Ethereum: A Store of Value with Cash Flow

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To Investors, Companies, Treasuries, and Others Using Bitcoin as a Store of Value:

**Intro - Ethereum Complements Bitcoin**
The purpose of this memo is not to denounce Bitcoin. Bitcoin enjoys a growing institutional spotlight, a compelling narrative as digital gold, and a portfolio allocation as an inflation hedge.

However, institutional allocation into the Ethereum ecosystem is currently low. This memo will argue that Ethereum, and its token ETH, can complement Bitcoin as a store of value asset and should be a part of a diversified crypto portfolio. Further, Ethereum has imminent catalysts in 2021 that could cause ETH to reprice significantly higher.

**Thesis - A Store of Value with Cash Flow**
Bitcoin and Ethereum are both store of value assets based on digital scarcity and strong security.

<table>
<thead>
<tr>
<th></th>
<th>Digital Scarcity</th>
<th>Strong Security</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bitcoin</strong></td>
<td>Fixed supply of 21mm BTC</td>
<td>Bitcoin mining</td>
</tr>
<tr>
<td><strong>Ethereum</strong></td>
<td>Lower inflation than BTC. Competing use cases that remove ETH from circulating supply</td>
<td>Ethereum “staking”</td>
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</tbody>
</table>

An additional pillar *augments* ETH’s store of value case: cash flow generation.

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Expenses</th>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
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<td><strong>Bitcoin</strong></td>
<td>Transaction fees, paid in BTC</td>
<td>High mining costs</td>
<td>No cash flow accrues to BTC holders</td>
</tr>
<tr>
<td><strong>Ethereum</strong></td>
<td>Transaction fees, paid in ETH</td>
<td>Low staking costs</td>
<td>99%+ margins, profits accrue to ETH holders</td>
</tr>
</tbody>
</table>

Ethereum is 5.5 years into a 6-year planned upgrade to greatly reduce the costs to run and secure the computer network that hosts the Ethereum blockchain, with two major catalysts remaining by the end of 2021:

1) Dramatically increased profit margin
2) Ethereum will become environmentally friendly

Let’s examine why Ethereum may complement Bitcoin as a store of value:
**Ethereum - Digital Scarcity**
Ethereum drives digital scarcity by having many competing uses for the ETH token and lower inflation than BTC.

The ETH token has many uses. The biggest applications of Ethereum are Decentralized Finance (DeFi) and the Non-Fungible Token (NFT) economy. DeFi has created many promising uses for ETH, such as using ETH as collateral to borrow US dollar “stablecoin” tokens. ETH may also be staked to help secure the Ethereum blockchain and earn a yield.

For example, 9.6% of all ETH is locked in DeFi and 3.4% of all ETH is locked to help secure the Ethereum blockchain, removing it from circulating supply and increasing scarcity.

After the planned upgrade mentioned above, ETH is expected to have less than 1% annual inflation, which will be lower inflation than Bitcoin. This creates further scarcity for the ETH token.

**Ethereum - Strong Security**
Ethereum, similar to Bitcoin, has strong security via a decentralized computer network, where the owners of the computers in the network are paid fees to help run and secure the Ethereum blockchain.

**Ethereum - Cash Flow**
Ethereum has substantial revenue, including $2.16B revenue YTD (+21,674% YoY) and, after the planned upgrade later this year, high profit margins (99%+).

**Ethereum - Revenue**
Ethereum’s revenue comes from transaction fees paid by users to access apps on Ethereum.

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1. There are $71B total of US dollar stablecoin tokens on Ethereum (+848% YoY)
2. ETH holders may earn a yield by “staking” to help secure the Ethereum blockchain
3. See “ETH Locked in DeFi”: [https://defipulse.com/](https://defipulse.com/)
4. See “Total ETH staked”: [https://launchpad.ethereum.org/](https://launchpad.ethereum.org/)
5. See “Max annual network issuance” on [this page](https://etherscan.io/charts)
6. Revenue data from [https://etherscan.io/charts](https://etherscan.io/charts)
Transaction fee revenue is increasing because of growth in Ethereum's apps, tokens, and liquidity.

Ethereum's growth is supported by established and expanding network effects from the apps, tokens, and liquidity on Ethereum, which users must pay fees to access.

**Ethereum - Expenses**

Ethereum's expenses come from fees paid to run and secure the computer network that hosts the Ethereum blockchain.

Today, Ethereum's computer network is similar to Bitcoin's. Both Ethereum and Bitcoin run on state-of-the-art computers that consume huge amounts of energy, dramatically reducing profit margin.

However, Ethereum is 5.5 years into a 6-year planned upgrade. This planned upgrade will be live by the end of 2021 and increases Ethereum's profit margin to 99%+ because the new computer network costs less than 1% of revenue to run.

**Ethereum - Earnings**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021*</th>
<th>2022*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>0.6B</td>
<td>8B</td>
<td>20B</td>
</tr>
<tr>
<td>Expenses</td>
<td>2.1B</td>
<td>17B</td>
<td>0.2B</td>
</tr>
<tr>
<td>Net income</td>
<td>-1.5B</td>
<td>-9B</td>
<td>19.8B</td>
</tr>
<tr>
<td>Profit margin</td>
<td>-250%</td>
<td>-113%</td>
<td>99%</td>
</tr>
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*Annualizing $2.16B revenue YTD and assuming 150% revenue growth in 2022

**Ethereum - Key Growth Stats**

- $27.8M daily transaction fee revenue (+29,902% YoY)
- $54.8B\(^9\) total value locked in DeFi (+6,347% YoY)
- $2.57B\(^10\) daily exchange volume in DeFi (+10,239% YoY)

**Ethereum - Environmentally Friendly**

After the planned upgrade later this year, Ethereum’s computer network will run on mainstream computers that use nominal amounts of energy, making Ethereum environmentally friendly.

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7 Earnings data from [https://etherscan.io/charts](https://etherscan.io/charts)
8 Our Discounted Cash Flow [valuation model](https://etherscan.io/charts) suggests a value per ETH of $16,770, a 629% increase over today’s ETH price
9 See “Total Value Locked (USD)”: [https://defipulse.com/](https://defipulse.com/)
10 DeFi exchange volume per [https://duneanalytics.com/hagaetc/dex-metrics](https://duneanalytics.com/hagaetc/dex-metrics)
**Ethereum - Virtuous Cycle**

As a store of value with cash flow, ETH benefits from a virtuous cycle: increased usage of Ethereum drives more investment into DeFi and apps, creating a positive feedback loop that accrues greater revenue to ETH holders:

**Conclusion**

Ethereum shares Bitcoin’s characteristics of digital scarcity and security. Ethereum adds substantial cash flow backed by flourishing use cases, such as DeFi and the NFT economy.

After the planned upgrade later this year, Ethereum will be much more profitable and environmentally friendly.

Greater transaction fee revenue combined with a high profit margin may act as an imminent catalyst to cause ETH to reprice significantly higher.

For those reasons, this memo presents the case that Ethereum, and its token ETH, can complement Bitcoin as a store of value asset and should be a part of a diversified crypto portfolio.

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