DAO seeks to offer token holders moving forward.

Investments in Gamers

Another main focus of Merit Circle is actual gamers; games like Axie Infinity have become well known for providing opportunities for players who cannot afford the entry prices (you have to own certain NFTs to play) to be lent in-game assets and share earned profits with the lender. Merit Circle has taken up this opportunity as well and currently has around 2,750 gamers playing on these types of “scholarship” programs. In return for lending assets to players, Merit Circle takes a 30% cut of profits.

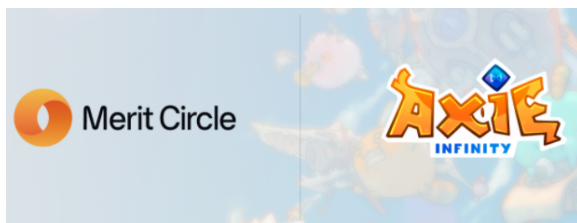


Figure 1: Merit Circle x Axie Infinity³

The only two games that Merit Circle runs these programs for (most games they have invested in are not yet live to the public yet) are Axie

Infinity and VulcanVerse. Gamers, who are managed by managers/operators (think of these as organizers or coaches), keep 70% of the revenue while 20% goes to the DAO treasury and 10% goes to the manager/operator.

A major focus for Q2 of 2022 is growing these programs to provide sustainable, steady revenue for the DAO. Two major improvements that are being worked on in relation to this goal are (a) a new platform for users, and (b) more SubDAOs. The new platform will be the onboarding ramp for new gamers and other users; rather than running the gaming aspect of the DAO in Discord, it will all be done on an easy-to-use platform. We’ll explore what “more SubDAOs” means soon, in the *Competition* section.

Merit Circle also provides education for players. If a player is operating on scholarship for Merit Circle and earning revenue for the DAO, the DAO will provide them with the material needed to gain an edge in-game and earn more revenue. Top earners will be further rewarded.

Investments in In-Game Assets

Merit Circle also directs investments to in-game assets. Often, this is done through investments in gaming projects themselves (sometimes the investment gives Merit Circle rights to tokens or in-game NFTs). Other ways this can happen are through scholarship programs, where rewards are earned in in-game assets, or through direct investments in assets that are expected to be productive or rise in value over time. However, this is a smaller focus of the DAO.

Competition

Merit Circle is, of course, not the only DAO that can be considered an “index fund” for crypto gaming. YGG (Yield Guild Games) is likely the best known DAO in this space as they have the most gamers and have dominated the “scholarship” scene for Axie Infinity. Their token’s market cap is also higher than that of MC.

There are some other notable differences between YGG and Merit Circle as well. YGG is structured using “subguilds”, meaning that different operations, such as a group of players on scholarship who are playing Axie Infinity using assets loaned to them by YGG, are actually operating individually.⁴ They do direct 10% of their profits to the overall YGG DAO, but these subguilds are free to have their own token and own their own assets. YGG just takes this 10% take rate.

Merit Circle, on the other hand, operates as more of a “superguild”. SubDAOs are responsible for operating effectively, but they all share the same MC token for governance, direct 30% of revenues to the overarching Merit Circle DAO, and do not own the majority of their own assets. Of course, if a SubDAO gets large enough, it may still break off from Merit Circle, but, overall, the Merit Circle structure is more tightly-bound than the YGG structure. Creating new SubDAOs is a focus of Merit Circle for the first half of 2022.

YGG has a larger community (currently over 10,000 players), plays more games, and has a larger treasury than Merit Circle. This is

certainly tough competition, so it’s worth noting. It also makes sense, as YGG is older.

A final note on this topic: although I do refer to them as competitors here, YGG and Merit Circle are actually partnering to grow the play-to-earn space. In fact, YGG invested \$175k in Merit Circle (see **Figure 2**). When I refer to them as competitors, I simply mean from an investment perspective - to gain the most direct exposure to YGG, you’d buy the YGG token, while, for Merit Circle, you’d buy the MC token.



Figure 2: YGG x Merit Circle Partnership⁵

Tokenomics

Here’s where things get a bit tricky when evaluating Merit Circle. Because of this, I’ll spend a bit more time on this section than others, and I’ll also divide it into two sections: tokenomics and treasury.

Tokenomics

Merit Circle’s MC token has a total supply of one billion tokens, and the main use for the token is governance. Decisions such as how to allocate treasury assets, how to alter investment frameworks, who to hire, and what (if anything) to change about tokenomics are discussed and voted on by token holders.

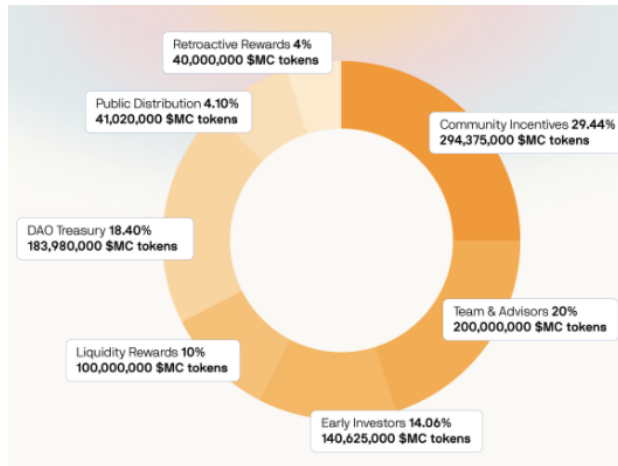


Figure 3: Merit Circle Token Distribution⁶

Shown above is the token distribution initially decided upon by Merit Circle - I apologize for how blurry it is. The important things to note here is that 34% of the total eventual supply is allocated to the team, advisors, and early investors. That seems to be quite a lot. However, per usual, there is a vesting schedule to help incentivize long-term alignment.

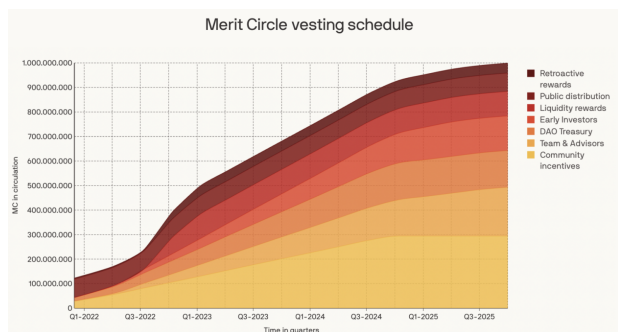


Figure 4: MC Token Vesting Schedule⁷

Again, apologies for the blurry-ness; you can view a more clear image [here](#). For reference, we are currently towards the left end of that curve, meaning less than 20% of the total supply is outstanding. MC has a market cap of about \$200 million, but it has a fully-diluted valuation (FDV) of close to **\$2.3 billion**. This is obviously a

cause for concern, as high inflation means dilution (even with staking, which will be mentioned soon).

Core contributors have recognized how big of an issue this is; investors have, especially recently, wisened up to the issues of high FDVs and will refuse to purchase tokens if they know they will be diluted into oblivion, regardless of how promising a project may be. To address these issues, MIP-7 ("Merit Circle Improvement Proposal 7") was introduced and put into action after passing a governance vote.⁸

MIP-7 seeks to help address these FDV issues by revamping some aspects of MC's tokenomics. To start, when Merit Circle makes a profit, 20% of the proceeds are sent to the treasury as USDC to help replenish funds spent on investments, and 5% is sent as ETH or BTC. 60% is used to create support (via limit orders) 10-35% below the current price; these orders are adjusted weekly and seek to relieve some sell pressure on MC in times of market stress. MC purchased during these dips can be sold to strategic investors with long lockups or burned. Finally, 15% is used to buy back MC and burn (destroy) it.

Further, MIP-7 directly addresses FDV even more by directing attention to the community incentives portion of the tokens, which is 29.44% of the total supply. Thus far, even though roughly \$37 million worth of MC unlocks each month for this use case, none has been spent. MIP-7 states that 75% of these tokens will be burned monthly, and that percentage can be adjusted as needed. On January 21st, Merit Circle burned 1.2% of the total supply, worth about \$35 million.⁹ If this 75% number

stayed constant over time, we'd see about 22% of the total supply burnt through this method. This is certainly a good start!

The MC token also offers staking opportunities to help reduce the circulating supply and promote high liquidity (see **Figure 5**). MC holders can lock their tokens for up to one year to earn 20% of rewards designated for staking; the current APR for this is about 163%. If you stake for less time, the APR is reduced; staking for only 26 weeks earns at a rate of about 120% APR. The other 80% of staking rewards are directed towards liquidity providers (LPs). The current rate for LPs is about 542% APR (though they are also exposed to impermanent loss, as all LPs are). By staking, you help counteract some of MC's inflation, which would typically hurt you, by capturing some of the newly released MC.



Core Pools	Total Value Locked	APR
 MC	\$44,884,757.79	163.28%
 MC/ETH Uniswap LP	\$44,434,612.44	542.47%

Figure 5: MC Staking Rewards¹⁰

Overall, in terms of tokenomics, the vesting schedule obviously looks very rough. While tokenomics can be further altered and the DAO is working on these issues by burning tokens, it seems that, in practice, we may still see high inflation especially as the large team, advisor, and early investor portion of the supply becomes unlocked over the next couple years. It's worth asking yourself, "Do I believe that Merit Circle's growth and resulting increased token demand can outpace MC's inflation over time?"

Treasury

As mentioned earlier, as of December 31st, 2021, Merit Circle had about \$125 million in the treasury.¹⁰ This means that the treasury was, at that point, worth about 65% of the current MC market cap. This calculation was also excluding native assets such as MC and the DAO's AXS and SLP tokens (earned and used in Axie Infinity). This \$125 million was made up of roughly: \$65 million in liquid tokens (stablecoins, ETH, and BTC), \$35 million staked and earning interest (such as liquidity provider positions), \$7.7 million in NFTs, and \$17.2 million in assets gained through investments.

Impressively, as of January 5th, Merit Circle had invested \$9.9 million into several deals. Of that, only \$2 million has translated into market value (the rest are not yet liquid), and the market value of that \$2 million, on January 5th, was almost \$30 million, not including the \$1.2 million Merit Circle realized as profit.¹¹

Merit Circle made about \$1.4 million in profit in December via token sales, and they followed the plan outlined in MIP-7 for handling those profits. Overall, the treasury looks strong. Again, the crypto gaming space is still relatively nascent, as is Merit Circle, so investment opportunities that warrant spending high amounts of those treasury funds are still rare and will take time to find and execute on. Until then, the treasury can still generate yield while being liquid enough to facilitate new, attractive investments as the need arises.

Team Summary

Most of Merit Circle's team is doxxed (publicly identifiable).¹² Tommy and Mark, the CFO and

COO, respectively, look to come from Flow Ventures, an early-stage, “web3” focused venture firm. Additionally, there are a few Merit Circle contributors that really stood out.

To lead the development of the Merit Circle platform mentioned earlier in the *Operations* section, Merit Circle hired Omar Ramirez. Ramirez brings a finance background from previous work at JP Morgan and PwC, as well as gaming experience from founding a mobile gaming studio. This seems like a perfect fit to build the platform that Merit Circle wants.

[Pentoshi](#), a well-known name on Twitter, is also involved as Head of Partnerships. Pentoshi’s network and reach should help Merit Circle in the long run. Another name to mention is Shashwat Ashiya, the first employee hired directly through a Merit Circle governance vote, who is now Head of Governance. Ashiya is a professional lawyer with relevant (crypto-related) experience and was highly recommended by some core Merit Circle contributors.

Lastly, Merit Circle has some great backers. DeFiance Capital, Spartan Group, YGG, and Maven11 are among the seed contributors, as are individuals from Nansen, CoinGecko, Coin98, The Daily Ape, Chainlink, Illuvium, and Pocket Network. Having such a strong team of backers is obviously a good sign for a project, especially one that looks to make outside investments and can benefit from a good network. Merit Circle also has over 30,000 Discord members, and their smart contracts were audited by QuantStamp.

Risks

Merit Circle, especially due to being so young, definitely has some risks associated with it. The two that stand out are industry growth and tokenomics.

I’ll mention industry growth first, as it’s a bit shorter. The play-to-earn space is still young, with relatively basic games such as Axie Infinity and DeFi Kingdoms taking the lion’s share of the market. Most of Merit Circle’s investments are in games that are still in development.

Obviously, the broader consensus is that crypto gaming is about to explode, but there are still risks to be conscious of such as development timelines, game design limitations due to current tooling limitations, and potential regulations. However, I’ll admit that this one is not a *huge* risk, as we’ve already seen an appetite for play-to-earn games, especially in countries like the Philippines, that should only increase as experiences get better.

The other risk to note, as mentioned earlier, is MC’s tokenomics. The team and other investors realize that there is a **large** gap between the current market cap and the FDV due to large unlocks coming over time, and they are taking steps to address these issues. The realistic FDV is likely much lower than the number we’re seeing right now due to changes in the tokenomic design such as those implemented in MIP-7. Still, MC will likely be inflationary, and large unlocks for the team, advisors, and early investors are on the horizon. Again, as I mentioned earlier, Merit Circle’s investment returns and revenue from gamers need to grow at a fast rate in order to allow demand to outpace inflation. Or, perhaps tokenomics will

be further changed. On the bright side, it looks like Merit Circle is moving in the right direction here, but this is still a risk to be aware of as unlock dates near.

Another potential issue with tokenomics is that owning the MC token, perhaps for legal reasons, does not directly entitle holders to any revenue earned. If Merit Circle investments do well, the treasury grows in value, but holders do not directly receive income from that treasury. We have already seen, through projects like Olympus DAO that grow a massive treasury, that **tokens are able to trade at less than their treasury value** if the sentiment around the project drops. This lack of direct revenue sharing may change in the future, but, for now, the value of the MC token relies more on a shared mindset that “token price should be greater than or equal to treasury” and that governance rights and the potential growth of investments made through the treasury are enough of a reason to own it.

Rating Summary

Overall, Merit Circle is a project that is at the forefront of the rising play-to-earn, metaverse, and crypto gaming trends that are seeing mass amounts of funds and developers flow in. The team is strong, the backers bring a great network that allows Merit Circle to have great deal flow coming their way at all times, and the investment opportunities for Merit Circle should only strengthen over time. These, combined with an obvious focus on fixing tokenomics issues all are strong catalysts for Merit Circle moving forward.

Still, if you’re looking to invest as an outsider, the future token price is what you’re looking at. This depends heavily on whether or not Merit Circle’s tokenomics changes really do help fix the supply/demand imbalances that may be brought about by large unlocks and whether investors, as mentioned in the *Risks* section, believe the token should increase in value if the treasury does. Therefore, it is important to factor that in and monitor the governance forum for any potential changes or updates relating to tokenomics.

MC Ratings

Catalysts: 18/20

Competitive Analysis: 16/20

Tokenomics: 4/20

Team Analysis: 13/20

Risks: 12/20

Total: 63/100

How to Buy

You can purchase MC from the Uniswap decentralized exchange by swapping ETH for it, or it can be purchased on exchanges like Binance (but not for US investors) and Gate.io. It’s probably best to stake any purchased MC, but beware that it does require paying high gas fees on the Ethereum network and requires a lockup of up to one year, depending on the timeline you choose.

Citations

1. <https://medium.com/@meritcircle>
2. https://twitter.com/MeritCircle_IO/status/1483461695490215943?s=20
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4. <https://twitter.com/Pentosh1/status/1456626349800570891>
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12. <https://meritcircle.gitbook.io/merit-circle/future-operations/structure/dao-contributors>

performance of any market results including crypto currencies and such related assets is no assurance of future performance. Investing is risky, and you can lose what you put in.

Links

Website: <https://meritcircle.io/>

Documentation:

<https://meritcircle.gitbook.io/merit-circle/>

CoinGecko Listing:

<https://www.coingecko.com/en/coins/merit-circle>

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