

SmartMoney/Enigma Research Note

July 19, 2021



## SUSHISWAP (\$SUSHI)

- **TYPE:** DEX
- **CHAIN(S):** ETH, MATIC, BSC, FTM, more
- **CIRCULATING SUPPLY:** 193M
- **MAX SUPPLY:** 250M
- **TVL:** \$3.1B
- **MARKET CAP:** \$1.39B
- **CONTRACT ADDRESS:**  
0x6b3595068778dd592e39a122f4f5a5cf09c90fe2

### PRODUCT OVERVIEW/SUMMARY

SushiSwap (\$SUSHI) is a decentralized exchange (DEX) that originated on Ethereum and has now launched on a variety of other blockchains, including Binance Smart Chain (BSC), Fantom (\$FTM), Polygon (\$MATIC) and others.

An automated market maker (AMM), SushiSwap started as a vampire fork of Uniswap, based on the hypothesis that Uniswap should have a more community-owned and decentralized token distribution. SushiSwap's initial aggressive liquidity mining distribution strategy was very effective, at first causing about half of Uniswap's liquidity to migrate to identical SushiSwap markets and successfully bootstrapping liquidity for a protocol that today remains entrenched as a top 5 DEX.

As a fork of Uniswap, SushiSwap's AMM bonding curve design is the generic  $x*y=k$ , which lacks capital efficiency but remains the dominant bonding curve in DeFi today. In addition to its now-established DEX, SushiSwap is horizontally expanding its product portfolio of financial services while aggressively expanding to emerging blockchains. If successful, this aggressive strategy could further entrench SushiSwap's market share and brand.

### WHY IT'S INTERESTING

#### *Community*

SushiSwap's vampire attack on Uniswap remains one of the all-time great case studies on competitive forces in open-source software. While offering a literal carbon copy of the technology, but with a community ownership model, SushiSwap was successful in both damaging the forked incumbent and substantially bootstrapping liquidity for the new entrant. This was one of crypto's first lessons in the value of a more decentralized token ownership at conception.

While SushiSwap's strategy as a "fast follower" has been successful, it is worth noting that Uniswap recovered its position as the DEX market leader in TVL. Uniswap's recent v3 release was a fundamental redesign of their AMM model and may become more suitable for professional market makers who can and will employ market making strategies more capital efficient than the simple 50/50 model, subject to substantial impermanent loss. We expect that both models will be successful and thrive going forward.

## *Alliances*

An extension of community, **Sushi has an important alliance with Yearn Finance (\$YFI)**, the leading yield aggregation protocol. This alliance carries value within the developer ecosystem, wherein there are other relevant alliances in the Yearn ecosystem.

As highlighted by the recent **Convex/Yearn competition for Curve rewards** illustrates, competitive forces in DeFi are tricky, but all things being equal Yearn products are likely to send default liquidity to Sushi versus Uniswap. These developer network effects are often overlooked by the market.

## *Product*

As one means of compensating for the capital inefficient  $x*y=z$  model, SushiSwap has expanded their product offering to appeal more broadly. Their first innovation was the Onsen markets, a rotating set of more heavily incentivized liquidity pools, aimed at attracting certain protocols or communities.

With the long-awaited launch of Kashi, SushiSwap entered the lending and borrowing market while the launch of Miso enables a self-service token launching platform. Miso stands for "Minimal Initial Sushi Offering" and provides any crypto project with the smart contracts needed to launch their token on the Sushi platform.

These moves align the product positioning with Sushi's user-owned token model and ethos, while Uniswap's latest release is targeted towards professional market makers and high-fidelity liquidity provision on Ethereum, potentially providing the requisite differentiation for both going forward.

Unlike Uniswap, SushiSwap has also been aggressively launching on emerging blockchains, and looks well positioned to leverage its brand and liquidity to establish market share in these new ecosystems, seeing relative traction to date on each of these chains with the notable exception of Binance Smart Chain.

## *Proposed Institutional Investment Syndicate*

On July 7th, a treasury diversification proposal was submitted to the Sushi governance forum. The proposal outlined a **private sale of \$60M of the SUSHI tokens in the protocol treasury in a private round of top tier crypto and traditional venture capital funds**. This represents 25% of the treasury's holdings, and deal terms include a 6-month cliff with 18-month linear vesting for a ~30% discount at current prices.

The proposal was met with immediate backlash from the Sushi community, as the deal is very clearly favorable to the syndicate without clear value in return other than traditional venture capital promises of "value add". **An institutional \$SUSHI holder with a meaningful position offered a counterproposal reflecting much more bullish and community friendly deal terms**, among other counterproposals.



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Regardless of how this plays out through the governance process, this is an important precedent being set regarding the value and role of decentralized governance, as well as the role of institutional capital in the DeFi space.

Sushi is an 11-month-old project that has raised \$0 in outside capital and has subsisted entirely on a treasury of \$SUSHI to date. Now that institutions are fighting for an allocation in a \$60M private round, there is robust debate as to whether institutions who do not otherwise already have skin in the game should be allowed to participate on terms different from retail investors.

## TOKENOMICS

### *Monetary Policy*

SushiSwap's inflationary emissions model was the key aspect of its success to date. As noted already, the heavily front-loaded 2-week liquidity mining program which bootstrapped initial liquidity was key to SushiSwap's emergence.

As of the date of this note's publication, about 190M of the 250M capped SUSHI are circulating. Per SushiSwap's inflation schedule, 650,000 Sushi are minted daily until August 2022, and the sustainability of the model and the value of the brand or moat Sushi has created once inflationary rewards have expired remains an open question.

Because dividends from trade fees are distributed via market purchases of Sushi, which are then redistributed pro rata to stakers, there is a reasonable path to a net natural inflation environment.

Assuming a \$10 Sushi price, \$6.5M in daily trading fees would trigger the staking pools taking an equivalent number of sushi tokens out of the market to compensate for newly minted tokens.

### *Value Accrual*

Staking is an easy business model to understand. Only in the last 10 years did investors start to really understand and value the compounding benefits of recurring revenue businesses. Staking is like potentially compounding dividends.











Staking Sushi tokens, effectively *\*loaning capital to the balance sheet\**, entitles the staker to a share of dividends from trade revenue, specifically 0.05% of every trade. That trade revenue is converted to sushi and distributed pro-rata to Sushi stakers.

While the average yield provided by staking Sushi is **currently listed at 14.9% APY**, that yield is not denominated in USD but in SUSHI. So, if the price of SUSHI appreciates (as we speculate it will), SUSHI returns would *\*compound\** at a rate over 15% annually. For investors who are long the SUSHI asset, staking \$SUSHI offers compounding returns with no risk besides smart contract risk.

## COMPETITIVE LANDSCAPE

Competition in the DEX space is brutal. While SushiSwap's founding story is a testament to the lack of defensible moats around liquidity for AMMs, Uniswap's current market dominance with no liquidity rewards suggests that brand is a relevant moat; thus, fundamental questions about defensibility of liquidity moats remain.

SushiSwap remains entrenched as a top 5 DEX and has a clear opportunity to win substantial market share with their aggressive approach to new chains. Of the DEXes with more Total Value Locked (TVL) than SushiSwap, neither Curve (AMM for stable pairs) nor PancakeSwap (BSC-native and focused) are directly comparable.

Name	Symbol	Chain	1h Change	1d Change	7d Change	TVL ↓
1  Curve	CRV	Multi-Chain	-0.19%	-0.34%	-9.23%	\$8.77b
2  Uniswap	UNI	Ethereum	-0.49%	-2.07%	-10.06%	\$3.77b
3  PancakeSwap	CAKE	Binance	+0.93%	+4.16%	-3.03%	\$3.76b
4  SushiSwap	SUSHI	Multi-Chain	-6.22%	-	-	\$3.16b
5  Balancer	BAL	Multi-Chain	+5.07%	+4.13%	+2.65%	\$2.42b
6  ShibaSwap	BONE	Ethereum	+0.18%	-4.72%	-	\$1.66b
7  Uniswap v3	UNI	Multi-Chain	+0.89%	+2.89%	-4.00%	\$1.63b
8  Synthetix	SNX	Multi-Chain	+0.01%	-4.84%	-9.48%	\$1.43b
9  Ellipsis Finance	EPS	Binance	-0.01%	-0.41%	-22.83%	\$1.27b
10  MDEX	MDX	Multi-Chain	-2.75%	-2.46%	-16.90%	\$1.1b

Source: DeFiLlama.com

Of the other general purpose DEXes on Ethereum in the top 10 (below via DeFiLlama.com), Balancer and Bancor each have less than half of SushiSwap's TVL.

As noted already, SushiSwap is well positioned for the emerging multi-chain ecosystem. While each chain's ecosystem is developing at individual rates, Sushi has seen relative traction on each launched chain, sans Binance Smart Chain. PancakeSwap's dominance on BSC has proven the outlier so far, so SushiSwap's lack of traction there is not as concerning.

Name	Symbol	Chain	1h Change	1d Change	7d Change	TVL ↓
1  AAVE	AAVE	Multi-Chain	+0.20%	+7.55%	+5.16%	\$1.65b
2  Quickswap	QUICK	Polygon	+0.69%	+25.21%	-	\$1.09b
3  Iron Finance	IRON	Multi-Chain	-0.57%	-12.65%	-	\$769.75m
4  Curve	CRV	Multi-Chain	-0.19%	-0.34%	-9.23%	\$538.19m
5  SushiSwap	SUSHI	Multi-Chain	-6.22%	-	-	\$502.93m
6  Dfyn Network	DFYN	Polygon	-0.18%	-0.60%	-15.10%	\$194.16m

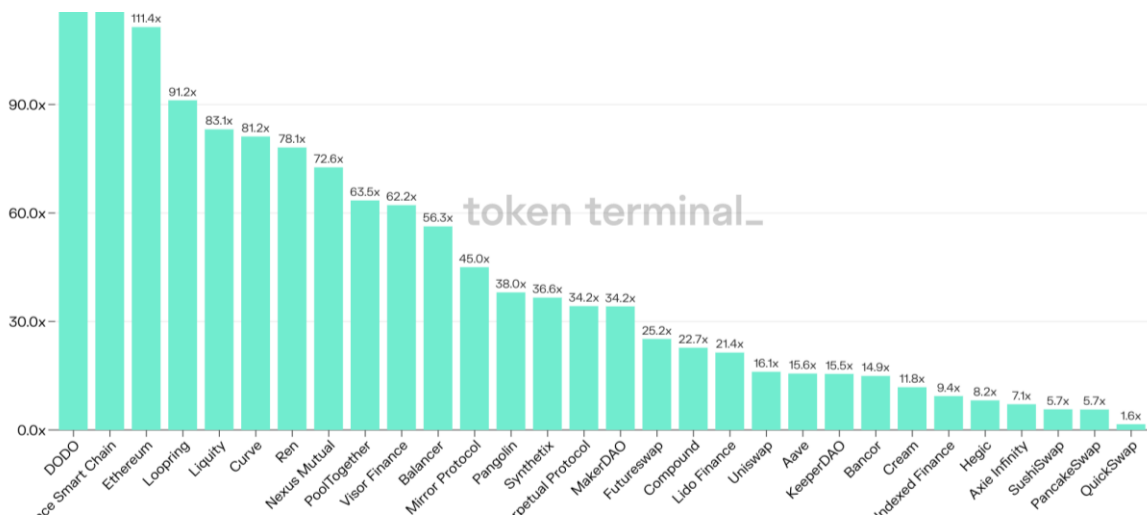
Source: DeFiLlama.com

As seen in the chart below (via DeFiLlama.com), SushiSwap’s \$502M TVL in its Polygon (Matic) instance would, separately, qualify for the 15th biggest overall DEX, and early signs are emerging that this pattern could follow on Fantom among other emerging chains.

## RECOMMENDATIONS

SushiSwap’s model of paying dividends to stakers makes valuing the token straightforward: save for the cyclical volatility of trading volume. On that front, SUSHI appears to be very cheap at its current prices, irrespective of any forward-looking prospects. Per the chart from TokenTerminal, SushiSwap’s current P/S ratio sits at 5.7x.

The SUSHI token remains undervalued at today’s prices, while having an attractive low-risk compounding option and significant upside potential pending multi-chain adoption.



Source: TokenTerminal.com



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