

DIGITAL ASSETS



Ethereum Hits New ATH: Maintaining OW & Issuing \$10.5k Target As Web 3.0 Blockchain Computing Looks Set To Disrupt The Cloud

Ethereum (ETH) reached a new all time high of \$1,440 today, passing the previous high set during January 2018 at the peak of the crypto bubble. We've been recommending an overweight in Ethereum since April 2020 and continue to see upside. We continue to believe Ethereum fundamentals are incredibly strong and think ETH represents the best risk / reward investment play in crypto. Web 3.0 blockchain computing may be the future of cloud in our view. Ethereum is now capturing a notable share of the cloud market. ETH transaction fee revenue has been growing at 1099% 5-year CAGR and finished 2020 at ~\$600M. During 2021 YTD, ETH has already recorded \$180M in cloud revenue, implying an annualized \$3.9B by FY 2021. We believe Ethereum should be valued like a cloud 1.0 stock. On a growth adjusted basis, we calculate Ethereum is 1/8th the price of the BVP Cloud Index. Based on our analysis, we are issuing a \$10,500 price target on Ethereum (ETH) which represents ~650% upside from current levels.

- **Web 3.0 blockchain computing may be the future of the cloud:** Smart contract platforms like Ethereum are enabling a new version of the internet. Web 3.0 blockchain networks give users connected edge computing, trustless community-owned protocols in replace of platforms like Facebook, privacy control over data and AI, and crypto DeFi natively imbedded into the internet. Computing has gone in trends from centralized to decentralized, and the transition from cloud to blockchain cloud offers the next evolution in this shift.
- **Ethereum is the Ant Financial 2.0 of decentralized cloud finance:** Ethereum has the largest and most active ecosystem in crypto for blockchain decentralized applications (Daaps). The decentralized finance (DeFi) ecosystem built atop Ethereum offers software automated services like borrowing and lending, asset exchange, payments, insurance, and asset management. We view Ethereum as a new type of supper app platform and see it as the Ant Financial of crypto.
- **ETH transaction fee revenue of \$600M during FY20 on pace to hit \$3.9B in FY21:** DeFi activity atop Ethereum network has led to material and rapidly growing transaction fee revenue of \$600M during 2020. During the first 17 days of 2021, fees have already topped \$180M putting Ethereum on pace to capture \$3.9B in revenue during FY 21.
- **Growing at 500%+ YoY, Ethereum looks undervalued against cloud 1.0 index peers:** Trading at ~\$150B market cap, with \$3.9B of estimated revenue, Ethereum offers a 39x price to sales ratio. However, Ethereum revenue trends are vastly outpacing the fast growing and high-flying conventional cloud stocks. Growing at a 1099% 5-year CAGR, and at 1624% year over year from 2019 to 2020, Ethereum is on pace to grow at 554% during 2021. This compares against 21x price to sales multiple and 38% growth for the Bessemer Venture Partners (BVP) Emerging Cloud Index. On a growth adjusted basis, Ethereum trades at a Price-to-Earnings-Growth (PEG) rate of 0.07x vs. 0.55x for the cloud comps.
- **Issuing price target of \$10,500 which represents 650% upside from current levels:** We believe Ethereum could trade in line with cloud 1.0 peers. Based on our analysis, we are issuing a price target of \$10,500 for Ethereum, which represents 650% upside form the current price \$1,400. We further see ETH as undervalued relative to Bitcoin based on a price to book multiple basis and believe capital flows from Bitcoin could act as a catalyst for higher ETH prices.
- **What are the downside risks?** Growth doesn't materialize. ETH 2.0 has a bug or doesn't happen. Crypto markets overall experience a recession. Investors don't value Ethereum the same way that we are.

Bottom Line: We remain bullish and overweight Ethereum. We think blockchain computing may be the future of the cloud. We think the trend is in the early innings. Ethereum is showing material and measurable signs of success. We think ETH should trade like a cloud stock and it looks undervalued. We are issuing a price target of \$10,500 on ETH.

For Reg AC certification and other important disclosures see [Slide 14](#).

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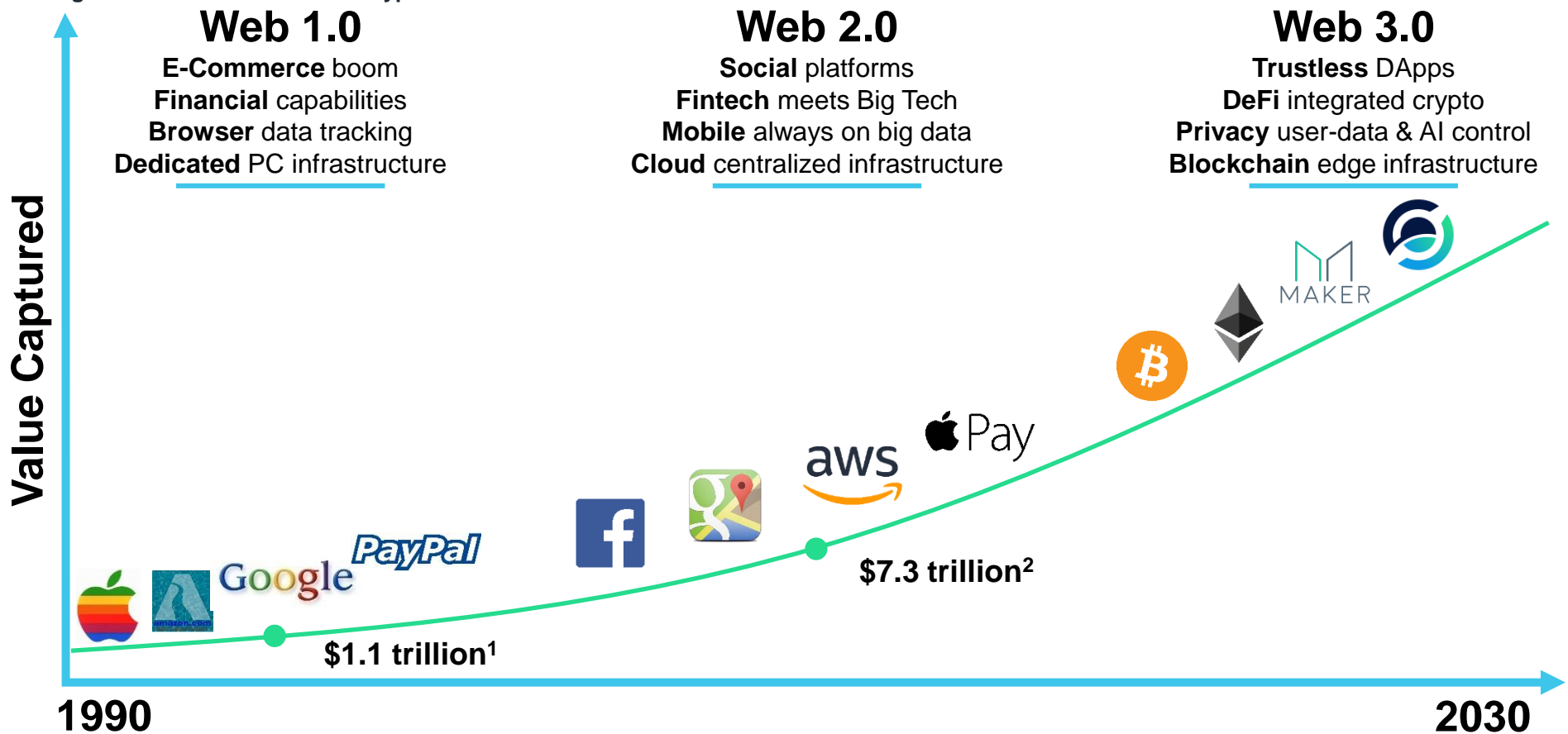
Crypto Platforms Offer The Next Era Of The Web

Web 3.0 crypto networks are aiming to change the internet

The internet continues to evolve. Web 1.0 PC networks connected us online, search browsers gave us access to information, e-commerce sites gave us shopping at the click of a button, and payment gateways gave us a trusted way to transact. Web 2.0 social networks connected us into e-commerce communities, mobile devices gave data to us and about us all the time, cloud algorithms analyzed our data to tell us who to listen to and what to buy, fintech and our data got built into every interaction.

- **Web 3.0 blockchain networks give us connected edge computing, trustless protocols give us community-owned platforms, privacy tech gives us control over data and AI, crypto gives us DeFi natively imbedded into the internet.**

Figure: Tech to decentralized crypto tech



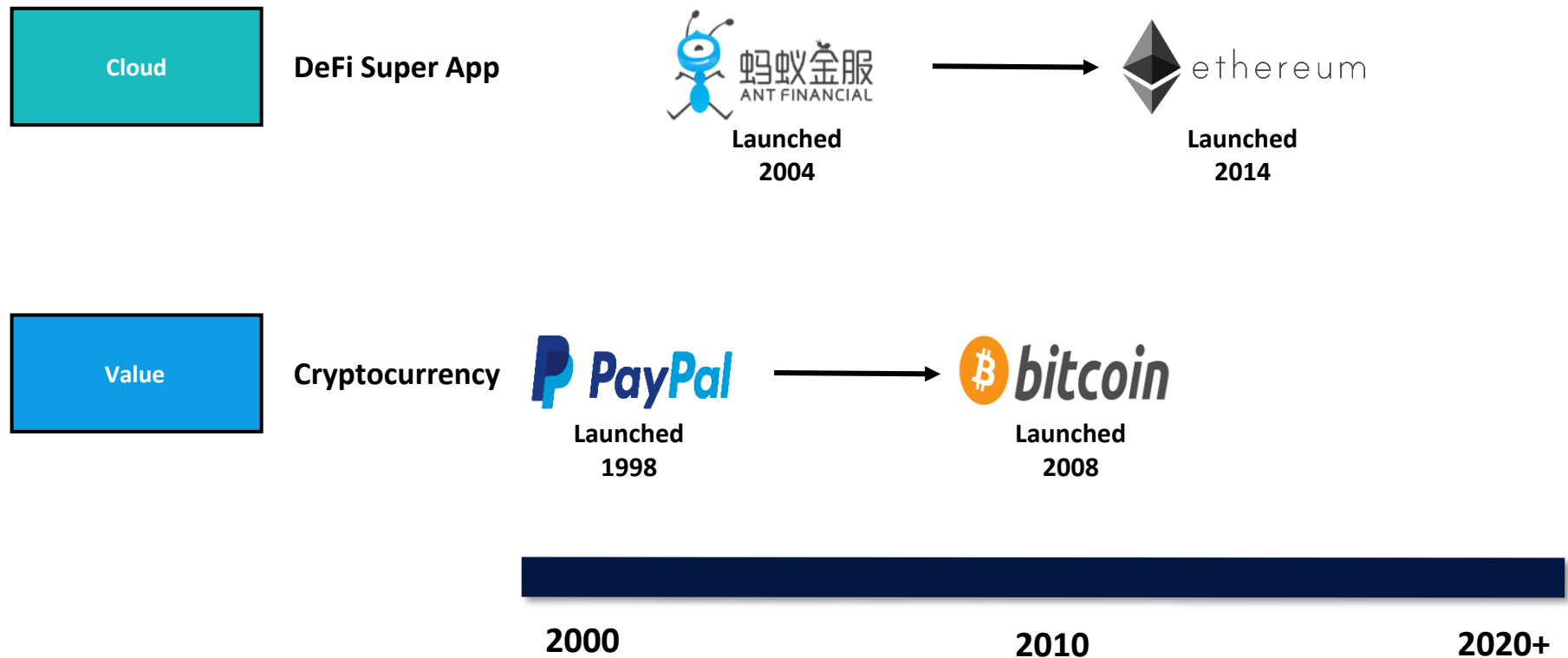
Source: Fundstrat, Fabric Ventures Inspired, (1) Internet companies market cap as of 2000, (2) Big Tech market cap as of 8/25/2020

Ethereum (ETH): Ant Financial 2.0 Future of Cloud Finance

If Bitcoin was decentralized PayPal than ETH is decentralized cloud

- Cryptonetworks are next-generation, open, global and decentralized versions of internet and financial technology companies.
- Bitcoin goes beyond PayPal by allowing anyone, anywhere to seamlessly exchange value.
- Ethereum goes beyond Ant Group by enabling a global ecosystem for broad-based financial services outside of payments (DeFi) on its super app cloud platform.

Figure: Tech to decentralized crypto tech



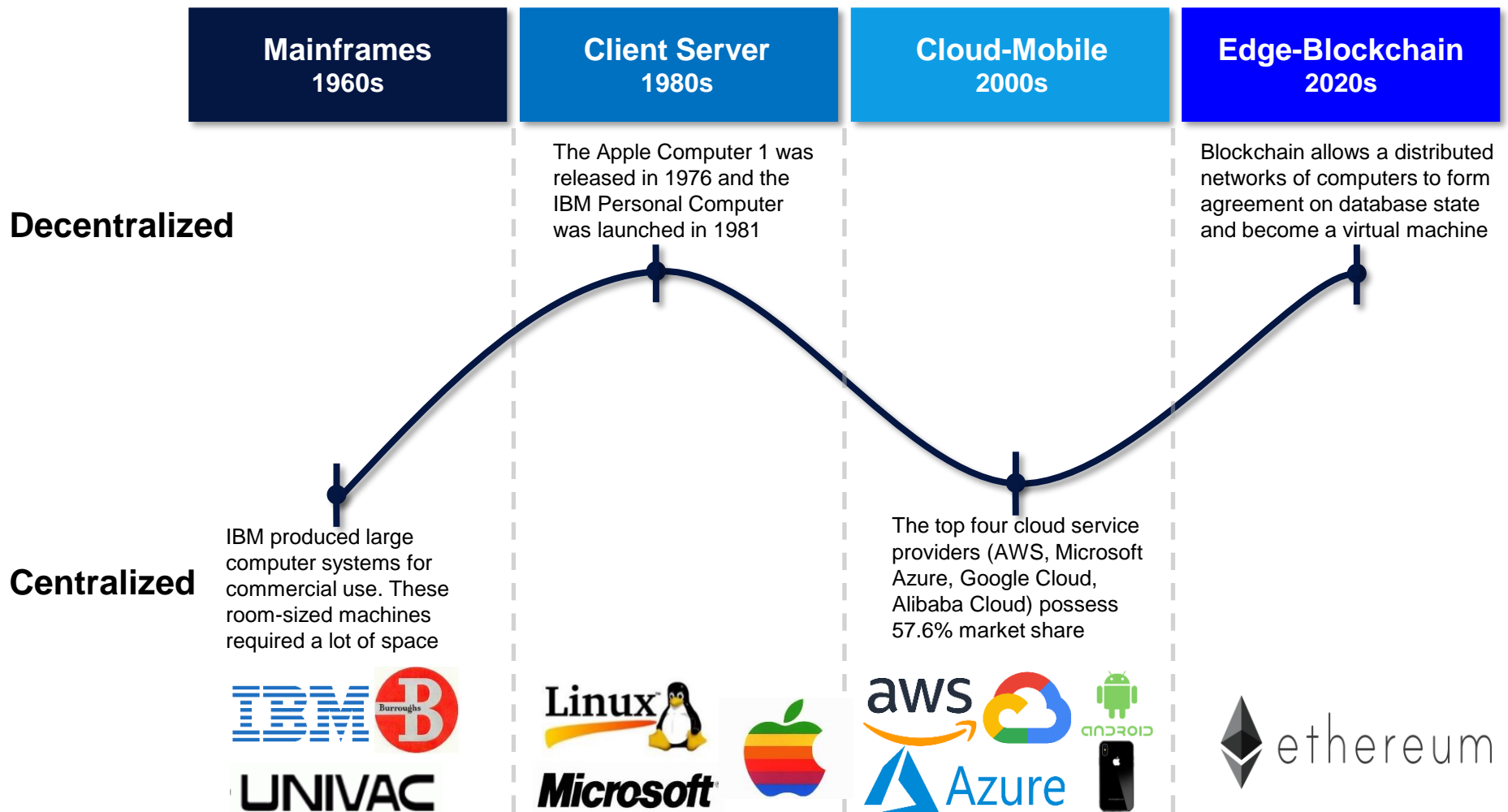
Source: Fundstrat

Blockchain DLT Networks Like ETH Advance Cloud Computing

Computing trends have shifted from centralized to decentralized

- Computing platforms moved in cycles from centralization to decentralization as new innovations emerged, with the dominant platform lagging the prior by ten years; furthering this trend, we're entering the blockchain computing era.

Figure: History of computing



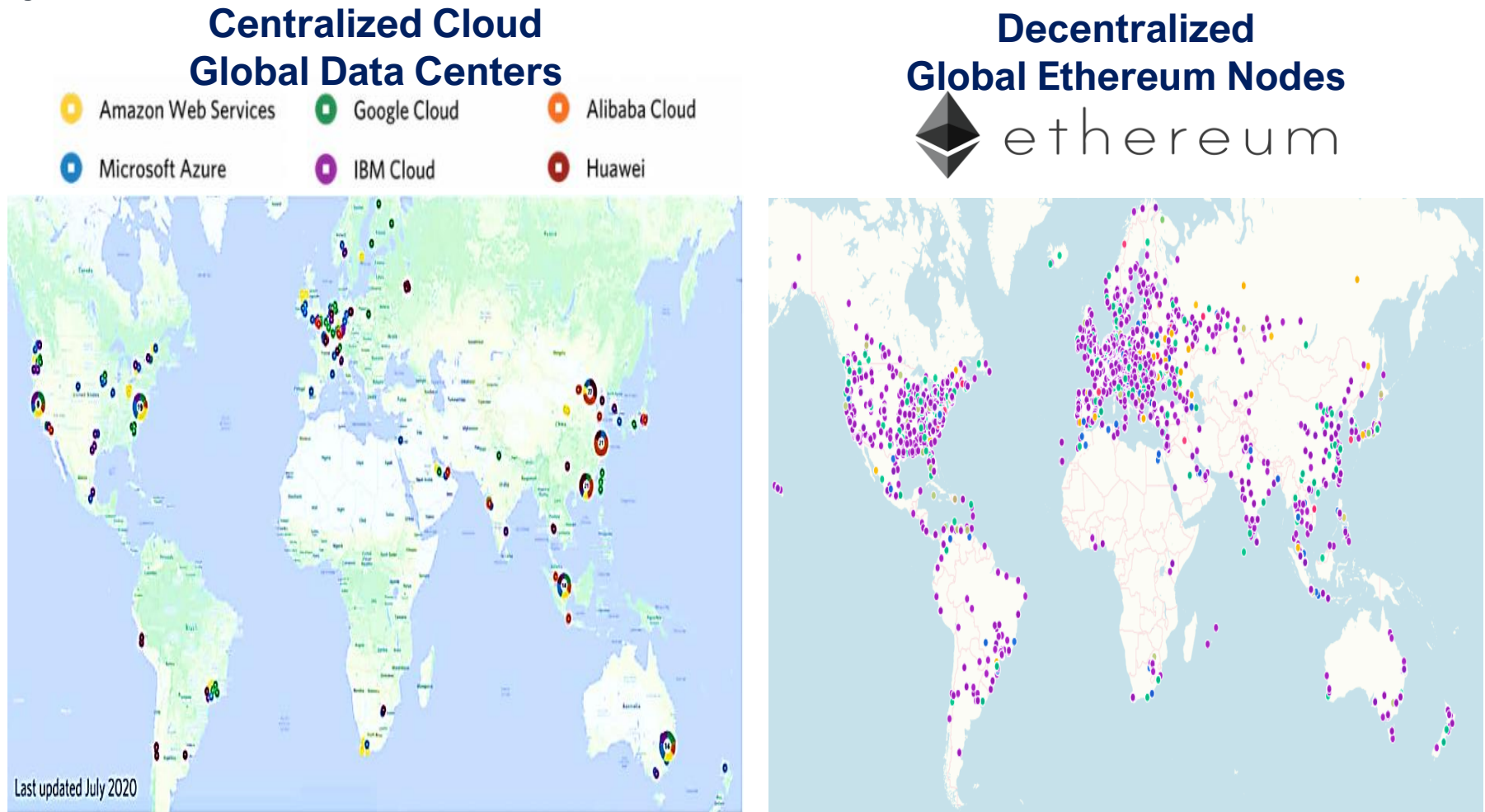
Source: Fundstrat

Decentralized Cloud Replacing Centralized Data Centers

Data centers run by the big cloud providers being replaced by crypto nodes

- Blockchain protocol software is run atop global networks of computers forming them into a unified distributed autonomous cloud organization for building, hosting and deploying new types of decentralized applications (DApps).

Figure: Global data centers & Ethereum nodes



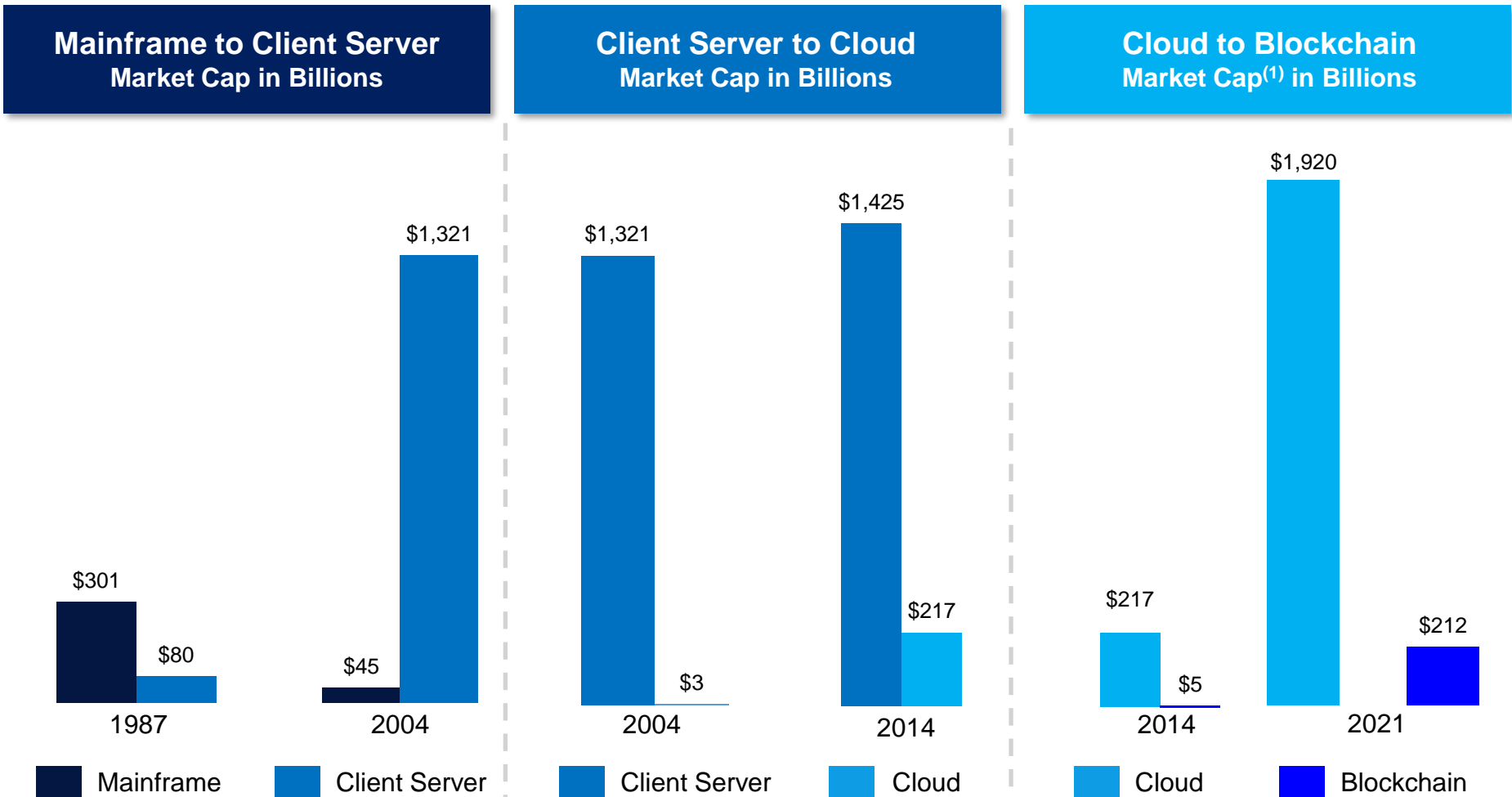
Source: Fundstrat

Cloud to Blockchain Platform & Value Shift Underway

Shifts create value as value shifts from one generation to the next

- Many investors are focused on the meteoric rise of the cloud as COVID has driven digital transformation. Yet, looking at history, as computing platforms moved from mainframe to client server to cloud, shifts created value and resulted in value transfer from one generation to the next. Blockchain computing looks to be replacing cloud.

Figure: History of computing market value shifts



Source: Fundstrat, Salesforce, Bessemer Cloud Index, (1) 1/19/2021 Blockchain Market Cap represents Messari Smart Contract Platforms; 2014 Blockchain Market Cap represents total crypto market cap, Coinmarketcap.

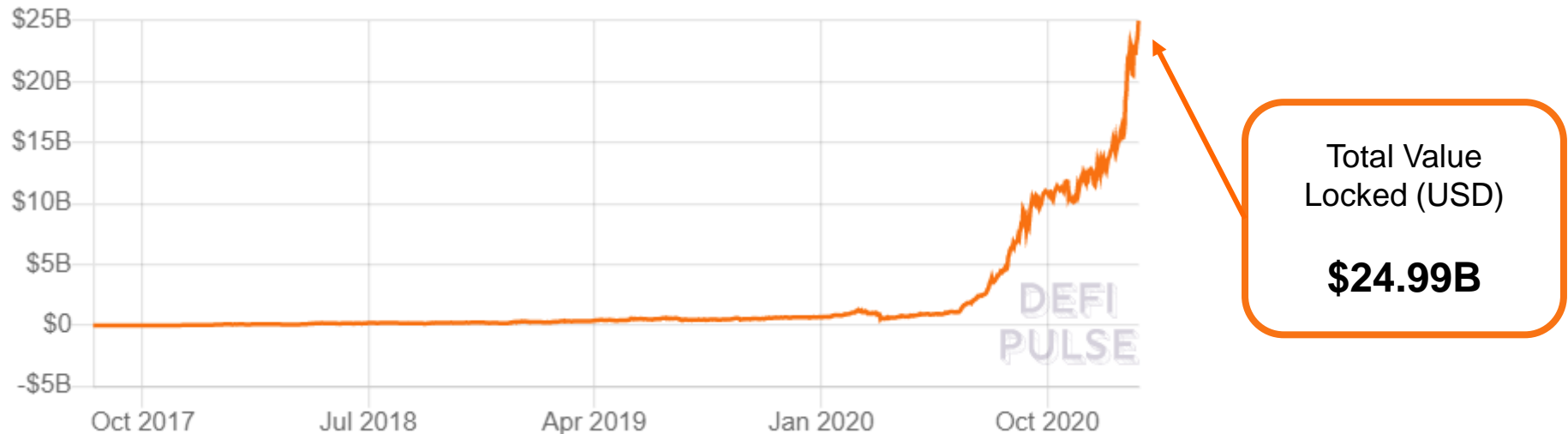
Ethereum Has Large & Growing Decentralized Finance Ecosystem

Smart Contracts (Daaps) built atop the network hold ~\$25B in ETH value

- Ethereum has become the crypto industry leading platform for decentralized finance (DeFi) applications offering software enabled borrowing & lending, exchange, payments, and asset management services atop the network.

Figure: Ethereum DeFi total value locked

Total Value Locked in DeFi (USD)



Lending	Exchange	Derivatives	Payments	Asset Mgmt.
MAKER	Uniswap	SYNTHETIX	flexa	Badger
AAVE	sushiswap	Nexus Mutual	Matic	Set TokenSets
Compound	Balancer	HEGIC	xDai	yearn.finance

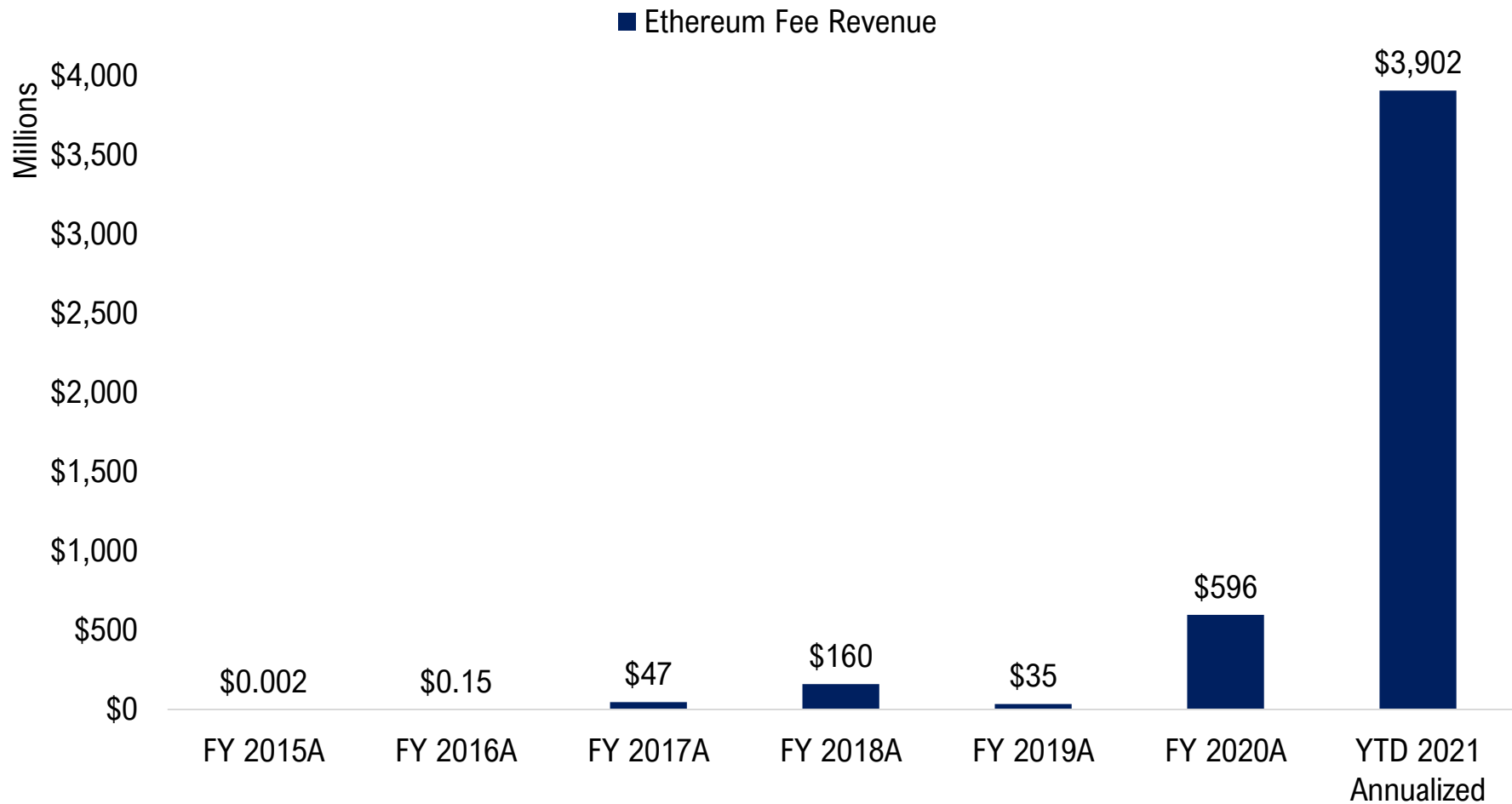
Source: Fundstrat, Defi Pulse

Network Generated ~\$600M Cloud Fee Revenue During FY 2020

YTD (1/18) \$180M in fee revenue already implies \$3.9B by FY 2021

- Decentralized finance activity atop Ethereum generated ~\$600M in transaction fee cloud revenue during 2020.
- During the first 18 days of 2021, Ethereum generated \$180M in fee revenue, putting it on pace for \$3.9B during 2021.

Figure: Ethereum transaction fee revenue



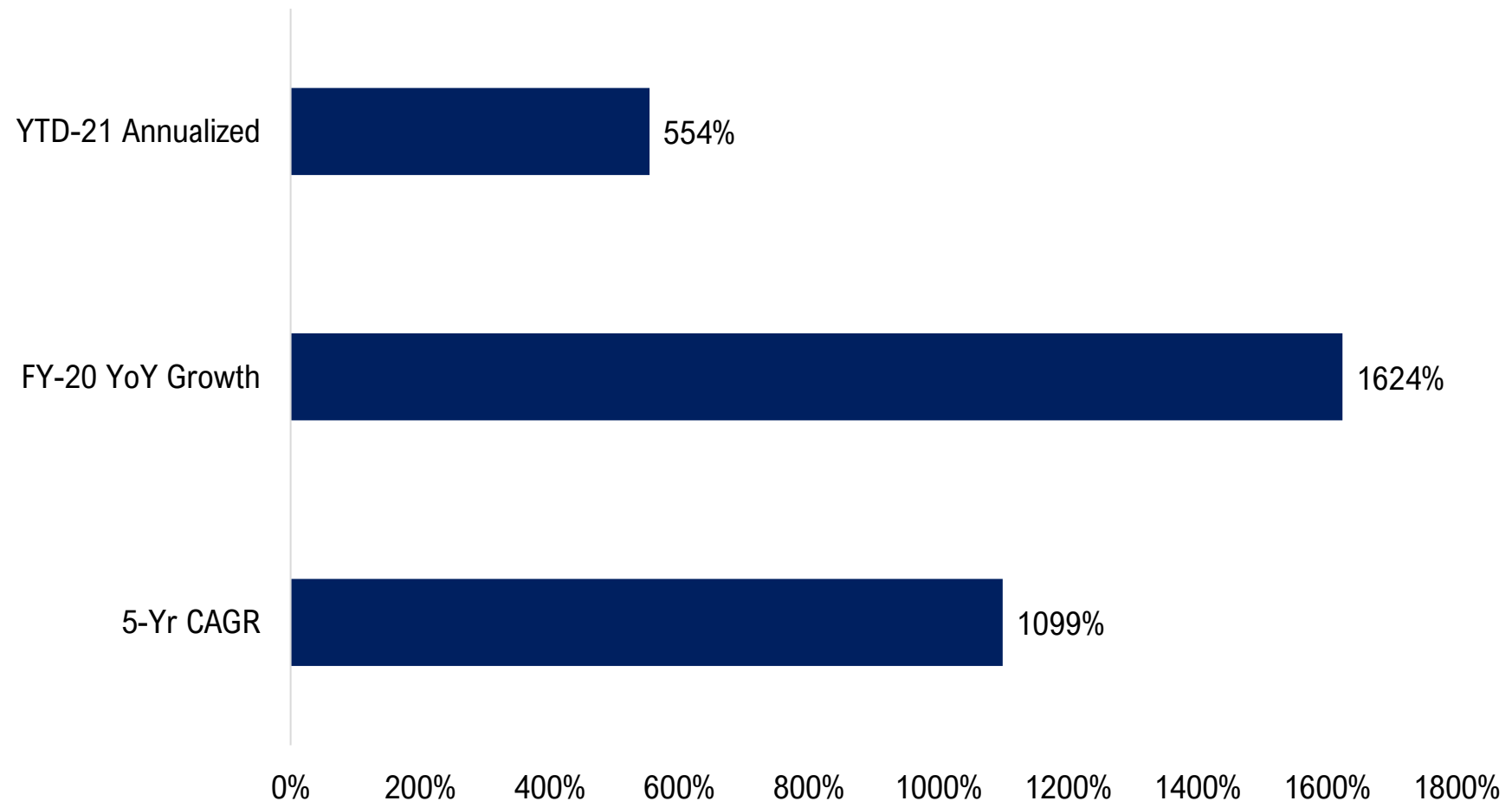
Source: Fundstrat, Coinmetrics

Ethereum Growth Rates Enviably For Cloud 1.0 Peers

Growing at a 1099% 5-year CAGR, 554% growth in 2021 may be modest

- While most cloud companies have been impressing investors with ~50% year over year revenue growth, Ethereum, while still early, has been generating enviable revenue growth at 10-30x that rate.

Figure: Ethereum transaction fee revenue growth



Source: Fundstrat, Coinmetrics

Growth Adjusted Ethereum May Be Cheaper Than Cloud Stocks

FY 21E \$3.4B revenue implies 39x PS but growth adj. PSG 1/8th cloud index

- At Ethereum's current ~\$150B market cap, based on its annualized YTD 2021E fee revenue of \$3.4B, it would imply a 39x P/S ratio. Adjusting for growth, Ethereum's PEG ratio implies ETH is 1/8 the price of cloud stock index peers.

Figure: Ethereum vs. Cloud Index Valuation

	BVP Cloud Index	Ethereum
Market Cap (\$B)	\$1,917	\$153
Revenue Multiple (P/S)	21.1x	39.2x
Revenue Growth Rate%	38%	554%
Price-to-Sales Growth (PEG)	0.55x	0.07x

Source: Fundstrat

Revaluing Ethereum In Line With Cloud Peers Implies ~\$10.5k ETH

Applying cloud PSG multiples to FY 21E implies \$10.5k ETH or 650% upside

- By revaluing Ethereum at the same growth adjusted PSG multiple as cloud peers, we derive an implied value of \$10,481 per ETH tokens, or ~650% upside from the current price of ~\$1,400.

Figure: Ethereum cloud index growth adjusted implied value

	Ethereum Implied Value
Cloud PSG	0.55x
ETH Revenue Growth	554%
Implied PS Multiple	306x
ETH Annualized Revenue (\$B)	\$3.90
ETH Implied Market Cap (\$B)	\$1,195
ETH Supply Outstanding (M)	114

<u>Ethereum Implied Price</u>	<u>\$10,481</u>
Current ETH Price	\$1,400
Implied Return	649%

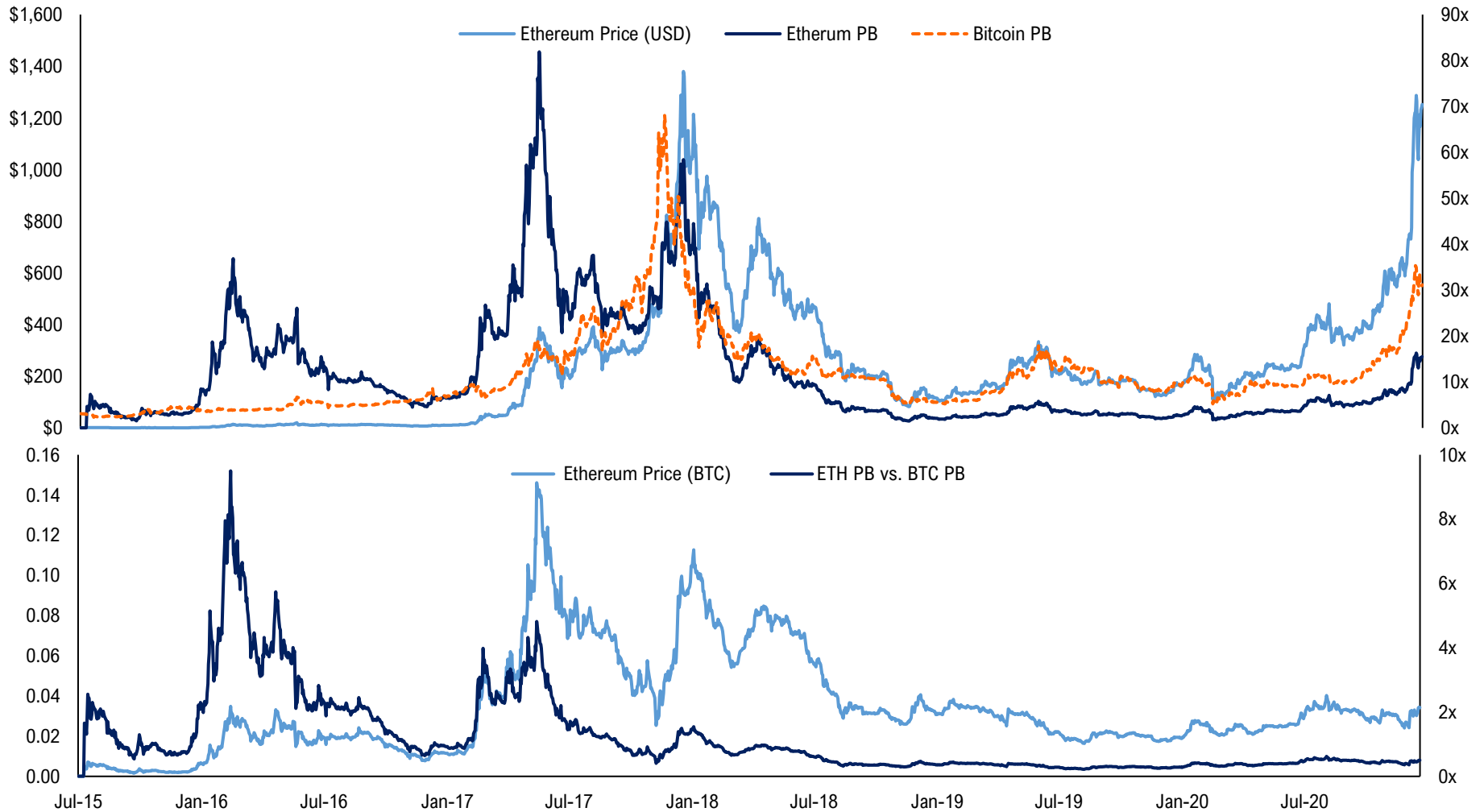
Source: Fundstrat

Catalyst: ETH Has Been Rising But Looks Underpriced vs. Bitcoin

Capital flows from Bitcoin following its rapid rise offers a price catalyst

- ETH 1.0 still a minable store of value commodity like BTC. We value Bitcoin and ETH 1.0 using the Grider Price to Book multiple, which is the market cap divided by the cumulative mining costs, which shows ETH is ~2x cheaper.

Figure: Ethereum and Bitcoin price to book ratio and price



Source: Fundstrat, Coinmetrics

Definitions

- **Active Crypto Users:** Estimated users based on the greater of Blockchain.info Bitcoin wallets or the lower bound of crypto users estimated by Cambridge University.
- **Average Revenue Per User:** Annual transaction fee revenue divided by the number Active Crypto Users.
- **Bitcoin:** the most popular blockchain cryptocurrency, has been evolving into a store of value, while another popular blockchain cryptocurrency, Ethereum, is developing use cases in areas such as decentralized applications, smart contracts and token issuance
- **Blockchain:** a distributed database existing on multiple computers at the same time. It is constantly growing as new sets of recordings, or 'blocks', are added to it. Each block contains a series of transactions or other information, a timestamp and a link to the previous block, and a cryptographic hash or signature. Any change to a block changes the signature, which affects the header field for the next and subsequent blocks. Thus, any altered block is immediately identifiable, making the blockchain immutable.
- **Consensus:** the process by which all of the computers reconcile their version of the database and come to an agreement as to which entries to add into their database in the latest block, and to discard their block and replace it with the one a minimum percentage of other computers (typically 51%-67%) all agree is the valid block.
- **Customer Acquisition Cost:** Number of new Active Crypto Users divided by the Payment Processing Cost during period.
- **Distributed Ledger:** a more general version of a blockchain, and encompasses other constructs, as long as the ledger is independently replicated across multiple computers with no single computer acting as the source of data in the ledger.
- **Grider Crypto Book Value:** The sum USD value of all miner revenue (transaction fees plus newly issued block rewards or Payment Processing Costs) for all time from genesis up to the end of that interval. The methodology expanded on the Hayes mining model, which looks at the current costs, and instead tracked the cumulative or aggregate lifetime costs. The model was first developed in December of 2017 and made public in January 2018 by David Grider in the following linked [report](#) on page 9 and 13 described as Cryptocurrency Mining Store of Value Model and methodology later more fully detailed in the following linked [report](#).
- **Grider Book Value Per Share:** The Grider Crypto Book Value divided by the number of native crypto assets outstanding.
- **Grider Crypto Book Value Multiple:** The market capitalization (price times number of assets outstanding) divided by the Grider Crypto Book Value.
- **Major Central Banks:** Collectively, the Federal Reserve (FED), European Central Bank (ECB), Bank of Japan (BOJ) and the Peoples Bank of China (PBOC)
- **Mining:** the process by which Bitcoin or other token “Miners” process and validate transactions, with the first miner to solve a cryptographic puzzle validating the block and receiving a reward (currently 6.25 bitcoin each); other miners have to then replicate the result to confirm and move on to the next block.
- **Payment Processing Costs:** Value of all newly issued Bitcoin paid to miners as block rewards which dilute (inflate) the existing supply, and which we view as similar to stock compensation and classify as an expense to network stakeholders.
- **Total Take Rate:** The total transaction fee revenue (USD) divided by the total transaction value (USD) sent during the period.

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