OneRiver Digital
Asset Management

One River Digital Pulse

1 FEBRUARY 2023

Weekly Pulse – Polygon Leads Pulse

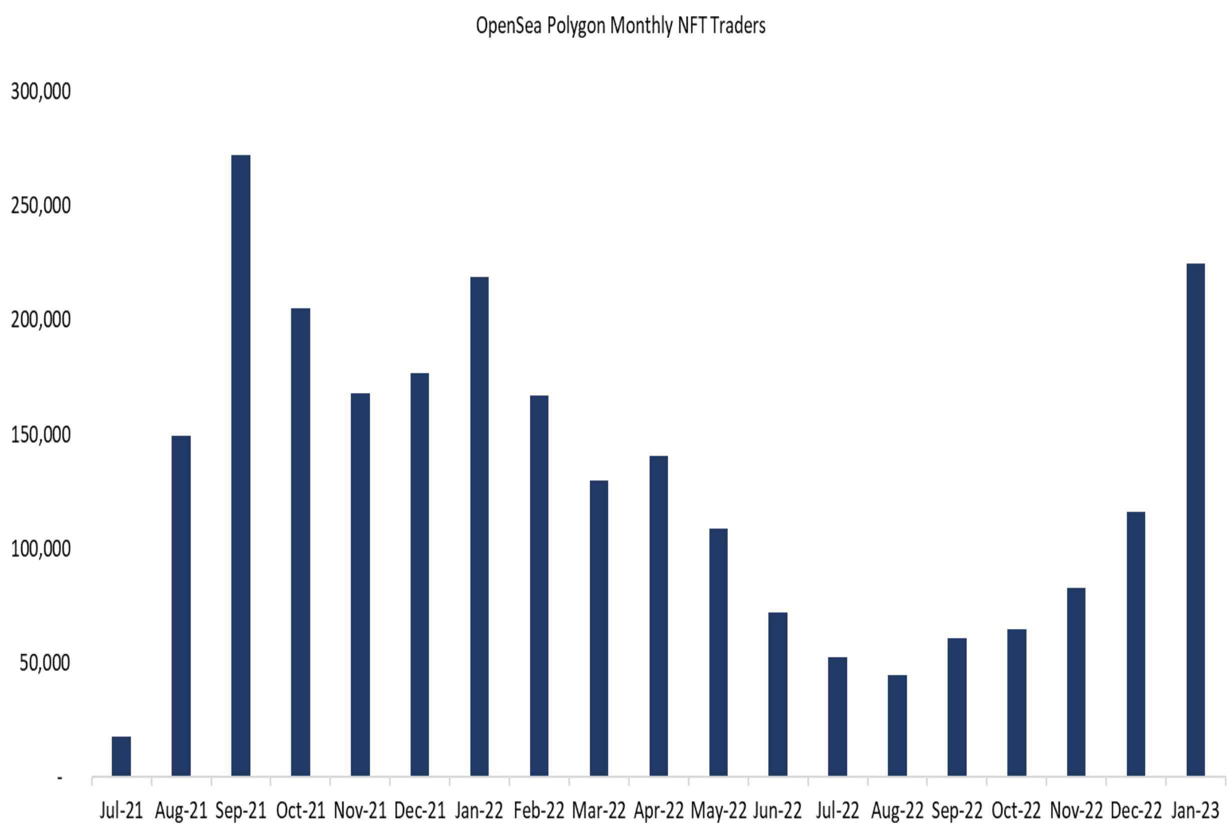
Polygon Leads Pulse: Valuation techniques in traditional markets are well subscribed. Expectations of policy rates determine risk-free bond yields, equity market valuations are a premium to risk-free rates, mature equities are the present value of an uncertain future cash flow, and venture investments trace the "J-curve". It's trickier for digital assets. Valuation standards are challenged by the vast use cases and infancy of the projects. Is the token an equity, a bond, a private equity, or a mixture of all? Where there's confusion, there's investor alpha. The economics of some tokens, like bitcoin, are simple enough. It's all about the network and demand is evident – even last year. The Bitcoin network handled $14 trillion in transaction volume and rewarded miners with over $9 billion. It's real money. Others are more subtle. Take Polygon – the Digital Pulse star performer at a score of 60 (0-100 scale). Polygon's rise in valuations mirrors strong fundamentals, with its MATIC token one of the few to have fully retraced the FTX downturn. Polygon is built for growth – the team has raised over $450 million for development projects through private token sales. But how do its economics work? MATIC supply is capped, and its tokens are retired or "burned" based on Polygon network transaction volumes. As projects continue to build on Polygon, MATIC holders expect price appreciation from growing demand and constrained supply. In traditional finance, share buybacks are the vessel for returning value to investors. True, today the rate of token retirement is modest at 0.27% annually. But these are the early days – investors are playing the long game, like a venture J-curve. So, don't throw out the tools in the traditional toolbox. They still apply. It just takes a bit of extra diligence. That's the price of alpha.

WEEKLY BEATS

1. Chart of the Week – NFT Traders on Polygon Soar
2. Fundamental Pulse – Neutral
3. Polygon Dominating Scaling Solutions
4. Protocols Generating Revenue
5. Ethereum's Valuation

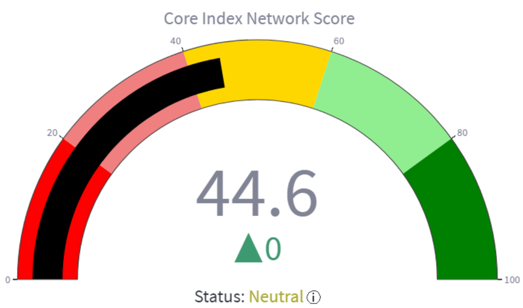
1. NFT TRADERS ON POLYGON SOAR

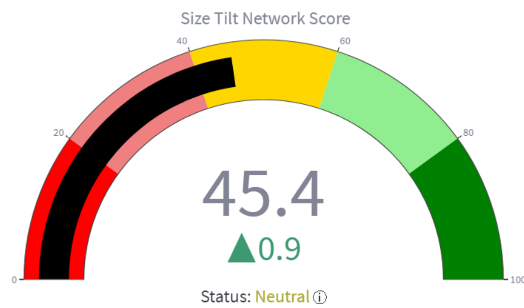
Polygon led the Index Assets on the Pulse in January 2023, tied to increased NFT activity. NFT Traders on Polygon are near record highs after 2022 saw the protocol secure several enterprise partnerships in the NFT sector. Expect activity to keep rising in the coming months.



Source: Dune Analytics.

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE





Total Users
155,598,496.0
↑ 0.35%

Active Users
1,852,904.0
↑ 1.38%

Transfers
2,175,904.0
↑ 6.06%

MarketCap
666,170,432,581.48
↓ -1.39%

Onchain-Volume
14,408,976,772.57
↑ 26.77%

Network activity on the top two protocols – Bitcoin and Ethereum – are at a standstill. Aside from Stellar, the lower-valued assets remain positive for the week. Polygon picked up to top the charts.

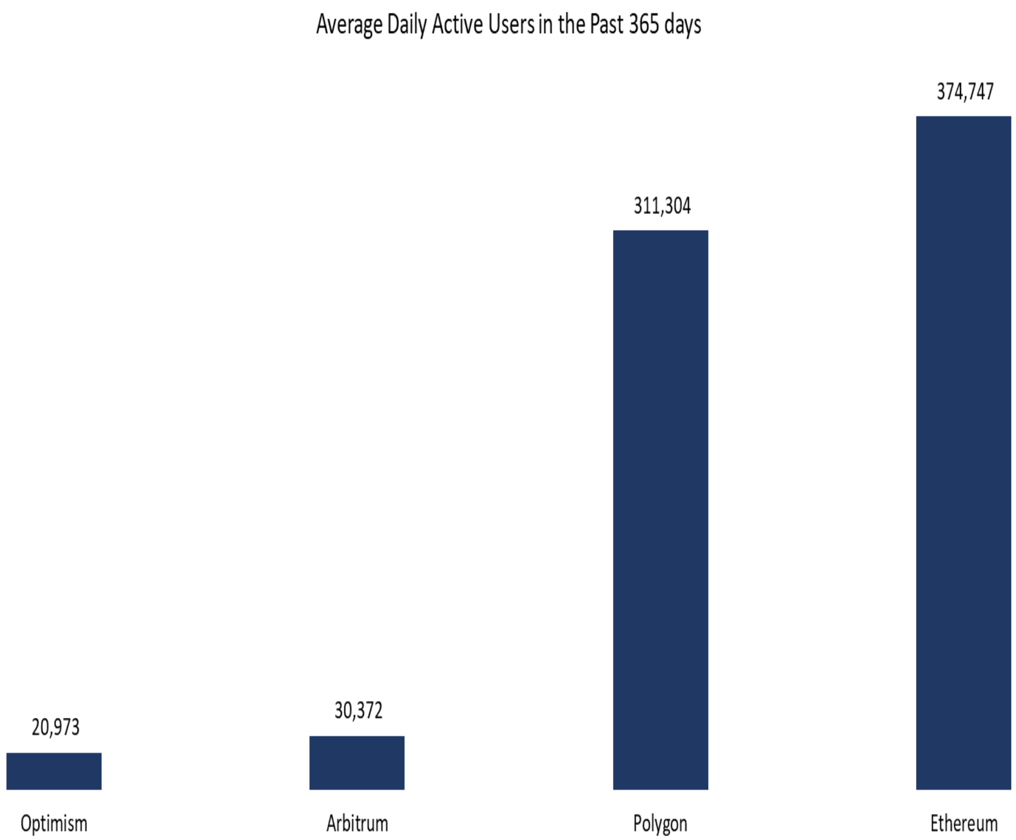
Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Core	45	0	7	22	46	37	49	24	44	91
Size Tilt	45	1	8	30	44	37	42	33	43	90
Bitcoin	49	0	6	10	56	39	63	13	64	97
Ethereum	34	0	9	41	25	32	23	40	0	79
Cardano	52	2	8	44	27	19	27	49	100	100
Polygon	60	12	19	75	70	67	24	79	4	99
Litecoin	44	2	-4	12	31	28	34	39	98	63
Stellar	49	-4	13	47	62	45	55	33	0	100

*Snapshot on 2/1/2023. Seven-day change in the Core and Size-Tilt Index Scores.

Notes: Status- High > 60, Neutral 40 to 60, Low < 40. A score of 54.5 means the Index value is better than 54.5% of its values in the past 365 days. Index scores exclude Solana, Cosmos, and Polkadot due to incomplete data coverage.

3. POLYGON DOMINATING SCALING SOLUTIONS

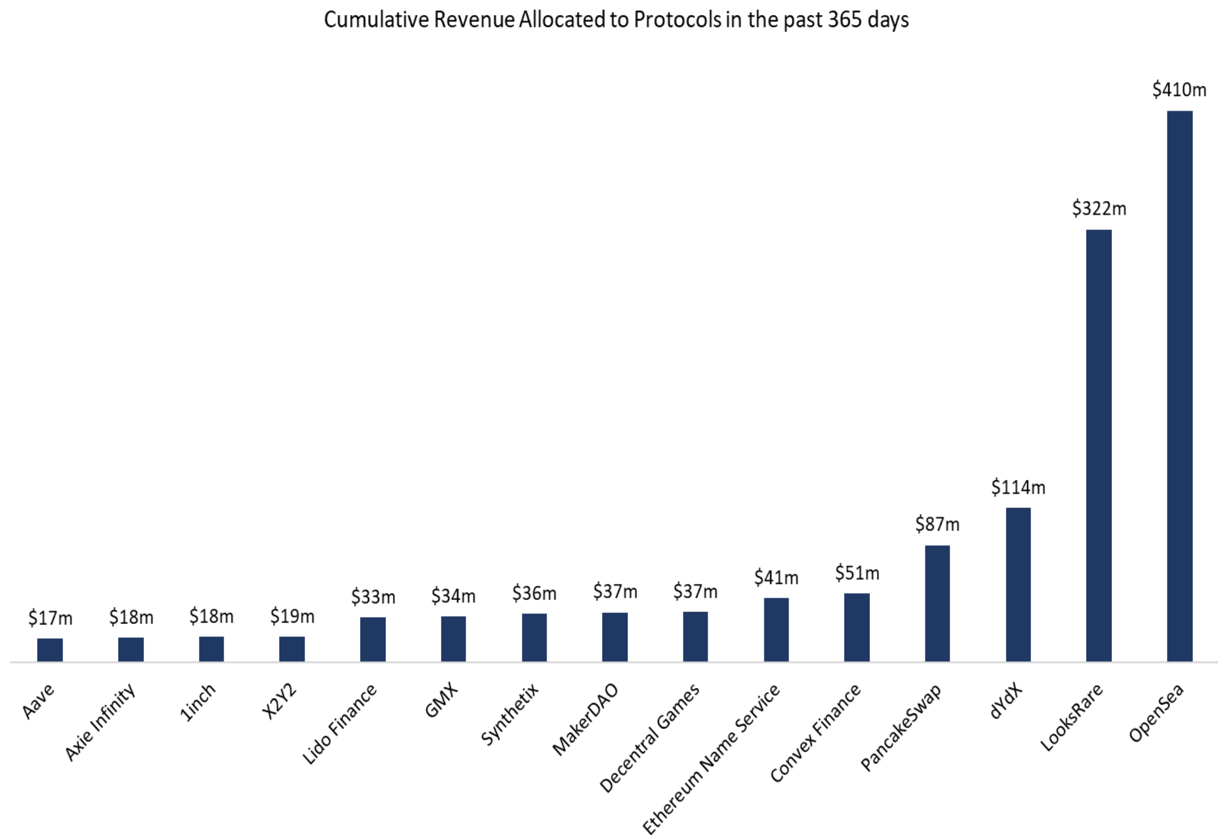
Polygon has stayed close to Ethereum in the number of daily active users over the last year. Its preference has been largely due to its high throughput and low latency capabilities. As more projects migrate to its infrastructure, active users are expected to increase accordingly.



Source: Token Terminal.

4. PROTOCOLS GENERATING REVENUE

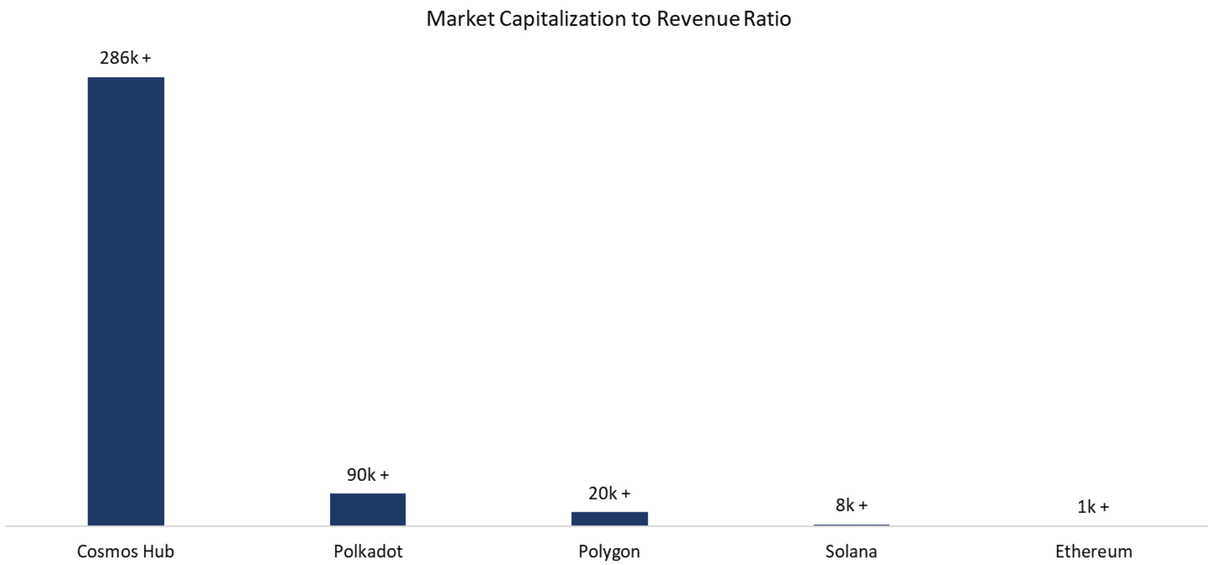
The past year marked a flush of excess capital in the DeFi ecosystem. While major digital asset sectors, declined in the past year, DeFi suffered the biggest hit. NFT marketplaces generated the most fees for the protocol primarily on OpenSea and LooksRare; decentralized exchanges and gaming followed suit.



Source: Token Terminal.

5. ETHEREUM'S VALUATION

One way of evaluating early-stage projects is in the ratio of market cap to its revenue. A relative comparison provides guidance on projects that are overvalued and undervalued based on the revenue generated. Compared to other major smart contract protocols, Ethereum is undervalued.



Source: Token Terminal.

Metric Definitions

1. Volume – The aggregated value of native units transferred between addresses on-chain.

2. Transfer Count – The sum count of transfers between addresses. It becomes more valuable when used in conjunction with Volume.

    2.1 Low Transfer Count & High Volume: High volume but transferred by a few addresses.

    2.2 High Transfer Count & Lower Volume - Indicates higher retail activity or exchanges amongst small accounts.

    2.3 Lower Transfer Count & Lower Volume: Indicates slower network usage and low network demand.

    2.4 High Transfer Count & Higher Volume- indicates high network usage. A persistent trend is substantial.

3. Active Users: Number of addresses active in the network as recipients or originators of ledger change. This includes value transfers, signing blocks, and other forms of ledger change activity.

    3.1 High Value: High network usage and high demand.

    3.2 Low Value: Low network usage and low demand.

4. User Growth Rate: The rate at which new addresses with non-zero balances are added to the network.

    4.1 High Value: Indicates users being added to the network at an increasing rate.

    4.2 Low Value: Indicates users being added to the network at a slower pace.

5. Valuation: This metric compares the on-chain volume to the realized capitalization representing the value of the network. Realized capitalization is a revised form of market capitalization that accounts for the value of the coin at the time the coin was last spent. A lower volume compared to the high value of the network indicates the network could be overvalued and vice versa.

    5.1 High Value: Indicates the network is closer to its real value based on the on-chain volume.

    5.2 Low Value: Indicates the network is very close to being overvalued considering the activity on the network.

    5.3 Medium value: Asset is reasonably valued—sustainable demand for transactions.

6. Velocity –This indicator shows the turnover of coins in the network as measured by on-chain volume divided by active supply. The primary use of this metric in this instance is to help access an asset's market-relevant supply.

    6.1 High Value: There is greater circulation of coins in the network and use for payments.

    6.2 Lower Value: There is lower circulation of coins in the network and use for payments.

7. Network distribution – The metric used, the SER ratio, compares the smallest accounts (sum held by accounts with a balance less than 0.00001% of the supply) against the richest accounts (sum held by the top 1% addresses).

    7.1 High value: Signifies high distribution of supply and higher decentralization.

    7.2 Low value: Low supply distribution and heavy concentration amongst a few wallets.

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OneRiverDigital

ASSET MANAGEMENT

w: oneriveram.com | e: info@oneriveram.com

2200 Atlantic Street, Suite 310, Stamford, CT 06902

NFA ID: 0461647 | FINRA: 167835