

Crypto Intelligence/ Interview With Ten31 Cofounder Jonathan Kirkwood

Jonathan Kirkwood is a cofounder and managing member of Ten31, a venture capital firm that exclusively invests in the bitcoin ecosystem. Kirkwood previously served as a physician for several years, earning his



medical degree at the Ross University School of Medicine in Barbados in 2009. He received an M.B.A. from Ball State University in Indiana in 2020 and a B.S. from the University of Evansville in 2005. Kirkwood started in crypto in early 2017 and became interested in a bitcoin-only strategy in 2019.

In this discussion we cover why Ten31 only focuses on bitcoin, how his firm tries to pick winners in the space, his thoughts on the rise of ordinals and meme tokens on bitcoin and how he is preparing his portfolio firms for the halvings. We also focus on bitcoin miners and ways that they are trying to take advantage of the surge in artificial intelligence demand.

FORBES / Tell us a bit about your company.

JONATHAN KIRKWOOD / We've deployed a bit more than \$100 million over the last four years into 30-plus companies within the bitcoin space. This includes vertically integrated miners, whether that's oil and gas, renewables, co-location, on-grid or off-grid firms or other companies that are building linkages to financial services, like Strike, Unchained Capital and Fold.

FORBES / You only invest in the BTC ecosystem?

KIRKWOOD / We like to think of it as technology companies that are leveraging the bitcoin stack. You may have companies like Fold that are offering bitcoin rewards. They are utilizing the properties of the asset for attracting customers to its product and services, but you have other companies like Strike that are using the Lightning Network for providing instant global finality and settlement. We think that's interesting.

FORBES / What about exchanges? Obviously, they have to integrate with the networks and many are also integrating Lightning as well to facilitate deposits and withdrawals.

KIRKWOOD / They are slowly doing that and some of them are partnering with companies in which we've invested.

FORBES / What kind of checks do you write? What do you look for in an investment?

KIRKWOOD / Our North Star has been bitcoin winners, building great products and services that we would want to be utilizing ourselves. We write checks for as small as \$200,000 for early firms, where it's just a founder with an idea they're working on, all the way to Series B. We led Strike's Series B last year, where they raised \$80 million, and through our strategic partners delivered over half of that.

FORBES / What types of services do you provide portfolio companies?

KIRKWOOD / Between my partner Grant Gilliam and I, we sit on seven boards. And we also have two other partners, Marty Bent and Matt Odell.

One really unique thing we do, and we started last year, is having a portfolio retreat. We think bitcoin is a very interesting model to follow in that it is an open, permissionless system. And it is taking down a walled garden. In October, we bring together all the portfolio companies. They are all working in different sectors of the economy, but they're all interacting with bitcoin in some way. So that there is this initial tie of camaraderie that can easily be fueled for synergies. We have seen real dividends over this last year from the event that we put on this past year.

FORBES / I think there's a misperception that bitcoin is just this static, rigid thing that was unleashed on the world 15 years ago and

hasn't really changed much. Obviously, that's not true. How do you see the bitcoin ecosystem evolving? What are you trying to sell to your prospective LPS in this new fund when they say what's next?

KIRKWOOD / We think that bitcoin as an ecosystem is still nascent and emerging. Since 2013, the U.S. government has had a specific stance that bitcoin is a commodity—it will be regulated as a commodity and is taxed as a commodity—and they've been absolutely consistent about this over the last decade, through different administrations and regulatory bodies. Because of that we see bitcoin on a risk-adjusted basis as very low risk, and that as the adoption of bitcoin diffuses outward the amount of dollars and users coming into the space is going to be growing exponentially. As those users come in there's going to be infrastructure built around the network and the asset that will be capturing value. The early movers and the companies we identified and targeted are building out the technology to be able to service the needs of these new users who are coming into the bitcoin ecosystem. And those different infrastructure plays or their technology then eventually will become the infrastructure that holds up the entire ecosystem, whether that's mining, financial services, lightning or other layer services, consumer applications or emerging markets. Each one of these buckets will have initial movers that are going to be gaining such outsized advantage that trying to displace them is going to become almost insurmountable.

FORBES / Why hasn't bitcoin adoption really taken off, especially from a payments point of view?

KIRKWOOD / This isn't a one-year or five-year time horizon. Our belief is that bitcoin is going to be the next world reserve asset. Right now the world is in flux. We don't think that the world has settled on a world reserve asset. After having the U.S. Treasury market over the last 40 years hit that near zero bound, we've ended that period. And so now, over the next 10, 20, 40 years, while bitcoin makes this ascent to the world reserve asset, we think there's going to be large-scale adoption.

One massive recent signal is BlackRock getting in with their bitcoin spot ETF. I think that is a monster of a signal that the market just hasn't digested. What I think it does is lower the hurdle for financial institutions and financial advisors, because no longer are they going to have career risk. Over the last 15 years the mainstream media has classified bitcoin as something that is only used by criminals, for dark markets or money laundering. But now with BlackRock lowering the hurdle for these institutions to be able to come in I think that's a big signal. I don't think BlackRock takes a shot unless they think they're going to hit it. A second thought is that it reduces the friction for anybody, anywhere with two clicks of a mouse to be able to sell their Apple stock and buy a bitcoin ETF.

FORBES / How does all that fit into your strategy? How much utility does there have to be for bitcoin to deserve the digital gold narrative?

KIRKWOOD / Let me answer like this: Look at what Strike is doing with its Send Globally payments service. This example highlights the second piece of the bitcoin network or the Lightning Network. We've needed five years of maturation and continued building

on the Lightning Network for it to be able to be where it is today. And, yes, Strike allows users to send value anywhere in the world over the Lightning Network. But the real interesting piece, and what I don't think people understand, is what they are allowing businesses to do. Let's say a business in Nigeria wants to be able to purchase an input or a product from Ghana. But they can't either move into or doesn't want the naira currency. They want U.S. dollars. Now through Strike's Send Globally, businesses in Nigeria can take their naira, convert it to bitcoin, move it to a U.S. bank account, where it's in dollars, and then purchase those inputs in Ghana using U.S. dollars, so they can build and grow their business in Nigeria. All that happens instantly. And that has nothing to do with the price of bitcoin because that happens in a fraction of a second. All because this is a final settlement network.

FORBES / What are your thoughts on BRC-20 tokens, the Ordinals Protocol, and bitcoin meme tokens?

KIRKWOOD / Block space is a finite resource. I wrote a piece at the end of last year about block space, and I didn't realize that you're going to have ordinals coming out three months later or BRC 20, and that we would be innovating on ways to use block space. Do I think that ordinals or BRC 20 are something novel and investable to date? I don't. I'm waiting for a bit more clarity, actual time in the market for people to decide. But I do think that is valuable and that there will be a use case.

FORBES / I want to go back to mining. Do you invest in public or private miners or both?

KIRKWOOD / Mainly private but we do have one public miner. We typically look for best in class, like Upstream Data.

FORBES / What is most important to you now?

KIRKWOOD / I think what's shown to be most important is rack space. And who has the ability to build out low-cost rack space and highly attractive geographical locations. And what's happening in the TVA (Tennessee Valley Authority) is very attractive, because they've really leaned into bitcoin miners and the programs that they're offering. One of our companies targets rural de-industrialized areas so the regulators in these co-ops seek us out and say, okay, we have 10 megawatts or 20 megawatts for you guys. So we'll go in and we'll co-locate a 10-megawatt site. What we provide is the purchasing of that power, otherwise the co-op would have to decrease the amount of power they were purchasing. And then that would increase the rate that the end user would be paying. That's why they seek us out because us coming in either maintains the current cost of electricity to the end users within those rural communities or reduces it, along with the ability to be able to turn off or put the energy back on the grid during peak times.

FORBES / Many miners are making noise about getting into artificial intelligence now. What are your thoughts?

KIRKWOOD / I group this all into distributed compute because bitcoin was the first distributed compute you can easily turn off and the network continues to function. The same is going to be for AI in the amount of rendering required. You can look out just a couple of years from now and I fully anticipate where these LLMs (large language

models), like ChatGPT, will be where you will be able to watch a movie that never existed until you were viewing it at that time. But all the amount of rendering it's going to take to be able to provide that to a billion people on the planet will require a massive amount of computing power. If you go back 15 years ago, a 50-megawatt site for building out a data center was enormous. Now that is almost average. And so, I think we're going to have to 1,000x the amount of rack space over the next decade to be able to meet the amount of distributed compute requirements.

FORBES / Are there going to be some companies that just do bitcoin mining and ones that want to have flexibility? How do they do that in a cost-efficient way?

KIRKWOOD / I think there's going to be multiple revenue streams. Right now with a data center you have one revenue stream where you're taking energy in, and you are producing hashes with that. We're now moving into where you have two revenue streams, where the second add-on is these programs where you're returning power back to the grid. So I lock in a 5-cent power contract for five years, and then during peak times I sell it back to the grid for 15 cents. You'll add on an AI amount so you will have 30%, 20%, 40%, depending on where the market falls. So you've got multiple lines that are very near term for these bitcoin miners.

FORBES / The halving is about a year away. I'd like to hear what you think about how the halving will impact the entire investable bitcoin ecosystem.

KIRKWOOD / We made a significant push in the first quarter of 2022 to make sure that all our companies had enough runway to last well

past the second half of 2024. The halvening, BlackRock ETF, election cycle coming up, and federal funds rate in the second half of the year are expected to be a perfect storm for bitcoin and the middle of 2024.

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Then the second piece is that 90% of its total bitcoin supply has been distributed. So over the last 15 years, I'd like to think of this as an abundance of bitcoin that has been sloshing around the market and has been easily accessible. The next 10% isn't going to be distributed for the next 120 years. The next 5% isn't for the next ten years. So if you look at that on a relative basis of the last ten years

90% was distributed, the next 10 years only 5% is going to be distributed. That's a 45% increase. I don't think people understand that we've gone from an abundance to a supply that just doesn't exist.

FORBES / Are there any interesting use cases or innovations coming out related to bitcoin that you think people should keep an eye on?

KIRKWOOD / I think we need to be paying attention to Nostr. This ties back into bitcoin providing the best way to build a business from scratch. If you look at bitcoin like a company, the asset has accrued \$600 billion in market value with no CEO and no marketing budget. I think Nostr, as an open-source communication protocol, is going to do the same over the next ten years. And we'll be utilizing bitcoin to be able to transfer value for value over this open-source communication layer so that eventually X (a.k.a., Twitter), Meta and Instagram are all going to be Nostr clients operating in an open permissionless network that is built on Nostr.

FORBES / Thank you. 🙏