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DXdao

Institutional





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<u>Analysts</u>





Delphi Enters DXdao

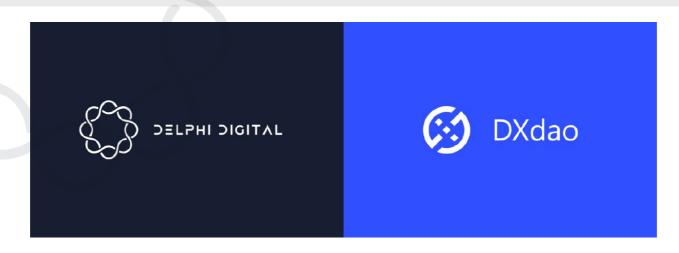


This report is not like our others. Throughout it, we'll highlight the many flaws DXdao currently has, and those we expect it to have in the future if things are left unchanged. The critiques may even lead you to question why our Venture arm would consider making an investment to begin with. As our team mentioned in this thematic from last year, we believe that DAOs have the potential to dramatically reinvent how people organize themselves, pool their resources, and coordinate their actions to achieve a common goal. So why DXdao? Because the rarity of how it organically came together, the objective of what it's working to build, its sizable treasury, and the dedication of its large membership are not easily replicated or seen elsewhere.

Our goal is to make DXdao the destination for any developer out there looking to build but who lacks the team and financing to support them. We want it to attract long-term oriented members, interested in joining a DeFi community that cares about and services their needs. We want it to be an open incubator for ideas, with the headcount and capital reserves to make them a reality. We want DXdao to exist with one goal - to build DeFi infrastructure for the common good of its membership.

In the following two slides, we'll elaborate on our concerns while also proposing the changes we believe will better position DXdao to succeed in both the near and long-term. It's important to note that these are just ideas we've had while diving into DXdao and are not firm by any means. These are only meant to start a conversation. While Delphi Ventures has made a small allocation to DXD already, we may increase our commitment depending on how the community reacts to these proposals. As a member of the DAO, we'll allocate resources when possible to help work on initiatives free of cost.

Let us be clear, what we're proposing is going to be hard. Perhaps made even harder by the challenge of coordinating a decentralized group of individuals from around the world. If you're passionate about DeFi, consider becoming a member of, or working with, DXdao. Realizing this vision will be no small task. It would certainly take an army to accomplish this goal, across so many different verticals. It's a good thing DXdao already has 400 long-term oriented owners. **Who else wants to build?**



An Activist DAO Play - Our Proposal



1) Strategy Change

Our view of DXdao's overarching strategy, more or less, is to fork infrastructure built by other teams, slap on a new UI, and ultimately add a fee that will generate revenue for the organization. This can create a diversified portfolio of apps and sound lucrative, but it puts each in an uphill battle for adoption and may not be feasible over the long-term. For example, if DXswap is just a clone of UniswapV2, how is it ever going to compete when it's not first to market, has less liquidity and won't be cheaper? If you debate the long-term game theory of this space, a strong argument can be made that all forms of unnecessary rent extraction will collapse to 0 over time, invalidating DXdao's strategy to generate revenue without them offering differentiated products.

With all of this in mind, we thought why not flip the strategy on its head? After all, DXdao does have some unique things going for it. Namely, it has a large membership of crypto savy individuals and an ecosystem of different applications that roll up under a single organization. Oddly enough, this brought to mind the strategy of Costco. Despite selling high volumes across a wide variety of distinct products, the company doesn't really make money from marking up items for sale. Instead, Costco makes money by selling memberships to people, who benefit from the discounted pricing they can't receive elsewhere. DXdao could learn from this. Rather than launching an ecosystem of applications with the intent to eventually extract fee revenue, it could instead guarantee that there will be **absolutely no rent extraction in perpetuity to its members**. While there is mention of reduced fees for members on DXdao's homepage, this should be etched into the constitution and better emphasized to outsiders. **The idea of charging a membership fee should be delayed for as long as possible until the ecosystem reaches critical mass.** Until that time, non-members should receive the same benefits that members do, in order to better scale capital and gain adoption. DXdao has an estimated runway of ~6.3 years, which should be able to support this plan. Of course, there might still be fees for certain applications but these will be necessary operational costs to reward and incentivize participants, such as LPs.

By pivoting their strategy like this, DXdao effectively becomes a DeFi governance layer whose only goal is to save its members money, offer them new functionality, and maintain the existing ecosystem. The DAO never needs to finance innovation themselves because the open source code can be attained for free by forking the codebases of its competition. **There would never be a reason to fork away DXdao's products because they are already the forks**. They aren't the brand-name drugs, they're the generics, at least for now. There are other benefits from this as well, such as the potential for increased usage. Similar to being an Amazon Prime member, there's a sunk cost that gets mentally associated with the annual membership fee, encouraging people to shop on Amazon more. As membership swells, the increased usage would generate higher yields for liquidity providers, while letting member's swap, predict or transact at the lowest possible costs. This further increases the positive reflexivity of DXdao's network effect. Eventually, you end up with a coordinated, synergized, hyper-liquid, rent-free, and well-maintained ecosystem of DeFi apps that exist solely to benefit the DAO's members.

2) Layer 1 & 2

The strategy detailed above also becomes much more effective if DXdao build's the entire ecosystem on top of a Layer 2 solution to increase scalability and further cut costs. This type of coordinated move to a single Layer 2, encompassing a variety of distinct use cases, would also be unprecedented in the market. If Uniswap chooses one scalability solution but Aave picks another, the composability of their building blocks could be hindered. This should be a top priority for DXdao to pursue in light of recent gas costs and as a way to differentiate its suite of products. DXdao should also be open to the idea of launching their suite of applications on different Layer 1s. That way membership transcends any specific platform or userbase.

An Activist DAO Play - Our Proposal



3) Bonding Curve Update

While the current design of the bonding curve does attract long-term oriented members, we believe it's actually hindering growth. Why? If you purchase DXD through the bonding curve and then immediately resell back into it, you only receive 2.4% of your initial contribution back. The reason for this design is because the DAO wants to use the capital proceeds to fund future growth, rather than offering immediate liquidity. While there is good intent behind this idea, it creates multiple issues. To start, potential members may be dissuaded from purchasing DXD due to the lack of liquidity, inhibiting growth of DXdao's balance sheet. The knock-on effect from this is that DXD typically trades at a steep discount on secondary markets such as Uniswap where holders looking for liquidity take a ~20% haircut on price, since that's still preferable to the alternative. Would-be financiers of DXdao then end up purchasing DXD on the market at the lower price, with the proceeds going to existing holders rather than the DAO itself. Ultimately, the market facilitates the liquidity that the bonding curve lacks anyway. All this accomplishes is scaring away new members, due to the perceived illiquidity, and having the market trade at a consistent discount, both of which are detrimental to DXdao's growth. A new, better bonding curve design can improve the attractiveness of DXD and kickstart fundraising, allowing for more growth to be financed.

4) Liquidity Mining Programs

As we've recently seen in the markets, these types of programs can clearly be effective in helping an application gain adoption and a following. While <u>some programs</u> have been implemented for projects in their portfolio, they frankly just haven't been that attractive relative to other opportunities currently out there. One thing that's hamstrung these efforts is the fact that the individual applications don't have their own token to freely mint and distribute. Instead they all roll up to DXD. This doesn't have to be a negative though. In fact, it can be a differentiating factor because other tokens don't give you exposure and governance rights to a diversified portfolio of applications like DXD can. DXdao doesn't even need to create more supply out of thin air. Of the 131,665 tokens issued, 100k of them (i.e. 76% of total supply) are either in escrow earmarked for the DAO or sitting on balance sheet doing nothing. If you subtract the DXD holdings from the balance sheet, and analyze the current budget, DXdao has 6.3 years of runway ahead of it, assuming no new inflows to the treasury. Now is the time to deploy these assets and gain traction, before the incumbents become far too entrenched to even remotely challenge.

5) Governance Redesign

This is perhaps one of the bigger issues that needs to be fixed. The current design is unnecessarily cumbersome, control is overly concentrated, it has inspired less, not more, participation on votes despite an active community, the UI is lacking, and a member's DXD holdings do not directly equate to voting power. The latter point is especially concerning for would-be investors. An easy partial fix that should be explored is high inflation for reputation, which can be distributed as part of a liquidity mining program. This can drive adoption for their applications, incentivize new members to join, dilute existing members with outsized voting power and boost participation in votes. The full overhaul is something we need to hear more feedback on from other members, who we'll be engaging with to refine these ideas further.

6) Standardized Processes, Improved Project Management, & Transparency

To their credit, DXdao members do make efforts to share and be transparent with key information, such as their <u>proposed budget</u>, and to coordinate project development. Unfortunately, this is still far too disorganized. Things like the budget, balance sheet, revenue, application stats, project management teams, processes, progress updates, etc. should all be easily found on their website and updated in real time. This <u>existing page</u> is a good start.

Executive Summary



- DXdao is comprised of 400 members, that collectively own and operate a portfolio of DeFi applications ranging from a prediction market (Omen), auction platform / DEX (Mesa), privacy tool (Mix), and token swapper (DXswap), with other ideas such as a layer 2 payments application (Rails) still in their infancy. Omen is built on Gnosis' Conditional Token Framework, Mesa is built on Gnosis Protocol, Mix integrates tornado.cash, DXswap is a clone of Uniswap V2 and Rails leverages Loopring's zkRollup technology. DXdao intends to generate revenue from these applications, which DXD holders are entitled to. However, with only Omen and Mesa currently live, and still new, little to no revenue has been generated for DXdao thus far.
- DXdao has the largest adjusted balance sheet \$ value of any DAO, and ranks 2nd overall in total members, total voters, and total proposals.
- DXD is issued via a continuous fundraiser, allowing people to purchase it through a bonding curve in exchange for ETH. The sub-optimal bonding curve design coupled with the fact that 90% of proceeds are directed towards the treasury, means that redeeming DXD through the curve currently results in a 98% haircut in value. Many members of the community have been vocal that the bonding curve needs to be changed and we agree. An upcoming bonding curve redesign could be a key catalyst that helps propel DXdao forward.
- The total supply of 131,664 DXD can be somewhat misleading. When DXdao launched, 100k DXD were pre-minted and set aside for the treasury. Over a 3 year linear vesting period, these DXD tokens are gradually released into the treasury. This means that only 31,664 DXD tokens are actually in float and held by people other than the DAO itself. Until portions of that 100k pre-mint hit circulation, the market cap of DXD should really be derived using the 31,664 DXD, which, based on current prices, is ~\$8.2m.
- By evaluating the assets held on DXdao's balance sheet, we can calculate a book value per token. DXD's price / book value ratio is currently 0.88.
- Omen has significantly exceeded AugurV2's total volume, while Mesa is generating slightly less volume than IDEX month to date. Both of these products could have their own tokens yet, when they're combined under the umbrella of DXdao, the valuation of DXD trades at a significant discount to its peers.
- Based on the current treasury and budget proposal, DXdao has 6.3 years of runway assuming no new DXD purchases, no revenue, no price moves in existing holdings, and excluding the vested portion of the DXD pre-mint that gets added each month to the treasury,
- There has been an uptick in the amount of DXD tokens held by new members. 7 of the top 25 addresses received their first DXD within the past week, and combined they now hold 22% of the total float. The 8 existing large holders in the top 25 are all flat or net positive for inflows over the past 7 & 30 days.
- DAO governance needs to be fixed. The top 10 reputation holders control 52% of the voting power. Overall voter participation has decreased recently, despite an active community on the forums and increase in total proposals.



A DeFi-Focused DAO



"Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has." - Margaret Mead

We've seen many new DAOs spring up in recent years. Some started as centralized token projects that eventually made efforts to decentralize their governance, while others started as a decentralized group of individuals looking to create, or invest in, something new. It's the latter we believe has been underappreciated and perhaps with good reason. None have really found a product market fit for their services, yet. In most cases today, the token and project name are more or less synonymous. The development team is focused on a specific use case and the average person can easily connect the two mentally. Just because this is the way the market currently works though doesn't mean it's how things will continue. What about a token whose value doesn't accrue solely from a single product or service but rather from a portfolio of them? What potential might something like that have over the long-term? This train of thought lead us to a community of individuals that have organically bootstrapped a unique, DeFi-focused DAO with 400 members - DXdao. As seen in the graphics below, they collectively own and operate a portfolio of different applications ranging from a prediction market (Omen), auction platform / DEX (Mesa), privacy tool (Mix), and token swapper (DXswap), with other ideas such as a layer 2 payments application (Rails) still in their infancy. How is this all possible? True to the nature of open source software, they either forked, or built on top of, existing pieces of infrastructure. Omen is built on Gnosis' Conditional Token Framework, Mesa is built on Gnosis Protocol, Mix integrates tornado.cash, DXswap is a clone of Uniswap V2 and Rails leverages Loopring's zkRollup technology. Before we dive into the products in greater detail, let's start by doing a quick overview on the DAO landscape.

WE DECENTRALIZE DEFI

DXdao is a sovereign collective

The DXdao is a decentralized organization initialized in May of 2019 and has over 400 unique stakeholder addresses. It develops, governs, and grows DeFi protocols and products. Owned and operated by the community, the DXdao has the potential to significantly scale its membership.



DXD powers the Decentralized Ecosystem

DXD is the DXdao native ERC20 token, DXD token holders have an economic claim to the DXdao's revenue and it also grants its owners future access to a suite of services and premium features in decentralised applications, such as gasless transactions, feeless anonymizing of assets, reduced trading fees on DEX protocols and more.

Pure Dapps powered by DXdao



Mix.eth

Mix is a portfolio manager for the Ethereum ecosystem with privacy, security, and a good user experience as core features.



Omen.eth

Omen is a fully decentralized prediction market platform built on top of the Gnosis conditional token framework.



Mesa.eth

Mesa is an Open Source interface for the Gnosis Protocol, a fully permissionless DEX that enables ring trades to maximize liquidity.



DXswap.eth

DXswap is a protocol for exchanging ERC-20 tokens.

DAO Landscape













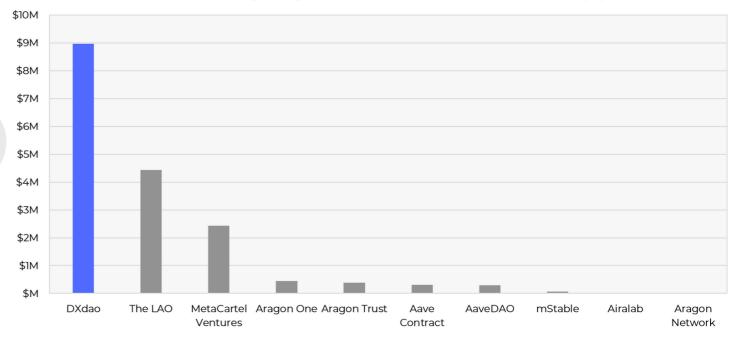


When it comes to analyzing DAOs, tools like DeepDAO
have become a great resource to use. If you go to their leaderboard and sort by the current value held within each DAO, like most people probably do, you end up with a top 10 that matches the table to the right. Before you're overly impressed by the balance sheets of mStable and the rest we should mention that the values shown include the project's own token. While those tokens can certainly be valuable, their inclusion weakens the usefulness of this metric as it can be more affected by market speculation rather than true economic progress.

When we adjust these balance sheet values by removing the project's own tokens, it becomes clear that many hold far less extrinsic value than the casual observer might realize. This is evident in the chart to the right, where DXdao jumps from 5th to 1st place in adjusted balance sheet value. How was this value generated? Through a combination of <u>fundraising</u>, partnerships with other projects and capital appreciation from the recent rally. Another interesting data point that might stand out is the ratio of value flowing into the balance sheet relative to what's flowed out. It's clear that DXdao has primarily been sitting on the capital it's raised, giving it a sizable warchest to deploy.

DAO Name	Platform	Balance Sheet Value (\$)	Total In (\$)	Total Out (\$)	Ratio In / Out
mStable	Aragon	\$258,565,527	\$812,080,750	\$553,515,224	1.5
Airalab	Aragon	\$31,467,871	\$95,470,227	\$64,002,356	1.5
AaveDAO	Aragon	\$19,073,525	\$134,372,610	\$115,299,086	1.2
Aragon Trust	Aragon	\$14,632,838	\$25,448,184	\$10,815,346	2.4
DXdao	DAOstack	\$10,893,853	\$11,222,973	\$212,785	52.7
Aragon Network	Aragon	\$5,941,239	\$7,882,321	\$1,941,082	4.1
The LAO	Moloch & Open Law	\$4,430,063	\$4,819,286	\$389,223	12.4
Aave Contract	Aragon	\$3,894,353	\$97,156,233	\$93,261,880	1.0
Aragon One	Aragon	\$3,262,457	\$11,583,679	\$8,321,223	1.4
MetaCartel Ventures	Moloch & Open Law	\$2,430,648	\$3,346,126	\$915,477	3.7

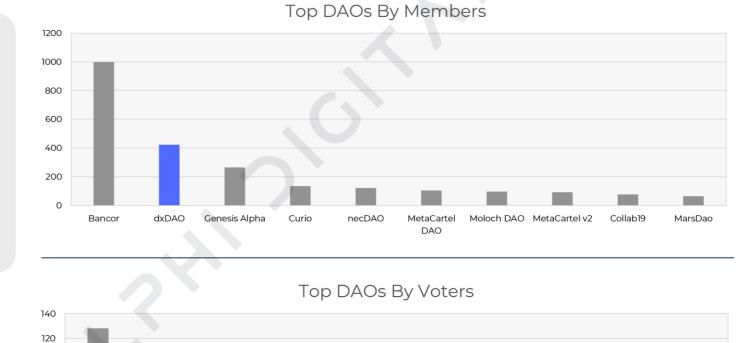
DAO Size By Adjusted Balance Sheet Value (\$)



DAO Metrics



There's more to a DAO than just the capital its sitting on though. We can sort by other metrics on DeepDAO to better assess the landscape. As seen in the tables to the right, DXdao ranks 2nd in terms of total DAO members, voters and proposals. It's this combination of high capital reserves, a large membership base, active participation and progress that makes DXdao stand out amongst its peers.



Executive Summary Membership / Registry DAOs: run on its own without hierarchical management. It operates through a trustless protocol which executes collective decisions for a certain cause. Most of you are probably familiar with the word due to The (infamous) DAO Hack of 2016. Ever since that vulnerability was ploited and Ethereum hard forked, the word "DAO" has had a stigma around it. It almost felt like community members had written off the concept of decentralized autonomous organizations just off of this one event. Fortunately, this has not been the case as you'll see throughout this report. Development around DAOs has accelerated in recent years and it's lear that the impact DAOs will have on how organizations are structured will be rema DAOs have the potential to make a huge impact in how communities and groups of people are organized and collaborate in the future. While we tried to highlight a few organizations ross the various types of DAO, it's important to note that this report is not an exhaustive list. As you'll see throughout this report, most of these organizations are currently running as riments to further the developments of DAOs in the future Decentralized Decision Making- A DAO has no leader or m **Protocol Specific DAOs:** DAO have a very direct and immediate impact on key decisions Community buy-in & involvement- Stakeholders at any level can submit pre Efficiency & Automation-With most DAOs, a set of rules and policies have been prearranged and put into place. Once the rules are established, the DAO carries ther . Transparency- Everything that happens within the organ MakerDAO Layer-1 On-Chain Governance DAOs: . Manipulation- Deterring bad actors and manipulation is vital when designing in . Plutocracy-There's always the risk of plutocracy depending on how the DAO is put . Uninformed Decision Making- Members may not have the technical e Legal Classification - Still unclear how to classify DAOs wi

100

80

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Genesis Alpha

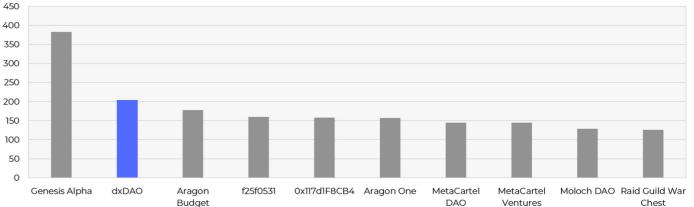
dxDAO

Moloch DAO



MetaCartel

DAO



necDAO

MetaCartel

Ventures

The LAO

lexDAO

Raid Guild War

Chest

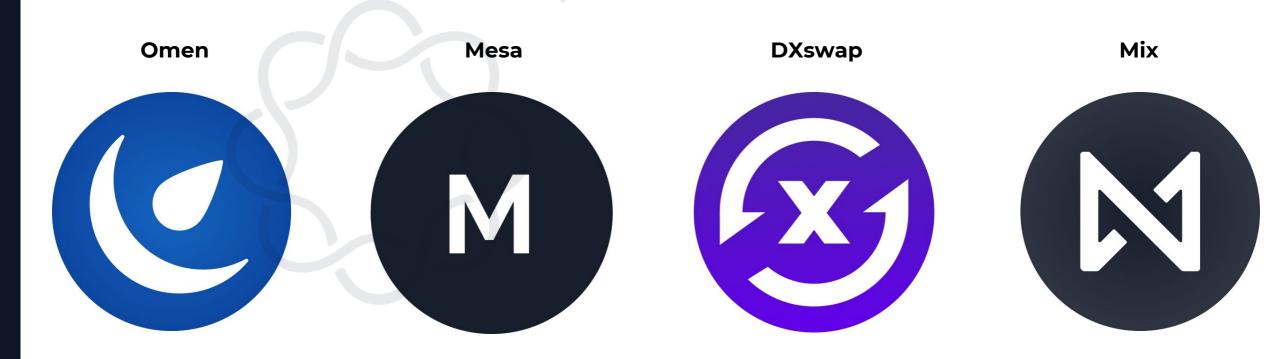
We covered a lot of these DAOs within our Thematic Insights on Decentralized Autonomous Organizations last year! Read that report <u>here</u>.

Diversified Revenue Streams



As we mentioned earlier, DXdao doesn't generate revenue from a single product or service but rather from a portfolio of them. That's the long-term plan at least. Based on our research, little to no revenue has been generated by the product lineup for DXdao thus far. Yes, fees are being charged but they're primarily being used to pay liquidity providers and other parties necessary for the applications to function. In terms of assessing their strategy, it remains to be seen if DXdao will actually be able to extract rent on products that they're copying from elsewhere. The challenge of revenue generation inherent in this approach is something we attempt to solve for in our proposal.

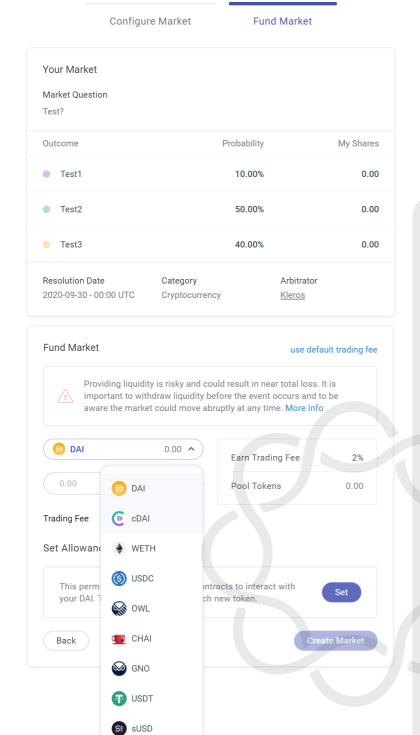
While each of these products could potentially support a token and DAO in their own right, some are more appealing than others, at least at this stage. The two that have us the most intrigued are Omen, a prediction market, and Mesa, an auction / DEX platform. These also happen to be the only products which are currently live. Based on forum discussions, its unclear what the development status and timeline to launch look like for DXswap and Mix. With this in mind, we'll primarily focus on Omen and Mesa in the following slides.



Omen Prediction Markets



Market Creation Example





Omen was created using Gnosis' Conditional Token framework, which differentiates itself from a comparable project like AugurV2 by building its prediction markets on top of a Uniswap-like liquidity pool. There are a few other differences as well. Namely, Omen let's users denominate markets in a variety of assets, instead of just DAI, and is oracle agnostic, letting markets be customized on a case-by-case basis.

There are two ways a user can interact- 1) they can provide liquidity or 2) they can directly bet on a certain event outcome. For example, if there are 4 outcomes, each with a 25% probability of occurring, then a LP will get equally weighted exposure to each outcome upon deposit. While LPs accrue a 2% trading fee on each transaction in the pool, we should emphasize that providing liquidity can be risky and cause the uninformed / less-diligent to lose capital. Buying an outcome directly is much more intuitive. As people add capital to a given outcome via their bet, the expected probability of it occurring increases. An example that illustrates the shifting probability of outcomes over time can be seen in the chart to the upper right.

Live Market

When will Ethereum 2.0 Phase 0 launch?



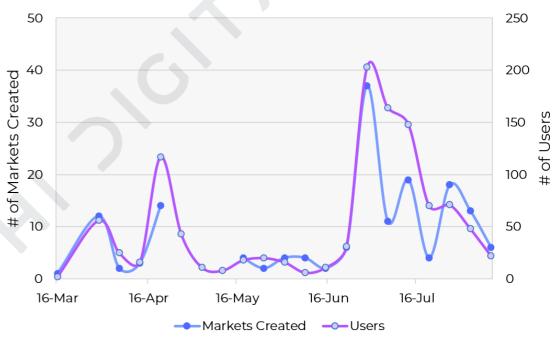
Liquid Conditional Tokens



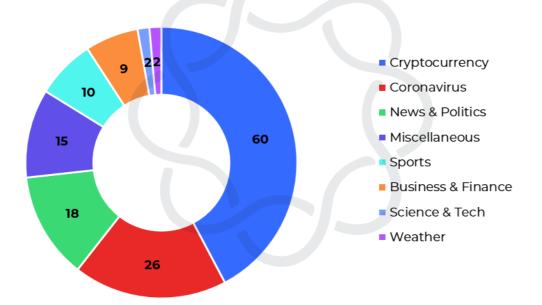
Understanding the value of data analytics, DXdao recently <u>commissioned</u> this helpful <u>Dune dashboard</u> to track Omen stats. Since launch, Omen has done ~\$1.1m in total volume (i.e. bets placed & liquidity provided) and \$6k in total fees. By using the 2% trading fee, we can back into the total portion of volume derived from placing bets, which comes out to \$300k, with the remaining \$800k from users providing liquidity. Based on the charts shown, we can see that usage of the application is still relatively niche. The recent spike in early July is likely due to the start of the <u>Kleros / Omen incentive program</u> launched around that time, which will run until October.

Liquid prediction markets have been a dream use case within crypto for years now yet no one has been able to deliver a product that's garnered real traction. There are many possible reasons for this, from a lack of interest in betting on esoteric events to challenges with settling outcomes. Despite the difficulties thus far, we believe this sector will eventually take hold.

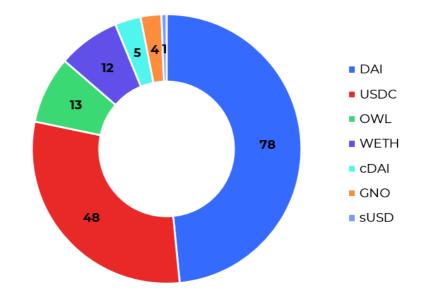
Weekly Markets Created vs Users



Omen Markets By Type



Omen Markets By Collateral



Mesa - An IDO Launchpad

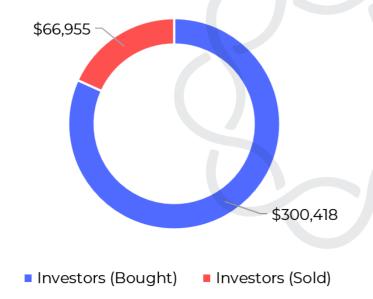


DMG





DMG IDO Trader Surplus(\$)



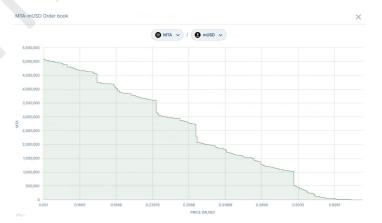


mesa.eth.link

Mesa was created using Gnosis Protocol, which differentiates itself from other DEXs by implementing a batch auction process. At a high-level, Mesa works as follows. Orders are processed in batches every 5 minutes. External participants (i.e. "Solvers") compete to optimize each batch, proposing a settlement solution that maximizes trader utility (i.e. surplus). For example, if a trader placed an order for a token at \$5 but the order settlement gave them an allocation for \$4, the net amount of \$1 would be the trader's surplus.

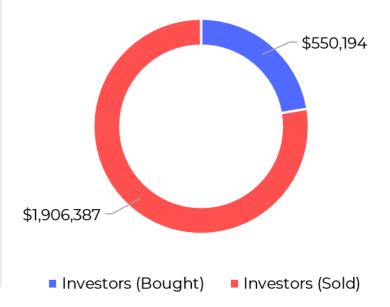
Mesa's design is intended to reduce front-running, maximize liquidity and result in a fairer distribution via the auction process. However, it's experienced a fair amount of challenges thus far. To start, the auction dynamics can be confusing for new users, leaving them puzzled why their orders did or did not get filled a certain way. It's also reliant on the off-chain work of Solvers, mentioned above, because the order optimization is too complex to do on-chain. This added complexity already had a negative effect on the MTA sale, where no solver was able to clear the auction for ~40 minutes.

MTA IDO - Dune Dashboard



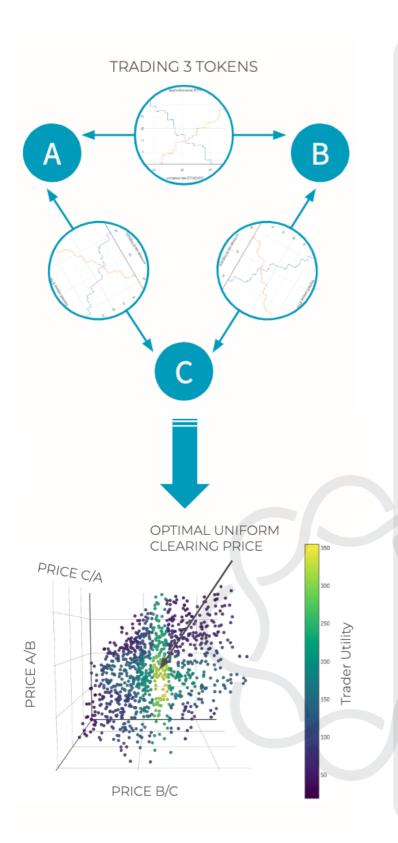
MSTABLE

MTA IDO Trader Surplus(\$)



Opportunity & Growing Pains



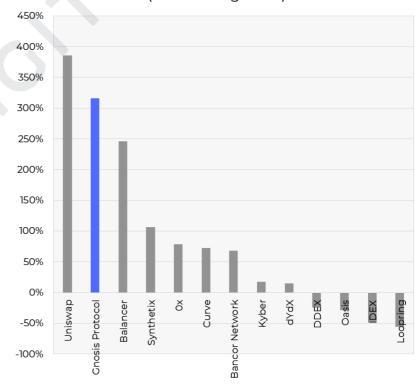


In our opinion, the overall reaction on twitter to many of the Mesa IDOs conducted so far has been net negative. To make matters worse, in early August the team behind DIA chose to use a fork of Mesa for their token sale rather than Mesa itself. This also ran into problems. To summarize, Mesa still has a lot of bugs that need to be worked out, it's questionable how much of a moat exists around the product in the near term, and it's uncertain how much revenue DXdao could ultimately extract from it after Solvers are paid.

With all that being said, a decentralized auction platform could be a solid niche category to capitalize on and, while anyone can build this out using Gnosis Protocol, Mesa is still the primary game in town. Even though yield farming is the hot trend for distributing tokens at the moment, it would be naive to think that token sales will cease to exist, and this type of product could capitalize on that demand moving forward.

We should also point out the growth in trading volume in recent months, which can be seen in the chart and table to the right under Gnosis Protocol. Mesa hasn't generated all of this volume on its own, but it has accounted for most of it. It'll be important to assess if this trend accelerates or stalls in the coming weeks and months.

Growth in Trading Volume by DEX (June 1 - August 14)



	Jun-20	Jul-20	Aug-20
Uniswap	\$445,992,653	\$1,758,396,034	\$2,166,631,763
Curve	\$360,441,713	\$1,054,825,153	\$621,716,875
Balancer	\$93,027,630	\$384,290,959	\$322,087,288
0x	\$124,068,438	\$280,047,262	\$222,030,921
Kyber	\$156,539,980	\$283,706,179	\$184,184,269
dYdX	\$158,242,849	\$254,515,314	\$181,686,644
Bancor Network	\$50,458,681	\$103,344,193	\$84,711,236
Synthetix	\$38,533,215	\$145,483,456	\$79,507,925
IDEX	\$104,854,911	\$110,958,976	\$54,050,547
Gnosis Protocol	\$9,722,369	\$9,194,237	\$40,449,338
Oasis	\$50,570,409	\$55,565,053	\$35,880,725
Loopring	\$16,180,106	\$17,608,267	\$7,208,522
DDEX	\$7,055,961	\$7,336,576	\$5,338,913

DXD Economics & Bonding Curve

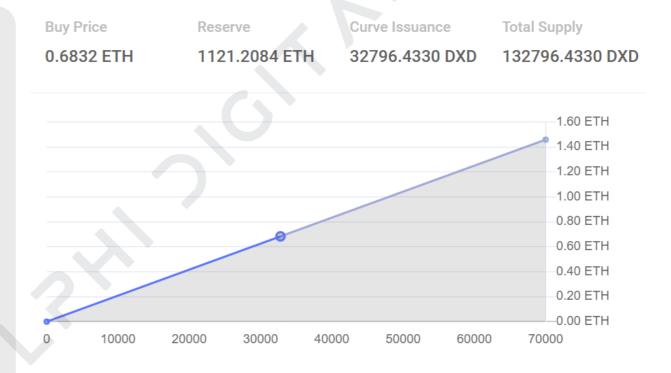


DXdao issues its token, DXD, via a continuous fundraiser, allowing users to purchase it through a bonding curve in exchange for ETH. For our Institutional members who read our recent report on Nexus Mutual, this concept should feel familiar. However, there are a few key distinctions present in DXdao's model relative to Nexus. To start, Nexus' bonding curve was built on top of its capital pool, which accrued ETH from token sales and cover premiums. A NXM holder could redeem their tokens for the underlying ETH in the capital pool at a redemption price 2.5% lower than the purchase price. It's important for us to emphasize that this is not the case with DXD, where redeeming through the curve results in a significant haircut, ~98%, currently. Why?

One reason is that, unlike Nexus, the DAO's assets are siloed into two distinct pools - 1) the DAO's treasury (i.e. balance sheet) and 2) the bonding curve reserve. While the DAO's adjusted balance sheet is ~\$8.8m, the value in the bonding curve reserve is only \$463k. The other factor affecting DXD's redemption value is how new capital gets divided up between the two pools.

When someone uses ETH to purchase new DXD through the curve, only 10% of the proceeds are allocated to the reserve. Similarly, when the DAO's products generate revenue, 10% is allocated to the reserve (this is the minimum percentage for at least 5 years). In both situations, 90% of the capital taken in is redirected to the DAO's treasury in order to fund growth. While the bonding curve dynamics cause new DXD holders to be long-term oriented, it leaves a lot to be desired.

Is everyone satisfied with this current design? As seen on the DAOtalk forum post to the right, many members believe that the bonding curve can be improved upon and we agree with that. **An upcoming bonding curve redesign, towards something more optimal, could be a key catalyst that helps propel DXdao forward.**





Bonding curve modifications

■ **b** DAOs ■ dxDAO



CLCL

11h

So in the community call yesterday, it was discussed by many that the bonding curve currently suppresses DXD to have organic price discovery, not only, it also allow people to mint significant amount of DXD at very low cost and slippage that can quickly dilute active supply.

Since the bonding curve is meant to raise \$ for the treasury and the DAO now has a good stash of ETH now, during the call, some people mentioned that we could consider either halt bonding curve until it needs more, or make curve significantly more exponential so that it is much harder to mint DXD.

Lets discuss and a governance proposal will be submitted after this

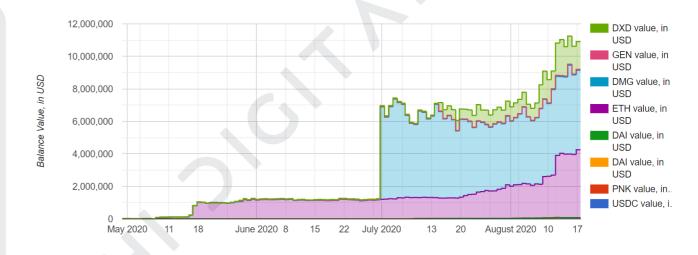
Balance Sheet & DXD Supply



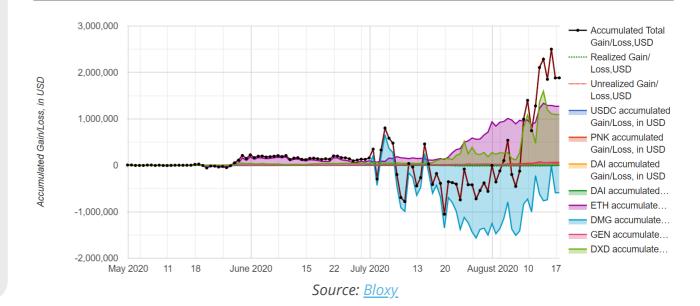
In addition to DXD purchases and revenue, the DAO's balance sheet can grow in other ways too. As you can see in the chart to the right, the DAO is currently holding a variety of assets, which have been added at different times. For example, DMG was granted to DXdao so that it's members could help govern DMM DAO. Or we can turn to a more recent example such as Kleros' PNK token. Because Omen is using Kleros for dispute resolution on its prediction markets, DXdao stands to earn 4m PNK tokens in total if certain milestones for adoption are met. As part of that same arrangement, DXdao can also earn a 10,000 GNO (~\$530k) grant from Gnosis if it generates \$20m in trading volume through its application interfaces for the protocol. Mesa alone has already passed that threshold so we can expect DXdao to be receiving those tokens as well.

Holding DXD can be thought of as having pass-through exposure to the underlying assets on the DAO's balance sheet, some of which could have future upside of their own, such as GEN at a \$17.4m market cap. With different ways for the DAO to accumulate various tokens, whether through bootstrapping programs or for help with governance, an attractive vault could be built over time.

DXD's own supply, which currently sits at ~18% of treasury holdings, will also play an important role in boosting the treasury's total value over time. This is also where the total supply number of 131,664 tokens on Etherscan can be misleading. Why? When DXdao launched, 100k DXD were pre-minted and set aside for the treasury. Over a 3 year linear vesting period, these DXD tokens are gradually released into the treasury. This means that only 31,664 DXD tokens are actually in float and held by people other than the DAO itself. Until portions of that 100k pre-mint hit circulation, the market cap of DXD should really be derived using the 31,664 DXD, which, based on current prices, is ~\$8.2m.



Token	Daily Gain/Loss ▼	Daily ROI, %	Gain/Loss	Realized Gain	Unrealized Gain	Compounded ROI, %
ETH	\$1,231.62	0.03%	\$1,271,662.38	\$52,322.87	\$1,219,339.50	107.23%
USDC	\$0.00	0.00%	(\$0.15)	\$0.00	(\$0.15)	(0.40%)
PNK	\$0.00	0.00%	\$64,669.90	\$0.00	\$64,669.90	387.03%
DAI	\$0.00	0.00%	(\$7.13)	(\$8.30)	\$1.17	(1.20%)
DAI	\$0.00	0.00%	\$0.12	\$0.00	\$0.12	1.79%
DMG	\$0.00	0.00%	(\$591,400.01)	\$0.00	(\$591,400.01)	(10.79%)
DXD	\$0.00	0.00%	\$1,094,114.63	\$0.00	\$1,094,114.63	112.37%
GEN	(\$4.74)	(0.01%)	\$44,698.23	\$2,387.00	\$42,311.23	489.57%



Sum-Of-The-Parts Valuation

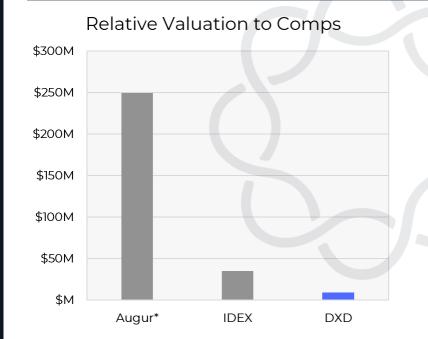


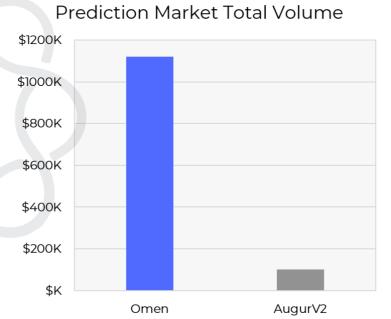
DXdao's balance sheet allows us to calculate a book value per DXD. As seen in the tables to the right, DXD's price / book value ratio is 0.88, which is a surprisingly rational value for the crypto markets. An aspect of DXdao that may be underappreciated is how each product adds to the value of the whole. Let's focus on DXdao's flagship products again, Omen and Mesa. As seen in the charts below, Omen has significantly exceeded AugurV2's total volume, while Mesa is generating slightly less volume than IDEX month to date. Both of these products could theoretically stand alone with their own tokens yet, when they're combined under the umbrella of DXdao, the valuation of DXD trades at a significant discount to its peers. There could be a few reasons for this. To start, there's been effectively no revenue generated by Omen and Mesa thus far for the DAO, with fees used to primarily pay liquidity providers. This plays into another concern about long-term defensibility and value accrual to the DAO given these products are effectively just a frontend built on top of Gnosis. Or perhaps the market just hasn't realized the token has a different name than the product itself.

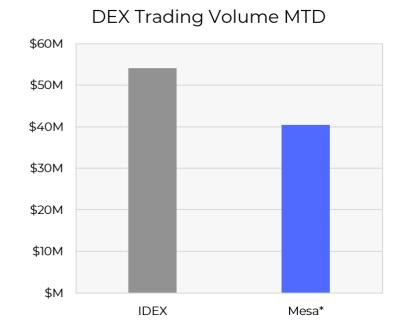
Name	Symbol	Balance	USD Value	Total In (\$)	Total Out (\$)	Market Cap
DMM: Governance	DMG	3,750,000	\$4,829,630	\$4,829,630	\$0	\$46.9m
Ethereum	ETH	9,024	\$3,866,885	\$4,151,971	\$166,678	\$47.9b
DXdao	DXD	7,677	\$1,995,898	\$1,964,044	\$0	\$8.2m
Kleros	PNK	500,000	\$81,588	\$81,588	\$0	\$81.8m
DAOstack	GEN	160,589	\$61,842	\$110,568	\$48,726	\$16.2m
Panvala Pan	PAN	50,000	\$2,584	\$2,584	\$0	??
Stablecoins		490	\$490	\$609	\$116	

Total Value on Balance Sheet	\$10,838,916
Adj. Value Net DXD Tokens	\$8,843,019
\$ Value of ETH in Curve	\$479,159
Total \$ Value Exog. Assets Owned By DAO	\$9,322,178
DXD Circulating Supply	31,665
Book Value Per DXD	\$294
DXD Market Price	\$260
Price / Book Value Ratio	0.88

*Augur token supply can vary since <u>v2 migration</u> is underway *Omen volumes recently driven by liquidity mining







Budgeting & Runway



Monthly Recurring								
	Total \$ Cost	ETH	DXD					
Ingamar	\$5,000	\$5,000	\$0					
Level K	\$10,500	\$8,000	\$2,500					
Nico (75%)	\$3,200	\$2,200	\$1,000					
Geronimo	\$10,500	\$6,000	\$4,500					
Augusto	\$10,400	\$8,000	\$2,400					
Kaden (75%)	\$2,500	\$2,500	\$0					
Bounties & misc	\$5,000	\$4,000	\$1,000					
Total \$ Cost	\$47,100	\$35,700	\$11,400					
% of Total		76%	24%					

\$1,722,700

6.3 years

DXdao's treasury exists to fund future growth, with the majority of money spent on development and marketing costs. As you can see in their most recent <u>budget proposal</u>, the monthly recurring spend is relatively reasonable. When combined with the current treasury holdings, DXdao could finance itself for 6.3 years assuming no new DXD purchases, no revenue, no price moves in existing holdings, and excluding the vested portion of the DXD pre-mint that gets added each month. The latter of which, if not used for liquidity mining, could lengthen runway significantly when used to pay compensation. One suggestion would be to shift the monthly costs to a more 50/50 split between ETH and DXD that way the treasury doesn't deplete its ETH holdings as fast and to better align incentives.



DXdao Worker Compensation Guidelines 2020





AugustoL

Jun 10

Hello everyone, It is clear based on past work proposals created the last months that there is no clear way to estimate the compensation for individuals who are working for the DXdao. I took the initiative to start a guideline document that can be used to estimate the compensation to be requested by individuals to the DXdao.

Having a worker compensation framework would be very important to estimate future economic expenses of the DXdao, since it is going to be the main (maybe even only) expende from the organization.

Treasury	\$10,838,916
DXD	\$1,995,898
ETH + stablecoins	\$3,867,375
Total 6m \$ Spend	\$690,100
	4

Гotal 12m \$ Spend

Current Runway*

		20-Aug	20-Sep	20-Oct	20-Nov	20-Dec	21-Jan	21-Feb	21-Mar	21-Apr	21-May	21-Jun	21-Jul
	Current Monthly	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700	\$35,700
CTU	Worker growth (est.)	\$15,000	\$20,000	\$30,000	\$40,000	\$50,000	\$50,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
ETH	Bounty & Misc	\$5,000	\$10,000	\$15,000	\$20,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
	ETH Total	\$55,700	\$65,700	\$80,700	\$95,700	\$110,700	\$110,700	\$135,700	\$135,700	\$135,700	\$135,700	\$135,700	\$135,700
	Current Monthly	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400	\$11,400
DXD	Worker growth (est)	\$7,500	\$10,000	\$15,000	\$20,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
	DXD Total	\$18,900	\$21,400	\$26,400	\$31,400	\$36,400	\$36,400	\$36,400	\$36,400	\$36,400	\$36,400	\$36,400	\$36,400
	Total Monthly Spend	\$74,600	\$87,100	\$107,100	\$127,100	\$147,100	\$147,100	\$172,100	\$172,100	\$172,100	\$172,100	\$172,100	\$172,100

Whale Watching



By using Nansen's Token God Mode dashboard, we can track how DXD's supply distribution has changed recently. In the table below, we show the top balances ranked by DXD supply held. Addresses controlled by DXdao, holding ~75.8% of total supply, have been highlighted in blue. The part that's interesting about this data is how many new holders have moved in over the past week, which we've highlighted in green. 7 of the top 25 addresses received their first DXD within the past week, and combined they now hold ~22% of the total float. The 8 existing large holders in the top 25, shown below in orange, are all flat or net positive for inflows over the past 7 and 30 days.



Source: Nansen Token God Mode

Rank	Description	Balance	\$ Value	% of Total	% of Float	Change (7D)	Change (30D)	Received	Sent	Days Since First Received	First Received At
1	Dxdao Escrowed Pre-mint	92,323	\$24,003,980	70%		0	-1,162	100,000	7,677	104	May 6, 2020, 12:18 PM
2	DXdao Treasury	7,677	\$1,996,020	5.80%		0	1,162	7,677	0	99	May 11, 2020, 4:12 PM
3	New Potential Whale	1,866	\$485,160	1.40%	5.89%	1,866	1,866	1,866	0	4	August 13, 2020, 11:15 PM
4	Heavy Dex Trader	1,662	\$432,120	1.30%	5.25%	1,149	1,040	2,755	1,093	57	June 22, 2020, 8:54 PM
5	Loopring DEX	1,385	\$360,100	1%	4.37%	-686	-737	5,368	3,983	85	May 25, 2020, 4:19 PM
6	New Potential Whale	1,361	\$353,860	1%	4.30%	0	1,361	1,361	0	7	August 10, 2020, 11:48 PM
7	New Potential Whale	1,251	\$325,260	0.94%	3.95%	1,251	1,251	1,251	0	5	August 13, 2020, 4:18 AM
8	Balancer Pool DEX	1,142	\$296,920	0.86%	3.61%	70	-209	12,662	11,520	59	June 20, 2020, 4:34 AM
9	New Potential Whale	1,046	\$271,960	0.79%	3.30%	1,046	1,046	1,046	0	4	August 14, 2020, 2:19 PM
10	Existing Whale	778	\$202,280	0.59%	2.46%	0	0	978	200	101	May 8, 2020, 11:30 PM
11	New Potential Whale	739	\$192,140	0.56%	2.33%	739	739	739	0	0	August 18, 2020, 11:59 AM
12	Mesa DEX	726	\$188,760	0.55%	2.29%	-30	-362	3,660	2,934	100	May 9, 2020, 10:05 PM
13	Existing Whale	717	\$186,420	0.54%	2.26%	0	0	717	0	92	May 18, 2020, 12:40 PM
14	Existing Whale	656	\$170,560	0.49%	2.07%	0	0	656	0	100	May 10, 2020, 6:40 PM
15	IDEX	611	\$158,860	0.46%	1.93%	-170	-582	6,945	6,334	82	May 28, 2020, 3:15 PM
16	Uniswap Pool DEX	445	\$115,700	0.33%	1.41%	-55	205	39,631	39,186	92	May 18, 2020, 7:46 PM
17	Balancer Pool DEX	445	\$115,700	0.33%	1.41%	-8	69	3,032	2,587	46	July 3, 2020, 7:17 AM
18	Existing Whale	398	\$103,480	0.30%	1.26%	0	0	398	0	101	May 9, 2020, 1:43 AM
19	Balancer Pool DEX	386	\$100,360	0.29%	1.22%	-56	386	1,262	876	11	August 7, 2020, 6:02 AM
20	New Potential Whale	342	\$88,920	0.26%	1.08%	242	342	342	0	7	August 11, 2020, 12:27 AM
21	New Potential Whale	342	\$88,920	0.26%	1.08%	342	342	342	0	4	August 14, 2020, 1:56 AM
22	Balancer Pool DEX	313	\$81,380	0.24%	0.99%	-2	-13	2,894	2,580	55	June 24, 2020, 6:43 PM
23	Existing Whale	293	\$76,180	0.22%	0.93%	23	293	337	44	29	July 20, 2020, 12:10 AM
24	CDP Creator Medium Dex Trader	233	\$60,580	0.18%	0.74%	0	0	234	1	101	May 9, 2020, 6:42 PM
25	Existing Whale	218	\$56,680	0.16%	0.69%	0	0	218	0	92	May 18, 2020, 2:49 PM

Reputation & Governance

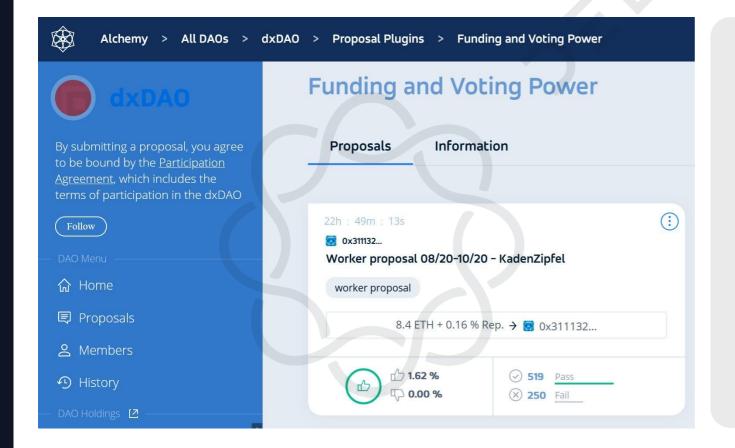


We're nearing the end of this report and we haven't even touched on how this DAO is governed yet. There's a reason for this. In short, it's messy. DXdao doesn't have a dual-token model, it actually has a three-token model. Yes, you heard that correctly. We've laid out an overview of each token to the right, but let's focus on REP for now.

Any DXdao member can create a proposal. Members then use their REP (i.e. "reputation") to vote, approving or denying the proposal. The more REP someone has, the more their vote matters. REP cannot be purchased, it can only be earned by providing value to the DAO.

- **1** DXD DXdao's native token. DXD holders are entitled to the revenues from the ecosystem.
- Reputation is essentially the governance mechanism.

 Non-transferable and attached to a staker's ETH address. Only earned.
- GEN is used to stake for or against a particular proposal. Allows proposals to pass or fail with a lower voting threshold. This is DAOStack's token.



Governance is done through <u>DAOStack's Alchemy portal</u>. There are a few different categories for proposals, which can either be: regular, pending, or boosted proposals. Regular and pending are self explanatory, while boosted proposals are when predictors "bet" that a proposal will be accepted by a vote, using GEN.

Proposals are executed if they receive an absolute majority from more than 50% of REP holders voting in favor of it within a specific time frame. Meanwhile, boosted proposals are executed if they receive a relative majority (more REP votes in favor of the proposal than against). On the left, we've included a screenshot of Alchemy and how pending proposals look. While Alchemy is where these proposals live, <u>DAOtalk</u> is usually where you'll find the community discussion.

Dormant REP Holders



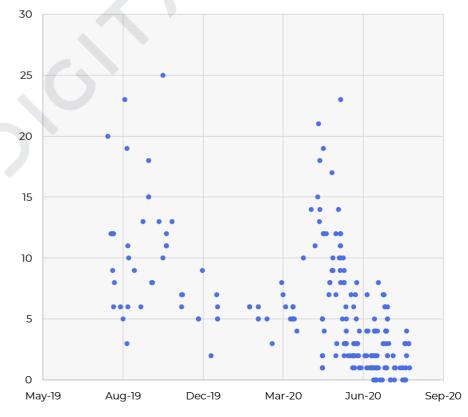
As always, our team doesn't like to critique without providing support and or suggestions. Fortunately for us, the issues with the current distribution of control are evident when looking at DXdao's historical governance data.

- There have been ~225 votes since DXdao's inception. Since then, there have been an average of ~6 addresses that participated across each vote.
- Over 50% of those votes have taken place in the past three months. During that period, there was only an average of ~3.5 addresses that voted for each proposal.
- In the past month, there have been ~28 votes. Only 14 unique addresses have voted in the last 30 days. Those 14 users hold ~35% of total REP.
- However, in the past month there have been over 50 new topics posted on DXdao's forum. There have been over 30 unique users joining those discussions within that period.
- There is currently 1,236,855.47 REP held by 417 members.
- The top 10 REP holders currently have >50% of the voting power.

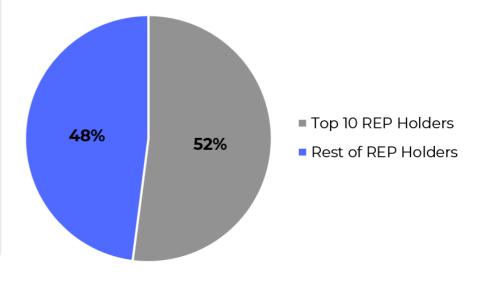
A few notes: Low participation recently can also be attributed to two things: (1) gas fees are very high and it can take upwards of \$30 to vote, and (2) a lot of discourse takes place on DAOTalk so members may not participate if they feel consensus on a vote is already trending a specific way.

What does this data tell us? A few things. There is high concentration among REP holders and there are a lot of dormant REP holders. Meanwhile, the data from DAOTalk clearly shows an active community. There are double the unique addresses participating in discussions about the DAO but only 14 addresses were voting during that period. With over 50% of total votes happening in just the past three months, it's clear members are actively looking to update certain aspects of the DAO. Our team saw this as an opportunity to join and propose changes.

How Many Addresses Voted?



Distribution of Reputation



The Future of Rep



Looking forward, an important question lies ahead for the DAO: how do we fix REP? Before diving into this question and some of our team's proposals, let's first understand how it got this way. DXdao member John Kelleher does a great job of going through the history of REP here. Key takeaways below:

- 980,000 REP was awarded during the reputation staking period about a year ago in 2019. Members gained REP by locking ETH (80,000), locking approved ERC20s (300,000), registering MGN which was earned by trading on the DutchX exchange (500,000) and also by purchasing REP with GEN (10,000).
- As we mentioned before, DXdao Reputation can be minted or destroyed through proposals. REP has only been destroyed once, and that was when Loopring proposed to slash 20% (21,000) of their REP.
- The rest of the REP (~268,000) has been minted since the staking period to members who passed proposals or otherwise have generated value for the DAO.
- The majority of this has been awarded to workers helping build DXdao's products. This represents a 27% inflation rate in REP over the past year.
- It's important to note that there is no clear way to know how many people this represents and some parties may control more than one address.

Factoring in the data we looked at on the previous page, our team will outline a few key goals to keep in mind when thinking about the future of REP. First off, REP needs to be more widely distributed. There are a lot of DXD holders and supporters who have very little, if any, REP that aren't able to participate in governance of the DAO currently. Also, voting needs to be cheaper. Most importantly, any changes made need to place a focus on decentralization as the highest priority. These goals need to be achieved while carefully balancing the voting power of DXD and REP holders.

Over the past few months, the DeFi narrative has started to gain traction across the community. There couldn't be a better opportunity for DXdao to drastically inflate REP's supply to reward new participants who want to be a part of a DeFi-focused DAO while also diluting dormant REP holders. Our team has been closely following the discussions on DXdao's forums and governance calls, and we like a few of the ideas we've been hearing. Some potential changes to help fix this disconnect between DXD and REP holders could be:

- Potentially use the DAO's assets or mint new REP to do a "governance mining" type initiative. Could even enact slashing or dilution to accounts that don't stay active. This will help incentivize increased participation among current DXdao members as well as give an opportunity for new members to join.
- Leverage a voting contract which would enable DXD holders as a whole to have control of an amount of REP, and then DXD votes would determine how that REP votes. At the moment, DXD really has no governance rights to the DAO it gets its revenues from. We believe this needs to change.
- Our team believes a mix of these two ideas may be the best way forward. Mint enough REP so DXD holders control XX% and finally get voting rights. To make sure no group can gain a controlling stake in voting power, increase inflation of REP for the next 12-18 months where Reputation is minted and distributed to users who add value to the DAO (either via technical help, business development, providing liquidity, or even the communities of DXdao's products).
- Lastly, voting needs to be moved to Layer 2. Fortunately, a DAO member Augusto has proposed an interesting solution. DXdao could potentially deploy a clone of the DAO to Kovan and use Kovan to collect signatures for votes. Then, this is submitted in one transaction to mainnet. To prevent manipulation for whoever is submitting the vote, John Kelleher has suggested incorporating a slight delay. This way, Kovan voting ends a few days early and other members can still submit a vote on mainnet.

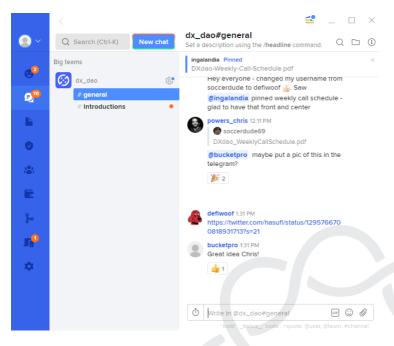
Looking Forward



The only way DXdao works in the long term is if we're able to continue to develop a vibrant community. So, we need your help. Yes, you. If you're reading this report and have made it so far, you're most likely in the top 1% of people in the world interested in crypto. If you're anything like us, you dedicate a majority of your waking moments thinking about this space and how it will change the world in the future. This is your chance to help shape how it plays out.

Our team urges other members of the community who are passionate about DeFi to join and participate.

As you'll see on our home page, our firm's mission is to do whatever we can to help this space move forward and have the biggest positive impact possible on the world. We view this play as a necessary step to accomplish that goal. We are officially proud members of DXdao and encourage you to join as well!



How To Get Involved

Join DXdao's **Keybase Chat** and Introduce Yourself!

 This is by far the easiest way to test the waters to see if this DAO is a fit for you. DXdao's Keybase chat (pictured to the left) is full of friendly members who will appreciate you even taking the time to come join and say hi.

Visit <u>DAOtalk.org</u> and Participate In Discussions!

 If you're on the fence about joining, we highly recommend you browse through these forums. A lot of intelligent discourse that will definitely grab your attention (like it did for us).

DAO talk.org	ı	Sign Up	Log In	Q ≡
■ Maos → Action DAOs → Action				
Topic		Replies	Views	Activity
♣ ▼ What is the dxDAO? See the whitepaper dxDAO. Toward super-scalable organizations The degree of decentralization in any system encompasses not only its technical architecture, but extends to system governance itself. Today, there is a clea read more	◎ ◎	1	1.7k	Nov '18
Governance Discussion: Wed Aug 19 15:00 UTC governance	P	0	2	1m
Bonding curve modifications	©	0	43	13h
Update: DXdao's participation in Panvala League (next Batch) panvala, community, bizdev	S	1	47	18h
Omen - Update and Refine a "How to Use Omen" guide for Omen v1.1.3 omen	(5)	0	21	18h
Worker Proposal - Pete Smeet	P A C 8	9	79	23h
Getting more active with the treasury	© O 🕙 😗 🙈	7	81	1d
[Proposal] Governance, Biz Dev and content focused REP request proposal	PR &	4	66	1d

Over the next few weeks, our team will be working with the members of the DAO to talk through the proposals we've made within this report. We are optimistic that the DAO will end up implementing some versions of our proposals. One we will definitely campaign for is inflating the supply of REP to incentivize new entrants and value-add members of the DAO while diluting dormant REP holders. This will also be critical for helping the DAO become more decentralized. Because of this, we highly recommend closely following discussions on Keybase and DAOtalk.org. We expect a lot of opportunities for motivated individuals to participate and earn crypto for their contributions to the DAO.

Here are a few positions we are aware of that the DAO is actively looking for: designers, product managers, solidity devs, subgraph devs, web / web 3.0 devs.



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