

One River Digital Pulse



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One River Digital
Research



Weekly Pulse – Lessons from the past

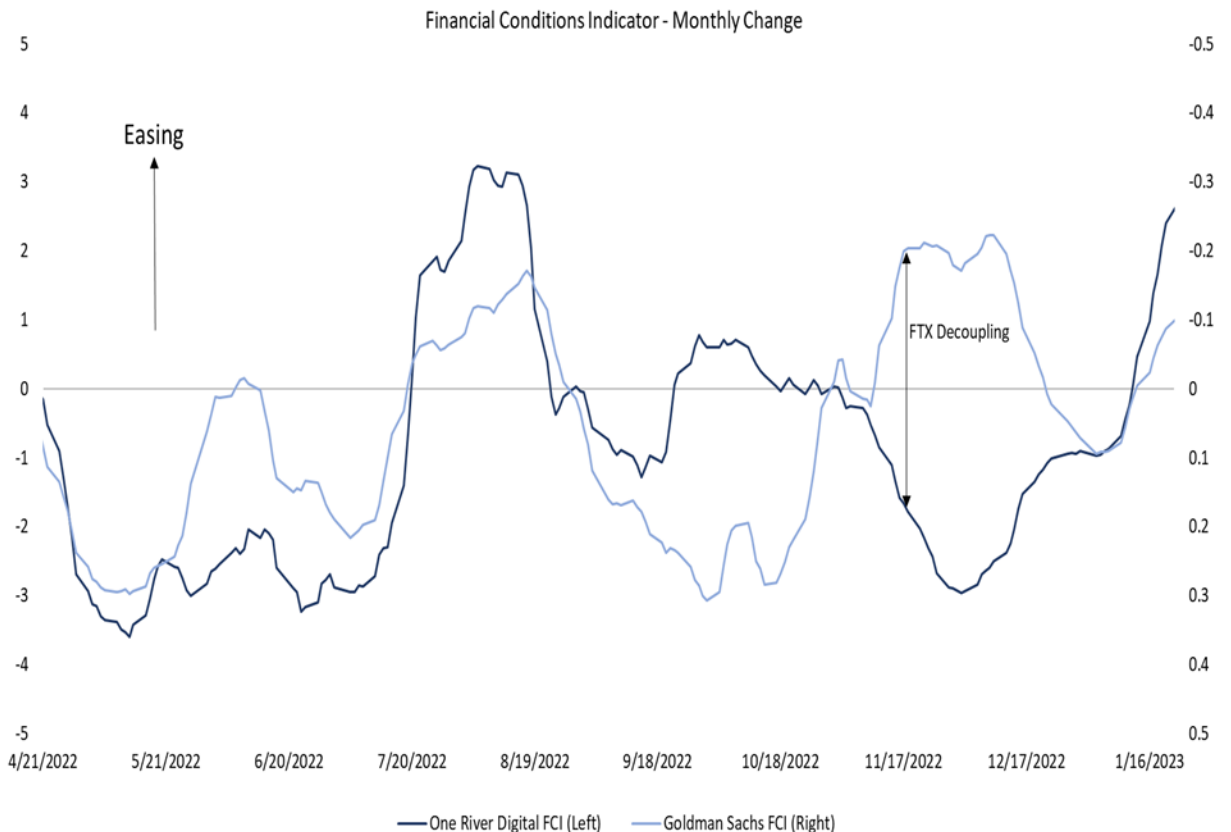
Lessons from the past: Oil struggled to reach large-scale production early in its life. Its extraction in large quantities was difficult, making it inefficient, costly, and unusable for more extensive use cases. Edwin Drake fixed this problem. Speculative excess soon wrought the oil industry, eventually being wiped out. John D. Rockefeller led the recovery, introducing systematic structure. Market share shifted to fewer strong hands – a natural ending to extreme speculative cycles. Bitcoin mining shares similarities to past oil market cycles. Discipline will lead the recovery process, as it did in oil markets. So, while M&A, high credit yields, and distressed asset sales are the new order, disciplined profitability is the compass to the future. The utility of the Bitcoin network has been proven. Bitcoin mining as a business is enduring – daily revenues are running \$19.6 million in the past week. But it's a tough road ahead for the mining sector. Bitcoin's hashrate continues to soar to new highs, a sign of stiff competition for earning block rewards. The upcoming 2024 halving of bitcoin mining rewards will also restrain miner revenue. Access to capital for distressed assets will be the differentiator. Large and disciplined players in the mining space will only get larger in a consolidation to the strong hands. That's the Rockefeller lesson.

WEEKLY BEATS

1. Chart of the Week – Easing Conditions for Crypto- Native Stocks
2. Fundamental Pulse – Neutral
3. Public Miners’ Share of Hashrate
4. Miners’ Selling Activity
5. Tough Road Ahead

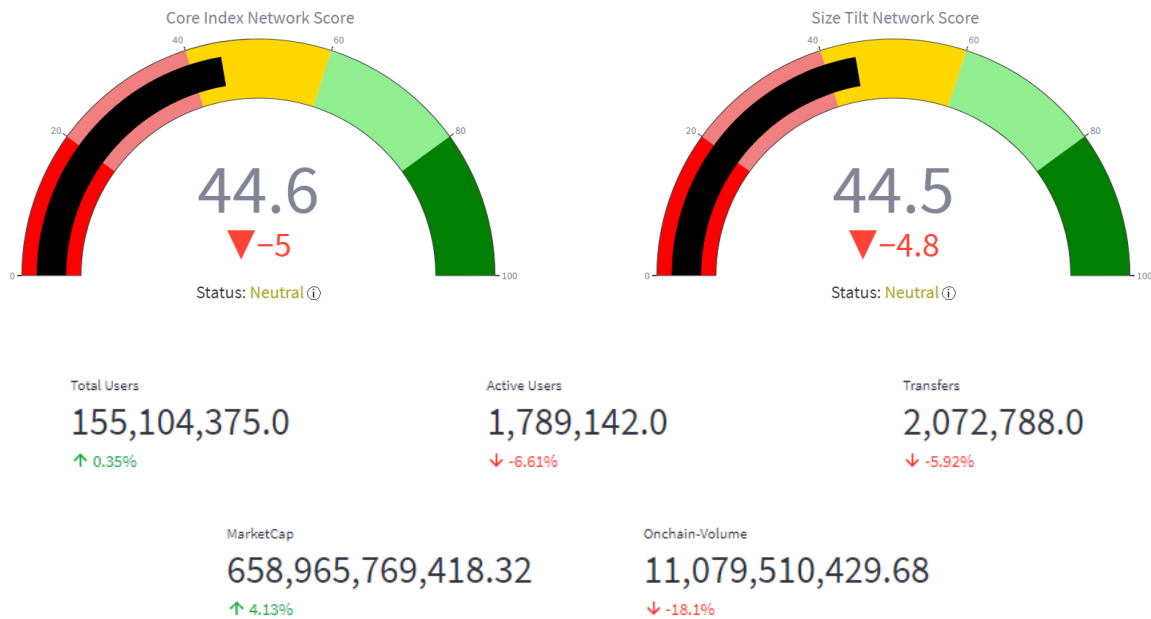
1. EASING CONDITIONS FOR CRYPTO-NATIVE STOCKS

Components of the One River Digital Financial Conditions Indicator (FCI) include cash, equities, credit, and FX: digital income yields (cash); equity values of natively digital companies (stocks); borrowing spreads for bitcoin mining (credit); and One River Digital Index (FX). Year-to-date, the Digital FCI has indicated a substantial easing in conditions with all components contributing.



Source: One River Digital Calculations.

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



Price activity continues to outshine network activity for the second week in a row, this time with network activity negative. Natural demand is still yet to pick up amongst the protocols.

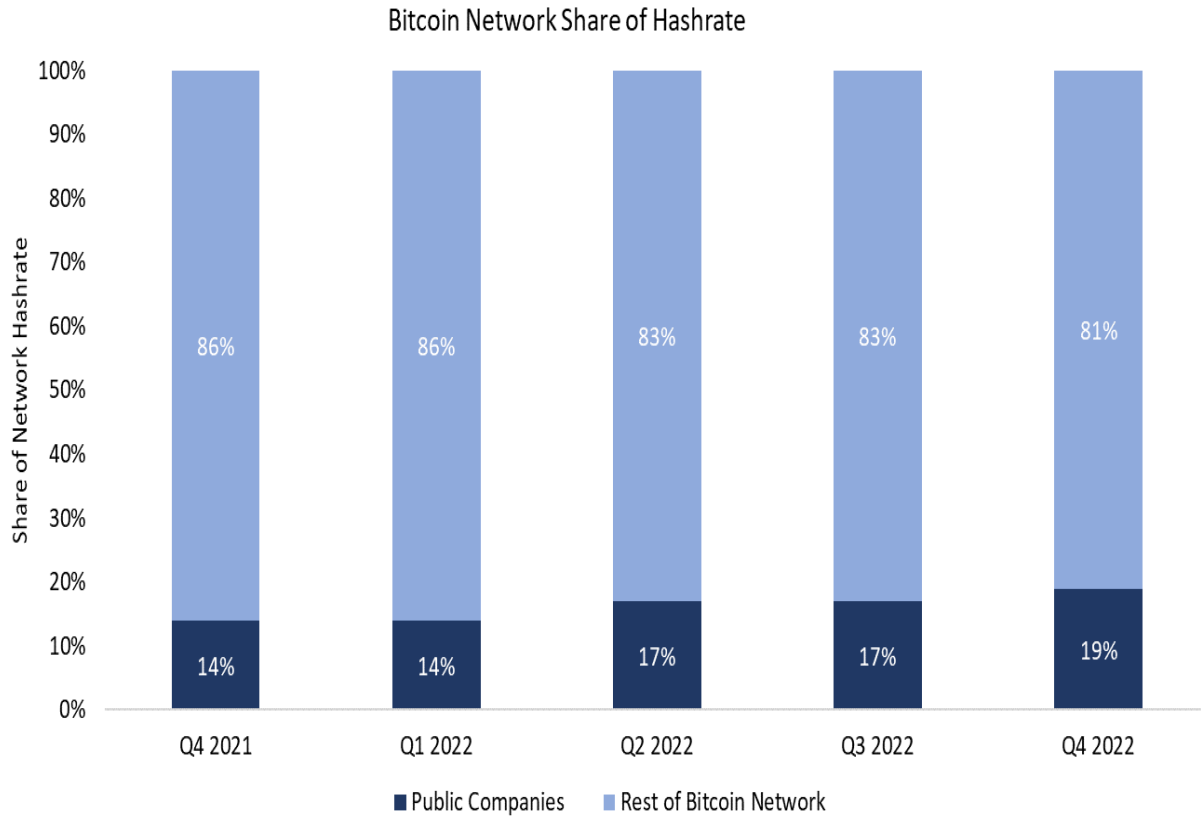
Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Core	45	-5	4	20	43	42	44	24	49	91
Size Tilt	45	-5	3	26	39	40	41	30	46	90
Bitcoin	49	-5	4	9	58	45	54	14	68	96
Ethereum	35	-6	6	38	14	39	26	40	7	79
Cardano	50	-6	2	38	20	18	37	39	100	100
Polygon	48	-4	-3	44	55	55	28	45	7	100
Litecoin	42	-8	-12	14	25	24	35	38	93	63
Stellar	53	6	16	64	61	40	59	49	1	100

*Snapshot on 1/25/2023. 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. PUBLIC MINERS' SHARE OF HASHRATE

Aided by easy access to funding, public miners expanded machine capacity faster than private miners in 2022. Today, these machines have moved from outsized borrowers to stronger hands and will continue to remain on as long as it is profitable.

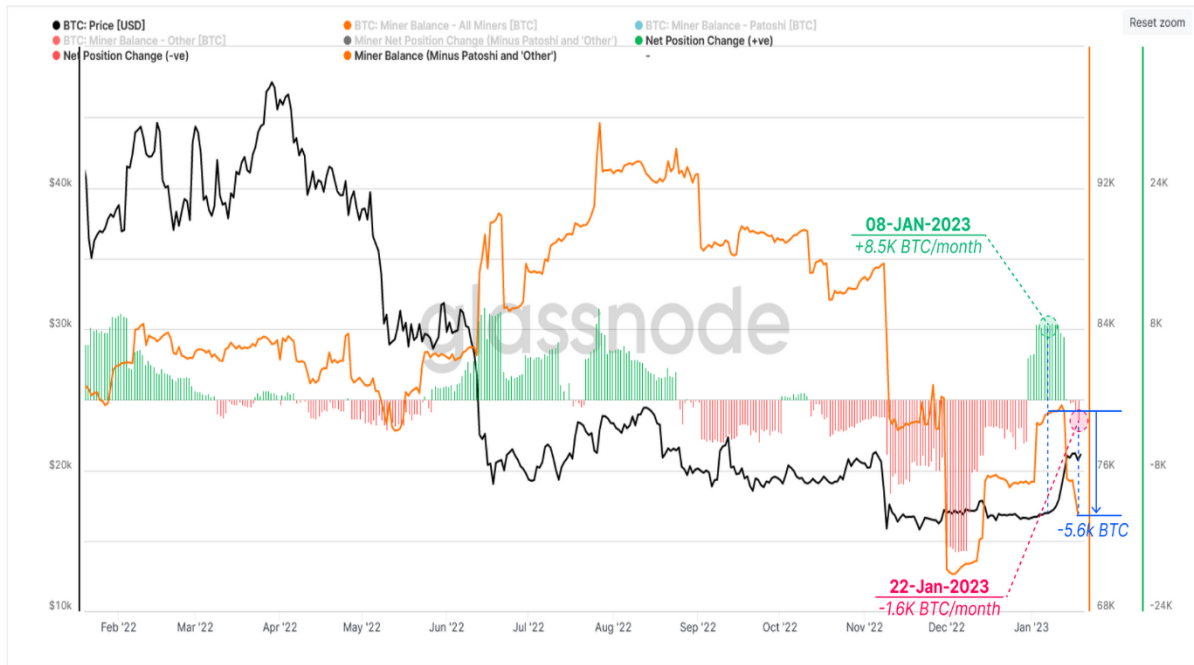


Source: Public Miner Disclosures. Hashrate Index.

4. MINERS' SELLING ACTIVITY

As bitcoin prices declined towards Q4, miners' sell pressure intensified in offsetting deficits on their balance sheets. While miner balances have again declined YTD, this sell pressure remains modest, as current operating miners still have a greater conviction of higher prices to come.

Bitcoin: Miner Balance (Minus Patoshi & Other)



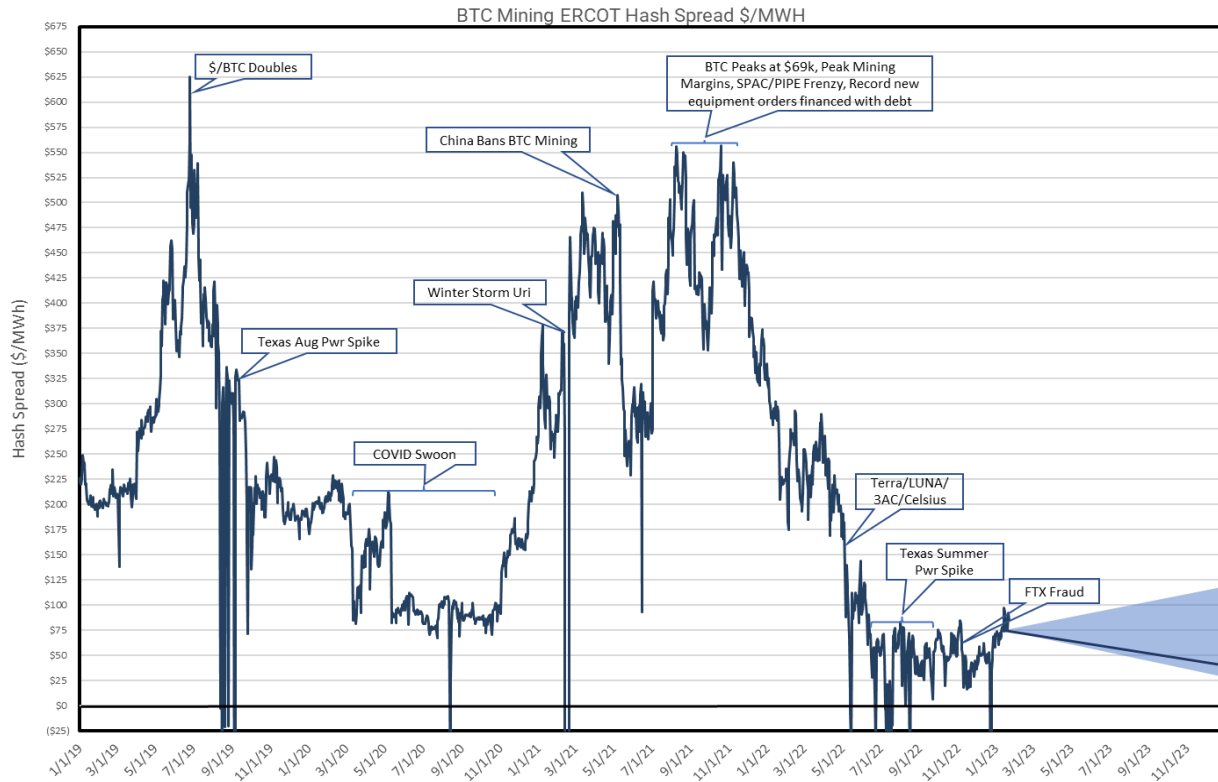
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Source: Glassnode.

5. TOUGH ROAD AHEAD

Profit expectations are the core focus moving forward. Our native metric, [Hash Spread](#), quantifies this. It calculates the overall pricing difference between electricity input and bitcoin mined from it.



Source: One River Digital Calculations. Hash Spread = Dollar Production of Bitcoin per MWh – Power Prices.

With increasing competition for block rewards and the future halving of these mining rewards, bitcoin mining returns will most likely gravitate toward a steady state Hash Spread.

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 assess 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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