

In an initial coin offering, investors fund a venture in exchange for tokens that grant rights to future economic output. To many financial industry insiders, tokens have no intrinsic merit and exist only as a way to evade regulations. We demonstrate that generic revenue-based token contracts are indeed economically inferior to equity and lead to over- or under-production. However, an optimally designed token contract, which is a combination of an output presale and an incremental revenue sharing agreement, yields the same payoffs as equity. Moreover, with entrepreneurial moral hazard, tokens can finance a strictly larger set of ventures than equity.