

March 10, 2021

Cryptocurrency Research

Martin Gaspar, Research Analyst
martin.gaspar@crosstower.com

To subscribe to these reports [click this link](#)

DeFi Cash Cows

Several DeFi Protocols Earn Millions of Dollars in Fees Daily

February brings record daily revenues to top DeFi protocols.

With greater decentralized finance (DeFi) interest and adoption in recent months, DeFi protocols are earning impressive amounts in fees, with a few protocols generating over \$1 million in revenue daily. In this report, we examine the top four DeFi protocols by income over a recent period and analyze their revenue trends.

Highlights

- **Three DeFi protocols generate at least \$1 million in daily fees in February.** According to data from TokenTerminal, DeFi protocols Uniswap, SushiSwap, and Compound all generated average daily fees of at least \$1 million throughout much of February 2021. As of February 23, 2021, decentralized exchange (DEX) Uniswap led, generating \$5.3 million of daily fees followed by DEX SushiSwap (\$3.8 million) and money market protocol Compound (\$1.1 million). Trailing these protocols is DEX aggregator 1inch, which generated \$0.8 million of revenue during the same period.
- **Fees indicate areas of user demand.** DEXes and aggregators remain leaders in fees generated, indicating they are the most used. Lending protocols also are proving popular, based on fees generated, suggesting loan demand remains robust.
- **February brings record fees to most DeFi protocols we examined.** Strong interest, rising crypto prices, and market volatility likely contributed to a breakout month for DeFi protocols.

<u>Contents</u>	<u>Page</u>
Highlights.....	1
Uniswap	1
SushiSwap.....	2
Compound.....	3
1inch	4
Trends.....	5
Disclosures.....	6

Uniswap

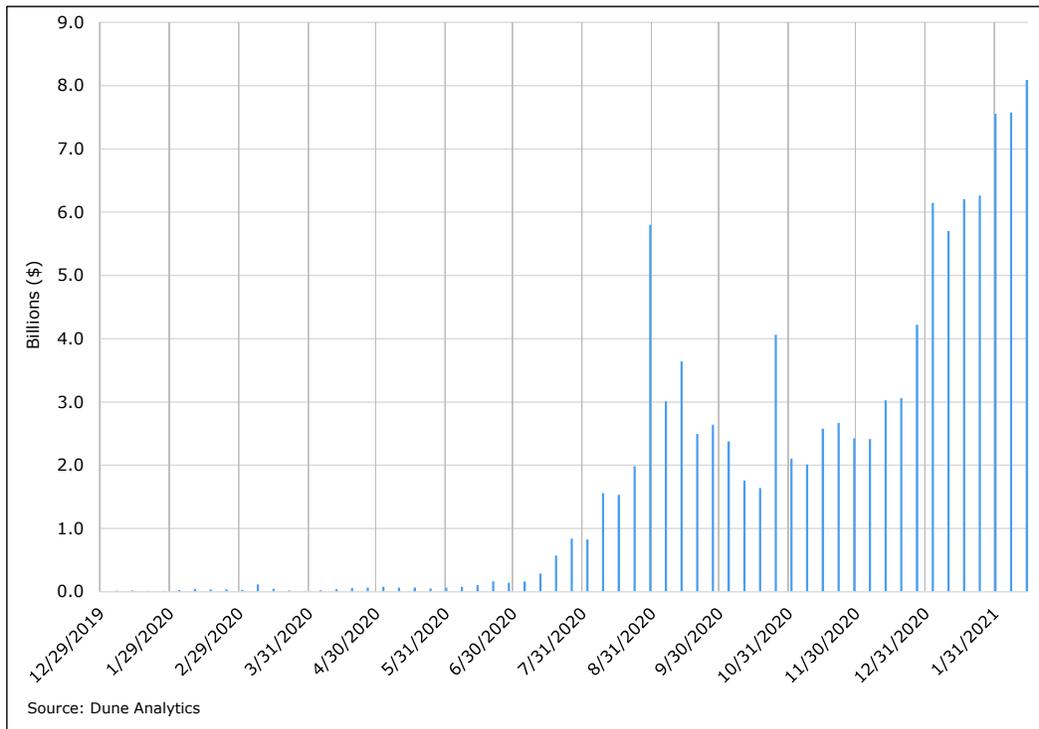
Uniswap, a decentralized exchange (DEX), generates the most fees of any DeFi protocol, earning \$29.0 million in the 7 days trailing February 23, 2021, according to data from TokenTerminal. This puts Uniswap on track to earn over \$1.5 billion on an annualized basis.

Uniswap is one of the core and most popular DeFi protocols, deployed to Ethereum mainnet in 2018. It allows users to trade Ethereum-based assets in a decentralized, non-custodial manner. Uniswap is an automated market maker (AMM), which draws on pools of liquidity to execute trades, rather than an order book model. As such, there are two core users of Uniswap: 1) Liquidity providers (LPs), which deposit their crypto onto Uniswap to receive a share of swap fees and 2) Users trading on the protocol.

The protocol charges 30 bps (0.3%) per trade, which are added to its total reserves. When depositing crypto to be used as liquidity for trades on Uniswap, LPs receive tokens that represent their share of the total deposit pool and the fees it receives.

Since the 30 bp swap fee is the sole source of revenue for the platform, it needs to facilitate substantial trade volumes to generate considerable income. It has accomplished just that, with over \$106 billion of trades on Uniswap V2 since that version launched in May 2020, according to data from Dune Analytics. Recent volumes are robust, with its volume for the week of February 14, 2021, totaling approximately \$8.1 billion.

Exhibit 1. Uniswap Weekly Volume



Uniswap's recent weekly volume has surpassed its previous record from summer 2020.

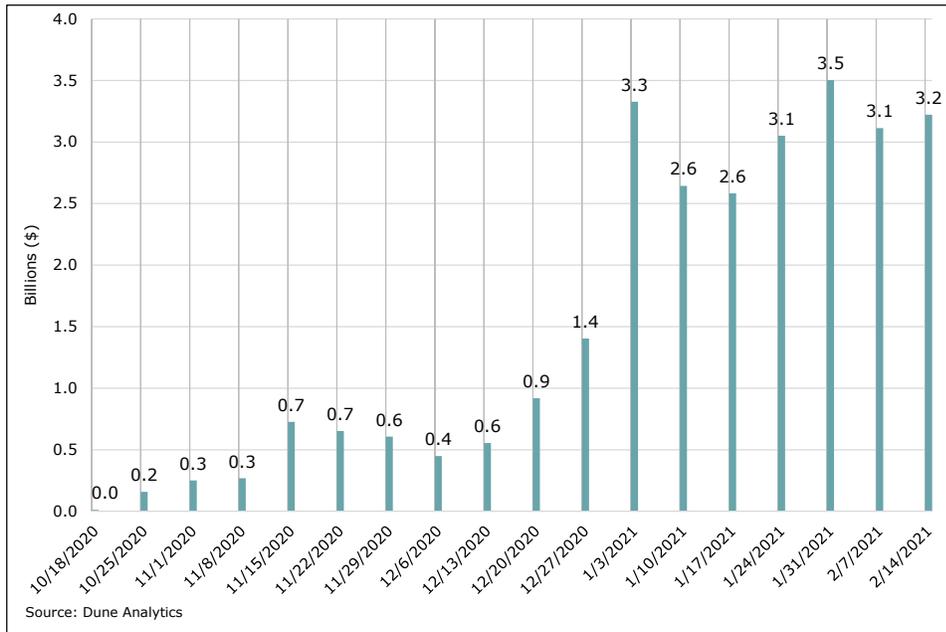
SushiSwap

SushiSwap, a DEX, is a fork of Uniswap (a copy of Uniswap code) and generates the second highest weekly fees among DeFi protocols. It has generated roughly \$13.9 million in revenue in the 7 days trailing February 23, 2021, according to data from TokenTerminal. On an annualized basis, SushiSwap is collecting approximately \$722.8 million in fees.

SushiSwap follows a similar DEX model to Uniswap. It is an AMM and thus relies on deposits from users to provide liquidity for trades. Its fee structure is also akin to Uniswap's at 30 bps per trade. Of this, 25 bps goes to SushiSwap LPs, while 5 bps goes to reward users staking its SUSHI token.

Recent volumes have been strong, although they remain well below DEX market leader Uniswap. Its volume for the week of February 14, 2021 totaled approximately \$3.2 billion, according to data from Dune Analytics.

Exhibit 2. SushiSwap Weekly Volume

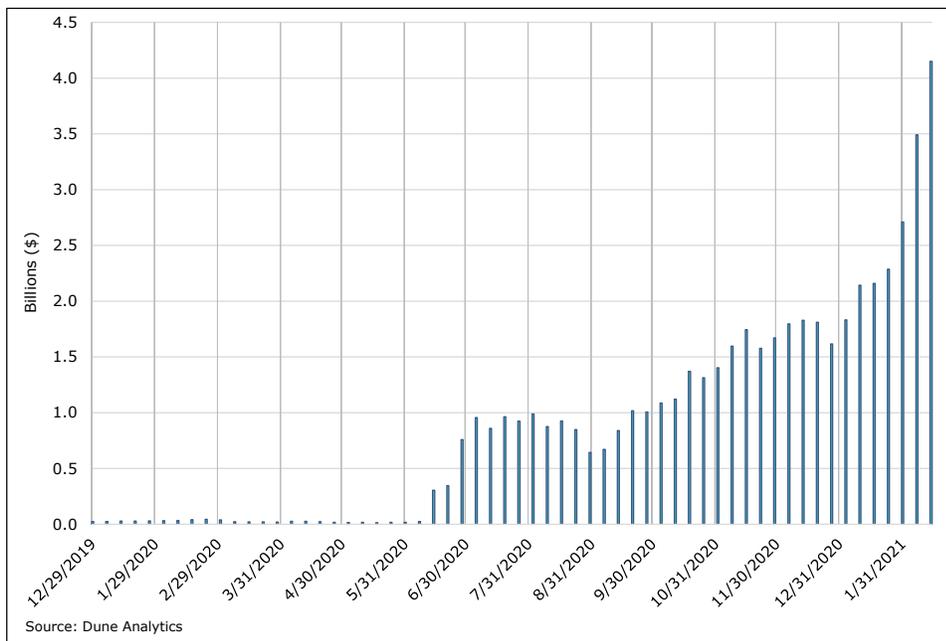


SushiSwap has seen a burst of trading volume in 2021 with recent weekly trading volume more than doubling from the last week of 2020.

Compound

Compound, a money market protocol, is the DeFi protocol generating the 3rd highest weekly revenue, earning approximately \$10.0 million in fees during the 7 days trailing February 23, 2021. On an annualized basis, Compound is generating roughly \$520 million in fees per year.

Exhibit 3. Compound Weekly Outstanding Debt



Opportunities in light of recent market volatility contributed to an increase in loans generated on Compound, in our view.

As a money market protocol, Compound allows users to borrow and lend cryptocurrency. As of February 25, 2021, Compound had \$8.9 billion of crypto deposited to lend out and \$4.1 billion of outstanding loans, according to its website.

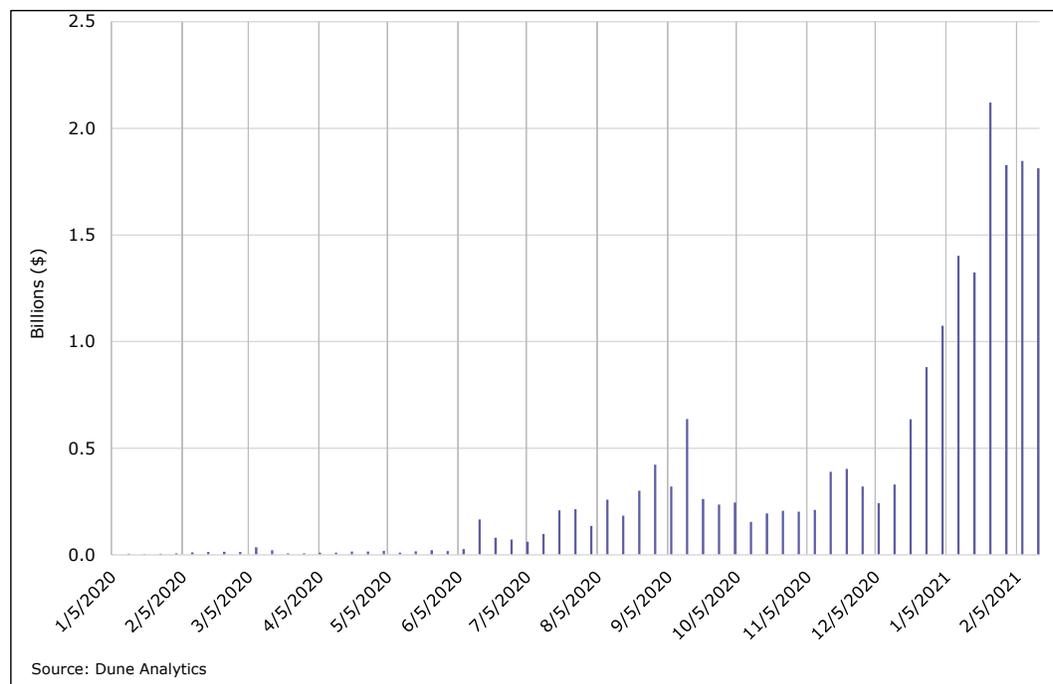
While Compound’s website does not clearly state how the protocol generates revenues, its Discord notes that it captures the spread between borrowing and lending to hold as reserves.

1inch

Rounding out the top 4 DeFi protocols by weekly fees generated for the period is 1inch, a DEX aggregator. 1inch sources liquidity across DEXes to help traders get the best price for a trade. According to data from TokenTerminal, 1inch generated approximately \$4.3 million of revenue in the 7 days trailing February 23, 2021. This results in annualized revenue of \$223.6 million.

1inch does not charge anything on top of the fees charged by the respective partner DEXes, but rather takes a cut of those fees. It also collects positive slippage on trades, which can occur between the time a user agrees to a trade and when the trade executes on the blockchain.

Exhibit 4. 1inch Weekly Trading Volumes



Trends

Overall, volumes for the said DeFi protocols have soared since the start of 2021, on the back of rising interest in DeFi. This has led to all-time high fees on a daily or weekly basis for most of these protocols.

Exhibit 5. Leading DeFi Protocol Revenue by Day, Week, and Week (Annualized) as of February 23, 2021 (\$, millions)

Protocol	D	W	W Ann'l
Uniswap	5.3	29.0	1508.0
SushiSwap	3.8	13.9	722.8
Compound	1.1	10.0	520.0
1inch	0.8	4.3	223.6

Source: TokenTerminal

According to data from TokenTerminal, Uniswap earned \$5.3 million in revenue on February 23, 2021, its second greatest day in revenue. SushiSwap also saw strong revenue recently, generating a record \$3.8 million in daily fees on February 23, 2021, nearly 78.8% above its prior peak daily revenue on January 11, 2021. Compound also hit a record \$1.4 million of daily fees generated on February 18, 2021. Continuing the trend, 1inch experienced elevated revenues in February, collecting \$1.6 million in fees on February 18, 2021, its greatest daily amount earned in 2021.

Drivers of recent all-time highs in revenue generation for these protocols may have included increased interest in DeFi and recent crypto market volatility, which drove trading on DEXes as users reshuffled positions and may have led DeFi users to manage their deposits and loans on lending platforms such as Compound.

Overall, we believe the amount of revenue these protocols generate speaks volumes about DeFi. They have met a core need of users (trading and lending/borrowing) and stand to further gain as DeFi adoption grows. While DeFi has often been seen as a niche space, we note cash flows such as these are impressive and give the space further legitimacy.

DISCLOSURES

The research team may own the cryptocurrencies mentioned in this report, and as such this should be seen as a disclosure of any potential conflict of interest. This report belongs to CrossTower and represents the opinions of its research team.

This research report does not cover whether these assets are compliant with laws or regulations. The regulatory environment for decentralized tokens is currently unclear. Investing in cryptocurrencies, and decentralized tokens in general could pose significant risks. There have been instances of errors in code, for example, where investors have lost significant amounts of value.

CrossTower is not a FINRA registered broker dealer or investment adviser and does not provide investment banking services. This report is not investment advice, it is strictly informational. Do not trade or invest in any tokens, companies or entities based solely upon this information. Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential for complete loss of principal.

Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on topics discussed in this document and develop a standalone judgment of the relevant markets prior to making any investment decision.

CrossTower does not receive compensation from the companies, entities, or protocols they write about. Compensation is not received on any basis contingent upon communicating a positive opinion in this report. The authors were not hired by the covered entity to prepare this report. CrossTower did not receive compensation from the entities covered in this report for non-report services, such as presenting at author sponsored investor conferences, distributing press releases or other ancillary services. The entities covered in this report have not previously paid the author in cash or in stock for any research reports or other services. The covered entities in this report are not required to engage with CrossTower.

The research team has obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented “as is,” without warranty of any kind whether expressed or implied. All market prices, data and other information are not warranted as to completeness or accuracy, are based upon selected public market data, reflect prevailing conditions, and the research team’s views as of this date, all of which are accordingly subject to change without notice. CrossTower has no obligation to continue offering reports regarding this topic.

Reports are prepared as of the date(s) indicated and may become unreliable because of subsequent market or economic circumstances. The graphs, charts and other visual aids are provided for informational purposes only. None of these graphs, charts or visual aids can and of themselves be used to make investment decisions. No representation is made that these will assist any person in making investment decisions and no graph, chart or other visual aid can capture all factors and variables required in making such decisions.

The information contained in this document may include, or incorporate by reference, forward looking statements, which would include any statements that are not statements of historical fact. No representations or warranties are made as to the accuracy of such forward looking statements. Any projections, forecasts and estimates contained in this document are necessarily speculative in nature and are based upon certain assumptions. These forward-looking statements may turn out to be wrong and can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond control. It can be expected that some or all of such forward looking assumptions will not materialize or will vary significantly from actual results.