Veritaseum™

GNOSIS

Forensic Valuation

Price:
100 VERI

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1. GNOSIS Company Overview

1.1. Overview

At its most basic, Gnosis is a platform for prediction markets built on the Ethereum blockchain. Prediction markets in themselves are not a new idea; online binary choice markets exist today enabling their participants to speculate on certain outcomes. However, these markets lack universality, decentralization and have inherent counterparty risk between the market participant and the market provider. Building these markets on the blockchain instead allows for these markets to decentralize whilst becoming permissionless and trustless.

Gnosis has the potential to be disruptive, but this disruption stems not for its stated primary use case. Placing an old idea on top of a new technology isn't revolutionary. True disruption originates from the possibility that user critical mass is achieved and the accompanying data aggregation that comes with it. Data on such a scale enables the Gnosis platform to (theoretically) produce statistically reliable estimations of market expectations. Such estimates, if perceived valid, would be an enviable asset (think the value of the data that Google aggregates) that have a range of applications in marketing advertising, geopolitics, insurance, financial markets and economic models…

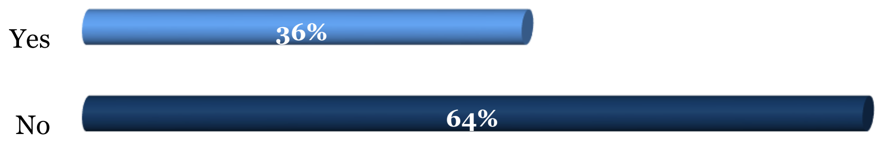
There is a material body of academic and historical evidence that weighs against the predictive power of the crowd through prediction markets. This paper's goal is not to ascertain the accuracy of prediction markets, but the economic value of Gnosis' platform and enterprise ventures built on top of such. The platform is built on the Ethereum blockchain using the ERC20 token protocol.

The platform works on a decentralized model which allows participants to place their predictions on an event, which then gets aggregated to form a collective view on a prediction. Gnosis attempts to create, among other things, a unique forecasting tool for people to render and receive projections for an event or result.

Besides this, it aims to create an ecosystem of customized information search wherein any person can post a question and fund (as in pay for) search for the answer. The availability of practically unlimited resources creates a market for prediction. This market benefits both the users and participants by aggregating intellect and knowledge.

Gnosis is attempting to create a smart contract universe to reward successful users for predicting the outcome correctly. The way in which Gnosis prediction works:

- An event is posted: "Would Brazil win the next Football World Cup?"
- User buys a position



- At the end of the event, the successful users' share will get redeemed for $1 each. Losing users' share will become worthless

Details of Gnosis Token

Tokens	10 million tokens which generate WIZ. WIZ can be used to pay fees on the platform
Additional Tokens	No additional tokens to be released
Underlying Blockchain	Ethereum
Services	Group into three layers of services : Layer 1 (Core), Layer 2 (Services) and Layer 3 (Applications)
Model	Decentralized prediction model

2. *Segment Analysis*

GNOSIS

Layers		
Layer 1 Gnosis Core	No Fee	▪ Oracles ▪ Market makers ▪ Outcome Tokens
Layer 2 Gnosis Services	Fees paid by WIZ token	▪ Oracle Platform ▪ Futarchy ▪ State Channels ▪ Application templates and customisation tool
Layer 3 Gnosis Apps	Fee as per Services	▪ Financial markets ▪ Information Sales ▪ Insurance

2.1. Layer 1: Gnosis Core

The Core layer enables smart contracts for Gnosis use:

- Event Token Creation
- Settlement
- Market Mechanism
- Oracle
- Management Interface

These services will be free for use.

2.2. Layer 2: Gnosis Services

The Services Layer will offer trading fee model and additional services over the Gnosis Core.

- State Channel Implementation
- New Market Mechanisms,
- Futarchy,
- Stable Coin and Payment Processor Integrations,
- Open Source Template Applications,

- Application Customization Tools, and
- Oracle Marketplace

These services will attract a fee. Participants at Gnosis Core level will upgrade to this level of service due to wider application, use, and benefit.

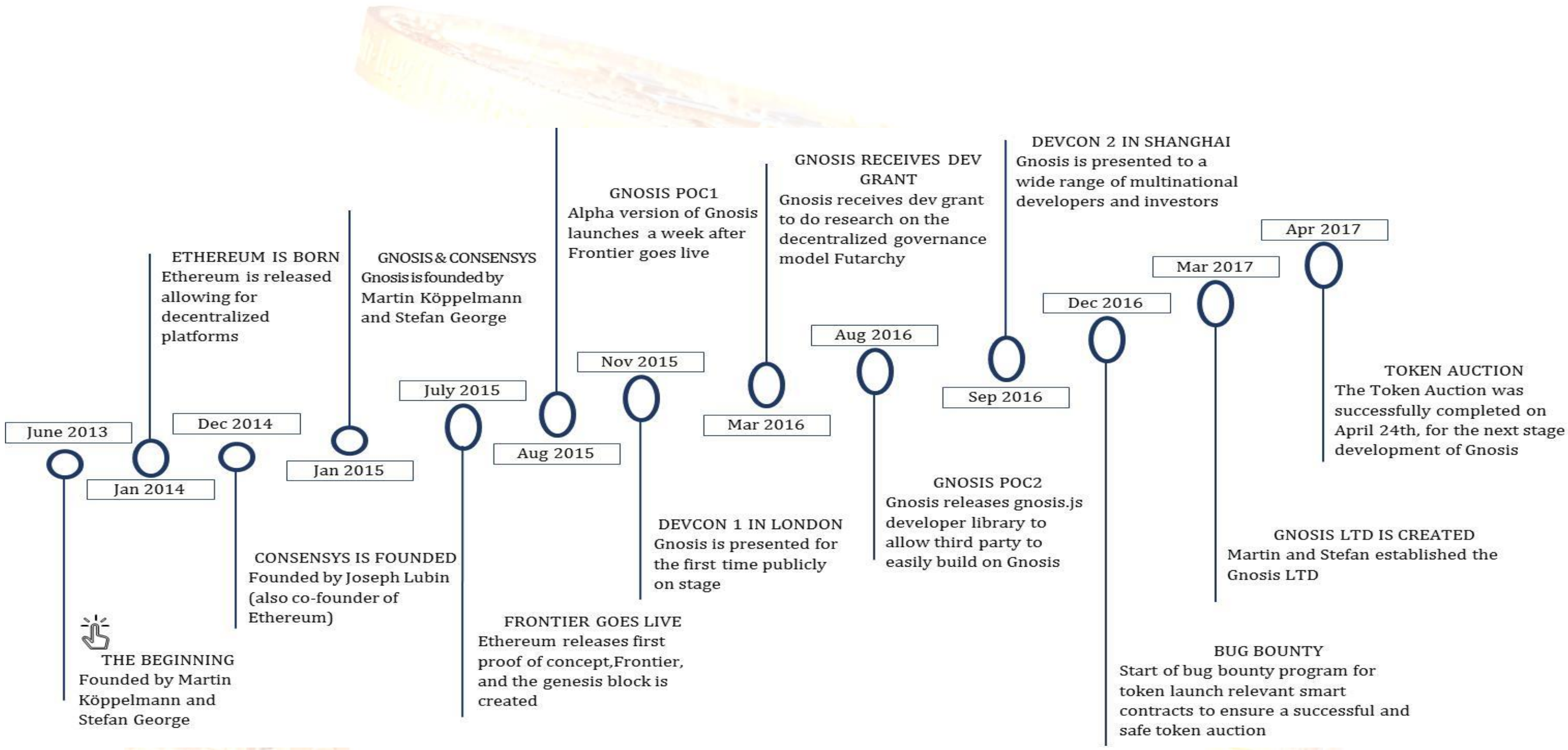
2.3. Layer 3: Gnosis Applications

The Application Layer will target specific prediction market in areas like the following:

- Financial markets
- Insurance & Hedging Instruments
- Information Sales
- Governance
- Incentivization
- Sports Betting

These applications will attract additional fees or charges from market making, information selling, or advertising.

3. Company History



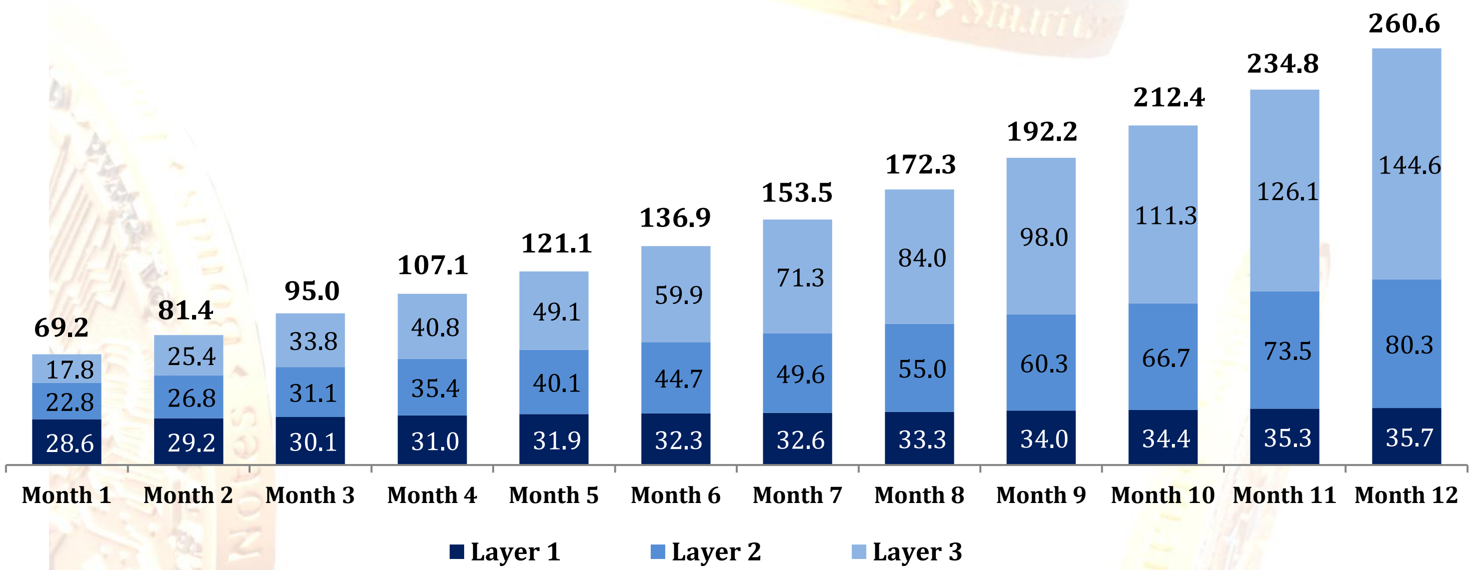
Important Time Line:

- In Jan, 2013 Martin Köppelmann and Stefan George created the largest Bitcoin Prediction Market,
- In Jan, 2014 Ethereum was Born,
- In Jan, 2015 Gnosis was founded by Martin Köppelmann and Stefan George,
- In July, 2015 Ethereum releases first proof of concept, Frontier
- In Nov, 2015 Gnosis was presented for the first time publicly on stage to the Ethereum developer community,
- In Sep, 2016 Gnosis was presented to a wide range of multinational developers and investors in Shanghai,
- In Mar, 2017 Gnosis LTD is established by Martin and Stefan,
- On 24th April, 2017 the Token auction was successfully completed, for the next stage of Gnosis development

4. *Key Financials*

4.1. Revenues

Revenues during 12 months (USD thousand)



Gnosis is likely to derive much of its revenue from Layer 3 services in the latter of the 12 month period.

- Layer 3 will grow at a monthly growth rate of around 21% from direct sales and cross-selling of application services
- These services will garner more value per user, bolstering revenue growth
- Layer 2 services are expected to grow around 12% but per user and aggregate value will be lower compared to that of Layer 3
- Layer 1 services will concentrate on customer expansion to cross-sell Layer 2 and Layer 3 services

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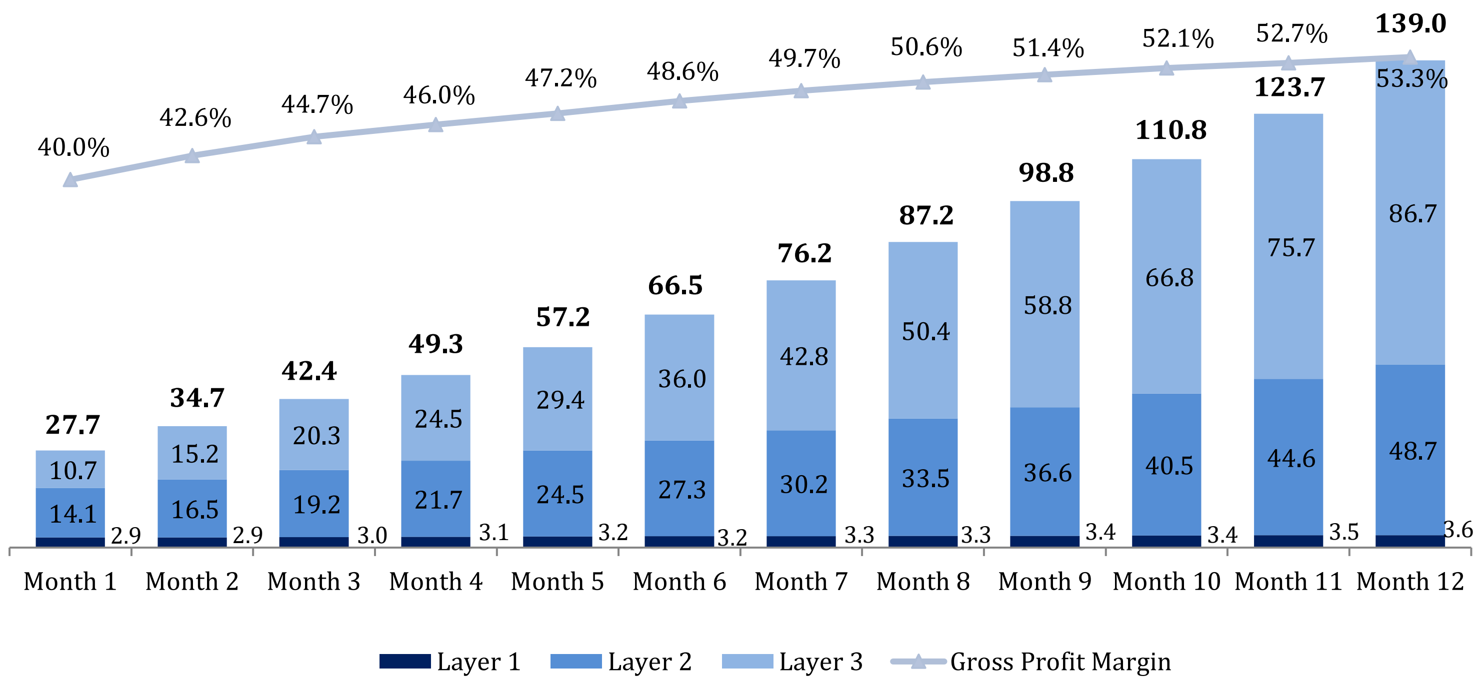
	Layer 1	Layer 2	Layer 3	Total
State channels	-	371,697	-	371,697
Oracle	-	35,725	-	35,725
Futarchy	-	84,480	-	84,480
Application template and customization tool	-	94,460	-	94,460
Insurance	-	-	268,360	268,360
Financial markets	-	-	332,100	332,100
Information sales	-	-	261,480	261,480
Others	388,144	-	-	388,144
Total	388,144	586,362	861,940	1,836,446

Year 1 Revenue Projections

This table shows the breakup of revenue per layer as well as per the services under those layers.

4.2. Gross Profit

Gross Profit during 12 months (USD thousand)



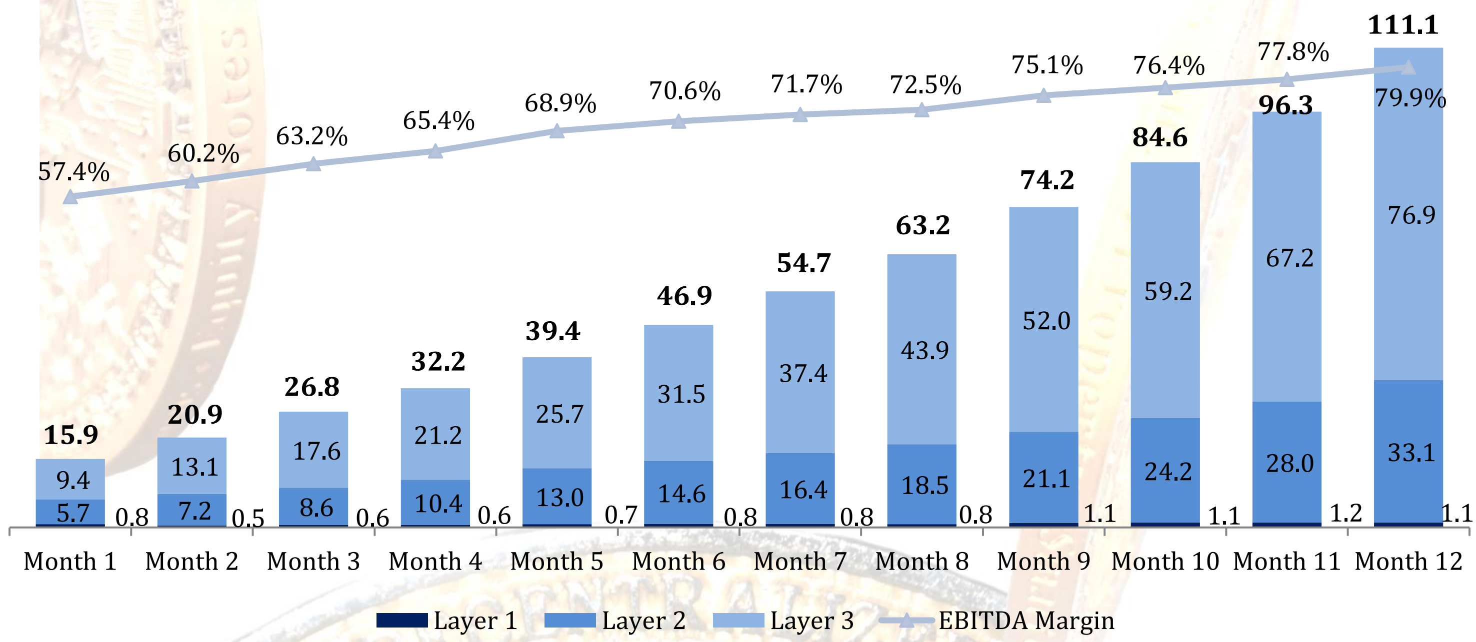
Gross margin of the Company is expected to expand on account of increase in the share of revenue from higher margin services in the total revenue.

- Layer 2 and Layer 3 services are assumed to have margins of 60.8% and 60%, respectively, compared to revenue of 10% gross margin for Layer 1

- Share of revenue from Layer 1 and Layer 2 services is reflected to reduce gradually in accordance with increase in revenue from Layer 3 services

4.3. EBITDA

EBITDA during 12 months (USD thousand)



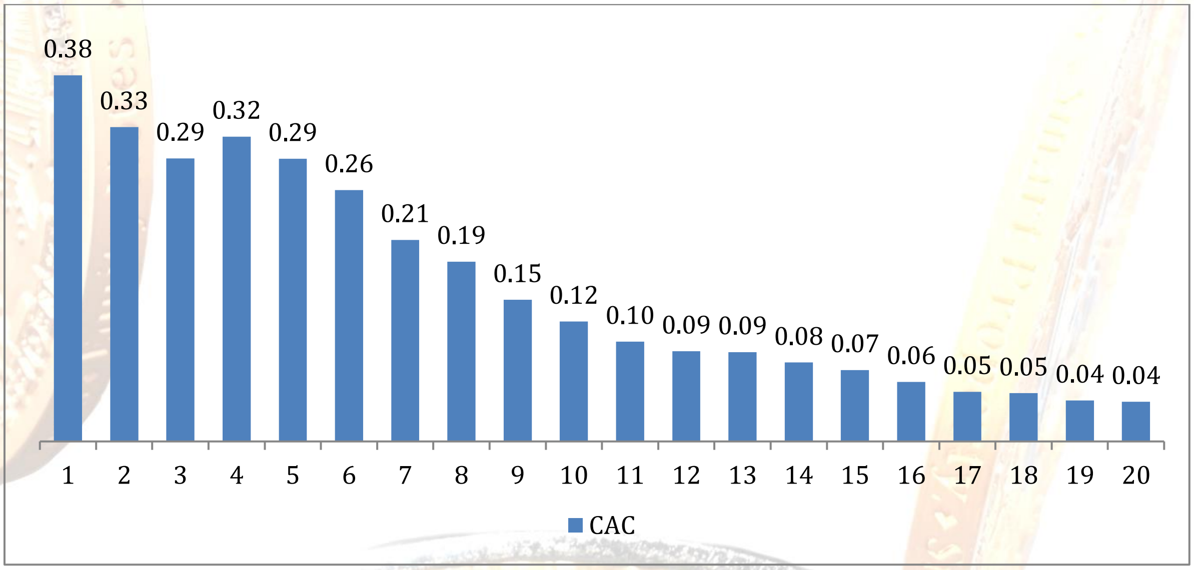
Similar to the trend of gross margin, the EBITDA is expected to grow in line with the increase in the share of revenue from Layer 2 and Layer 3 services.

- EBITDA is projected to grow from USD15.9 (thousands) to USD111.1 (thousand) at a monthly grow rate of 17.6%
- EBITDA margin on Layer 2 and Layer 3 is approx. 38.4% (average) and 88.4% (average). Layer 1 EBITDA margin is 2.7% (almost break-even)

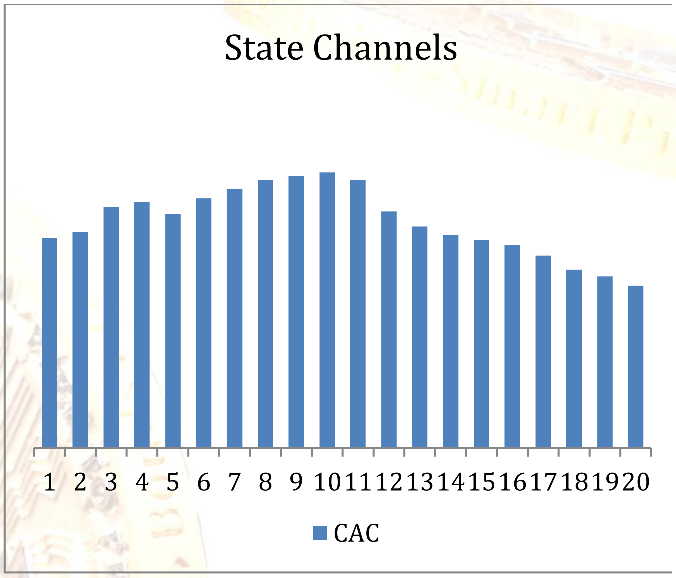
4.4. CAC and LTV and LTV/CAC

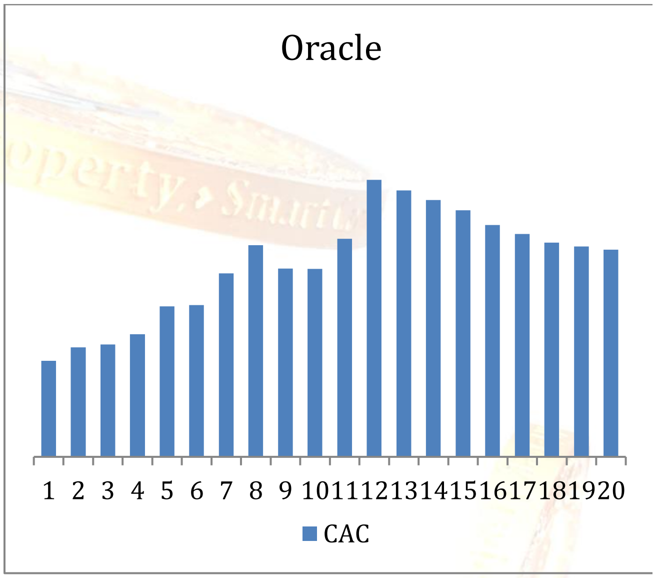
4.4.1. Customer Acquisition Cost (CAC)

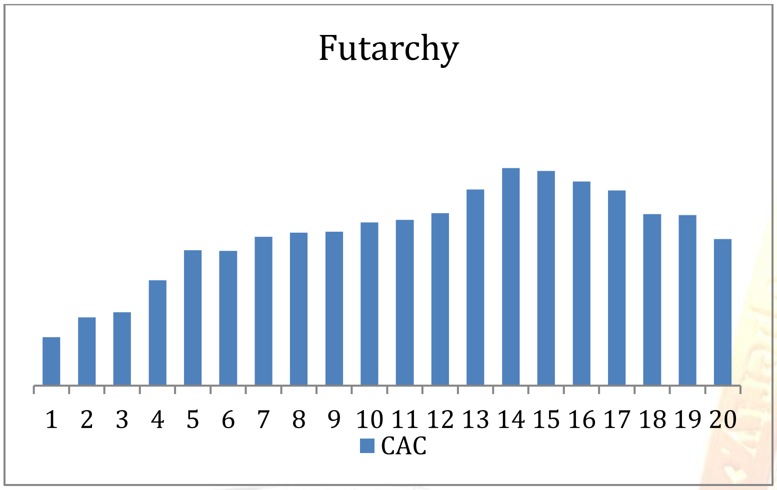
Layer 1



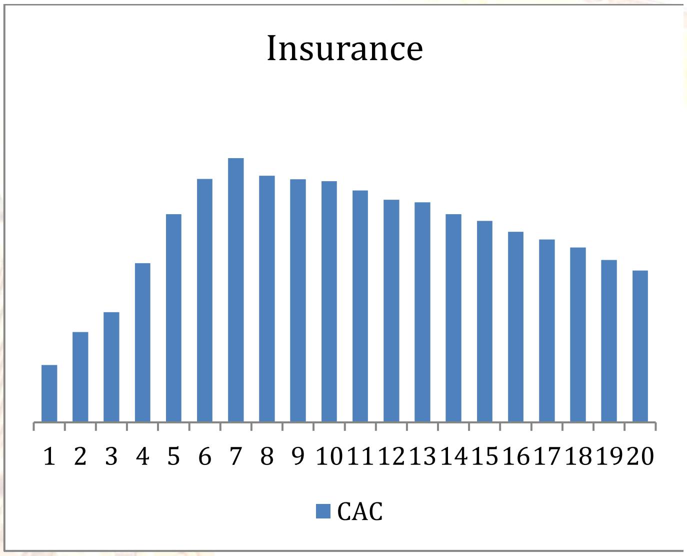
Layer 2

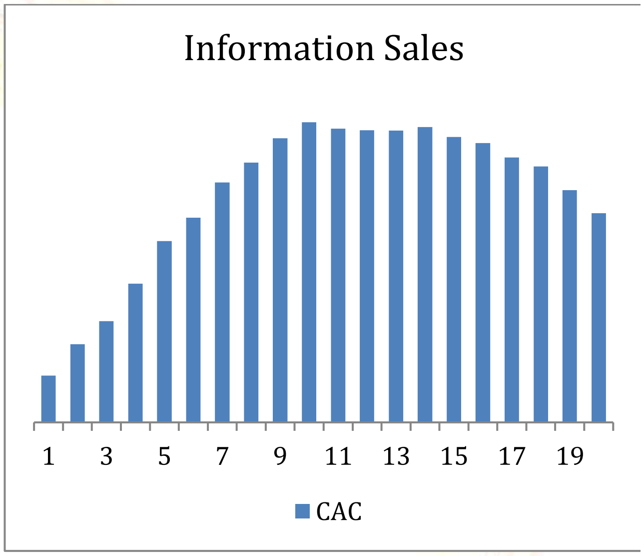

State Channels
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
CAC

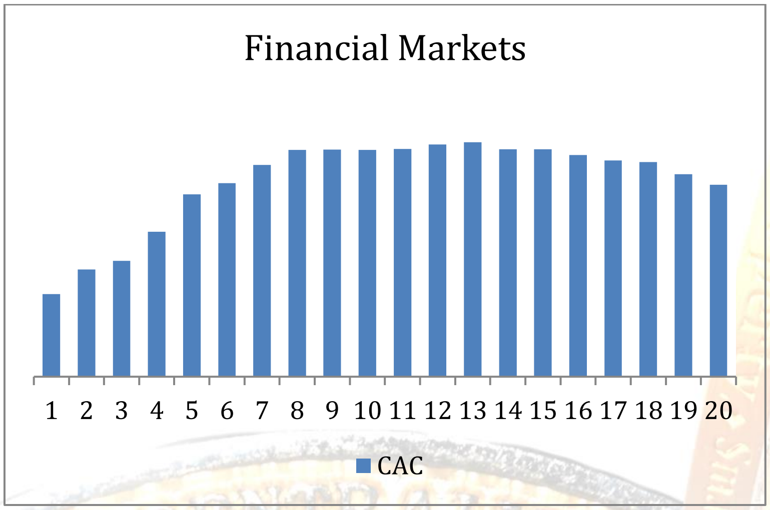

Oracle
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
CAC


Futarchy
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
CAC

Layer 3





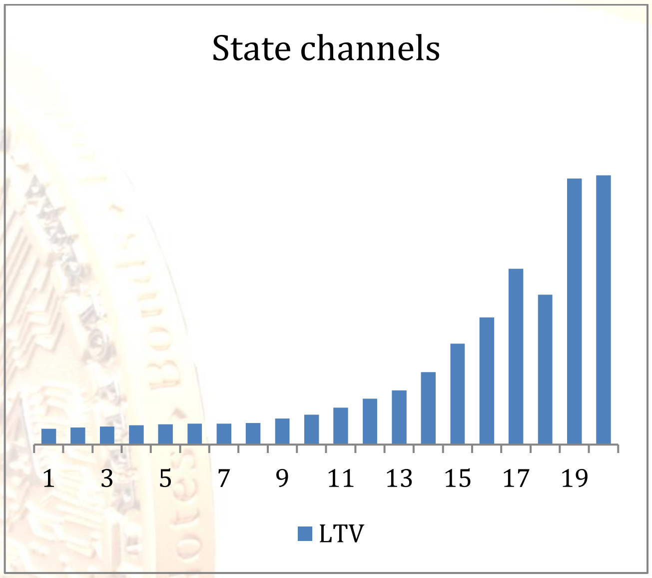


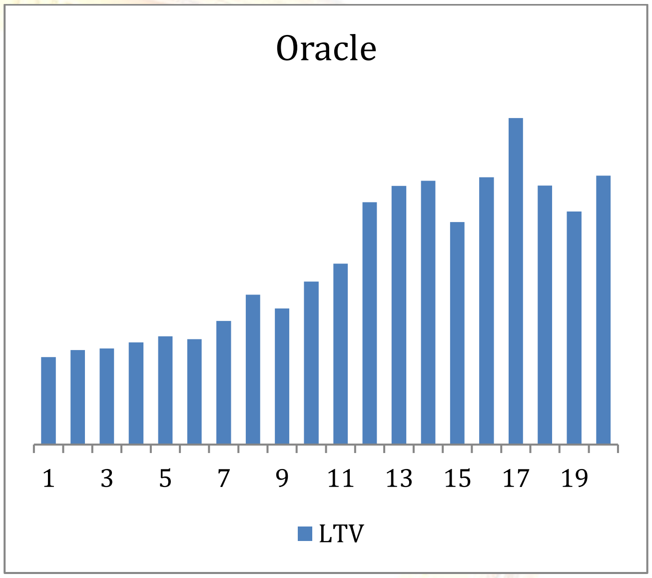
Customer Acquisition Cost (CAC) is declining over the period in question. This is because the increase in customers is greater than the increase in sales and marketing expenses. As the business matures, fewer expenses per customer acquisition are expected to incur.

The CAC for layer 2 and layer 3 services increases to a certain limit and then starts decreasing. This is because initially higher cost is incurred for acquiring customers which goes down in later stage.

4.4.2. Lifetime Value of customers (LTV)

Layer 2

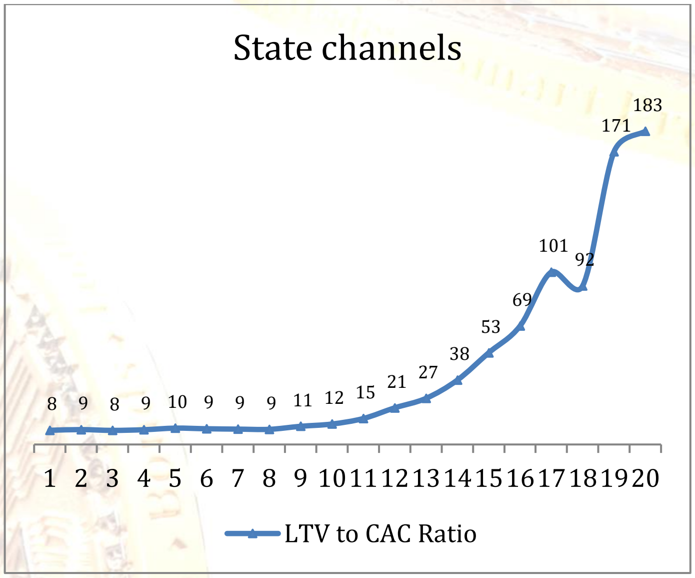


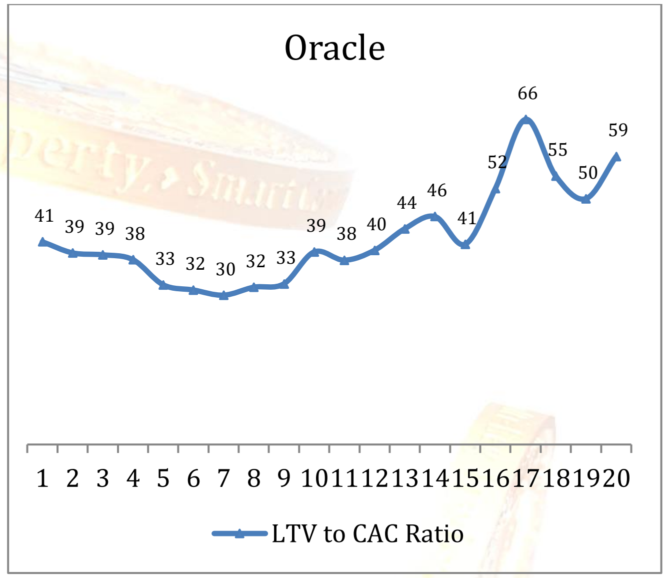


Life Time Value (LTV) is gradually increasing as can be seen in the chart. This growth can be attributed to decrease in churn rate of revenue. Monthly recurring revenue churns out every month, the rate of which decreases over time. This increases the lifetime value of the customers.

4.4.3. LTV to CAC ratio

Layer 2





LTV to CAC ratio shows an increasing trend as per the charts above. This is a healthy indicator for a business of this kind.

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5. Valuation

5.1. Valuation Methodology

This exercise of analysis of valuation is being conducted to assess the fair value of Gnosis. We analyzed fair valuation of Gnosis in accordance with the Growth Rate Decay Trajectory method. The growth rates in new companies are generally very high in first two years; however, these growth rates decline relatively predictably as the companies mature. On the separate note, using relative valuation approach or Discounted Cash Flow approach don't give fair results as they don't account for longer term revenues and are sensitive to near-to-medium term cash flows.

Following is the methodology for the valuation of Gnosis:

<u>Growth Rate Decay Trajectory Method:</u>

The Growth Rate Decay Trajectory method estimates the value of a business based on the current revenues and trailing revenue growth during the forecasted period.

The method is based on projected long-term trend in revenue without emphasizing on the near-to-medium term cash flows. This method is ideal for businesses with the potential for exponential growth in the longer run yet burns cash at an above average rate in the short-to-medium term.

We have assumed the below mentioned growth paths forward:

1. **The Low Road** - The growth rate decays and each year's growth rate is assumed to decay to 75% of the prior year's growth rate.
2. **The Expected Outcome** - The growth rate decays to 85% of the prior year's growth rate.
3. **The High Road** - The growth rate proves to be very persistent and is assumed to decay to 90% of the prior years.

Below the table shows the three different growth paths for initial growth rates ranging from 30% to 100%:

				Annual Revenue Growth				
Growth decay		0	1	2	3	4	5	5 year Revenue Expansion
75%	Low Road	30%	23%	17%	13%	9%	7%	1.9x
85%	Expected	30%	26%	22%	18%	16%	13%	2.3x
90%	High Road	30%	27%	24%	22%	20%	18%	2.7x
75%	Low Road	40%	30%	23%	17%	13%	9%	2.3x
85%	Expected	40%	34%	29%	25%	21%	18%	3.0x
90%	High Road	40%	36%	32%	29%	26%	24%	3.7x
75%	Low Road	50%	38%	28%	21%	16%	12%	2.8x
85%	Expected	50%	43%	36%	31%	26%	22%	3.8x
90%	High Road	50%	45%	41%	36%	33%	30%	4.9x
75%	Low Road	60%	45%	34%	25%	19%	14%	3.3x
85%	Expected	60%	51%	43%	37%	31%	27%	4.8x
90%	High Road	60%	54%	49%	44%	39%	35%	6.4x
75%	Low Road	70%	53%	39%	30%	22%	17%	3.9x
85%	Expected	70%	60%	51%	43%	37%	31%	6.0x
90%	High Road	70%	63%	57%	51%	46%	41%	8.2x
75%	Low Road	80%	60%	45%	34%	25%	19%	4.6x
85%	Expected	80%	68%	58%	49%	42%	35%	7.4x
90%	High Road	80%	72%	65%	58%	52%	47%	10.4x
75%	Low Road	90%	68%	51%	38%	28%	21%	5.4x
85%	Expected	90%	77%	65%	55%	47%	40%	9.0x
90%	High Road	90%	81%	73%	66%	59%	53%	13.0x
75%	Low Road	100%	75%	56%	42%	32%	24%	6.3x
85%	Expected	100%	85%	72%	61%	52%	44%	11.0x
90%	High Road	100%	90%	81%	73%	66%	59%	16.2x

The five year revenue expansion figure in the above table shows that a company should not decay at anything above the industry's expected decay. Though the figures of growth decay may differ only slightly, their implication of 5 year revenue can be huge.

This 5 year expansion multiple is applied to the current revenue for valuation. This method is best suited for companies with the potential to have long term revenue (and expected to burn cash in the near-to-medium term) as against the Discounted Cash Flow and Relative Valuation Method.

5.2. Valuation

We have assumed that Gnosis is expected to have revenue growth of more than 90.0% in next five years. Based on the Growth Rate Decay Trajectory Method valuation approach, the Value of the Company will range between USD299,330,299 and USD325,606,632 after adding the aggregate token

	Low	High
Revenue growth Decay	3,474,093	29,750,426
Aggregate token Value	295,856,206	295,856,206
RANGE	**299,330,299**	**325,606,632**
Token Issues	10,000,000	10,000,000
Per token value	**29.93**	**32.56**

Based on the table below, we can derive the low point and high point of value based on the revenue growth decay of Gnosis.

Valuation	Annual Revenue Growth							
	30%	**40.0%**	**50.0%**	**60.0%**	**70.0%**	**80.0%**	**90.0%**	**100.0%**
Annual Growth Decay								
75%	3,474,093	4,223,826	5,142,049	6,060,272	7,162,140	8,447,652	9,916,809	11,569,610
85%	4,223,826	5,509,338	6,978,495	8,814,941	11,018,676	13,589,701	16,528,015	20,200,907
90%	4,958,404	6,794,850	8,998,586	11,753,255	15,058,858	19,099,039	23,873,799	29,750,426

Below is the table for the valuation multiples through which we arrive at the values.

Valuation Multiples	Annual Revenue Growth							
	30%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%
Annual Growth Decay								
75%	1.9x	2.3x	2.8x	3.3x	3.9x	4.6x	5.4x	6.3x
85%	2.3x	3.0x	3.8x	4.8x	6.0x	7.4x	9.0x	11.0x
90%	2.7x	3.7x	4.9x	6.4x	8.2x	10.4x	13.0x	16.2x

Aggregate Token Value Assuming Forced Liquidation Simulation (Early Beta)

	$ 225,191,366
Appreciation due to token value (directly linked to increase in GNO volumes)	$ 70,664,840
Token Value	**$ 295,856,206**

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