Nolus Investment Memo

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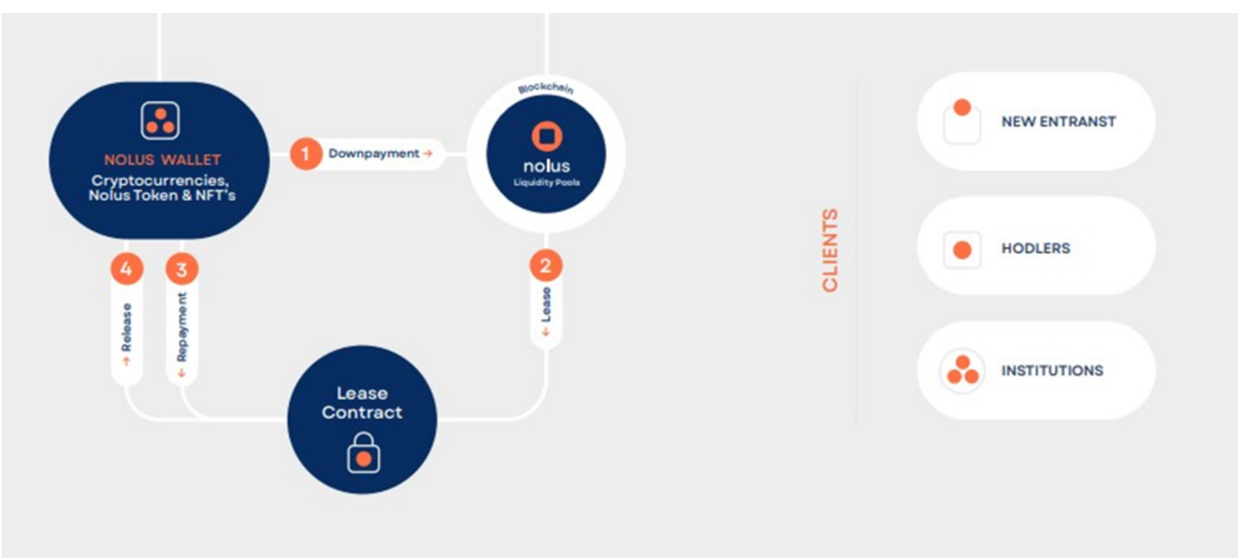
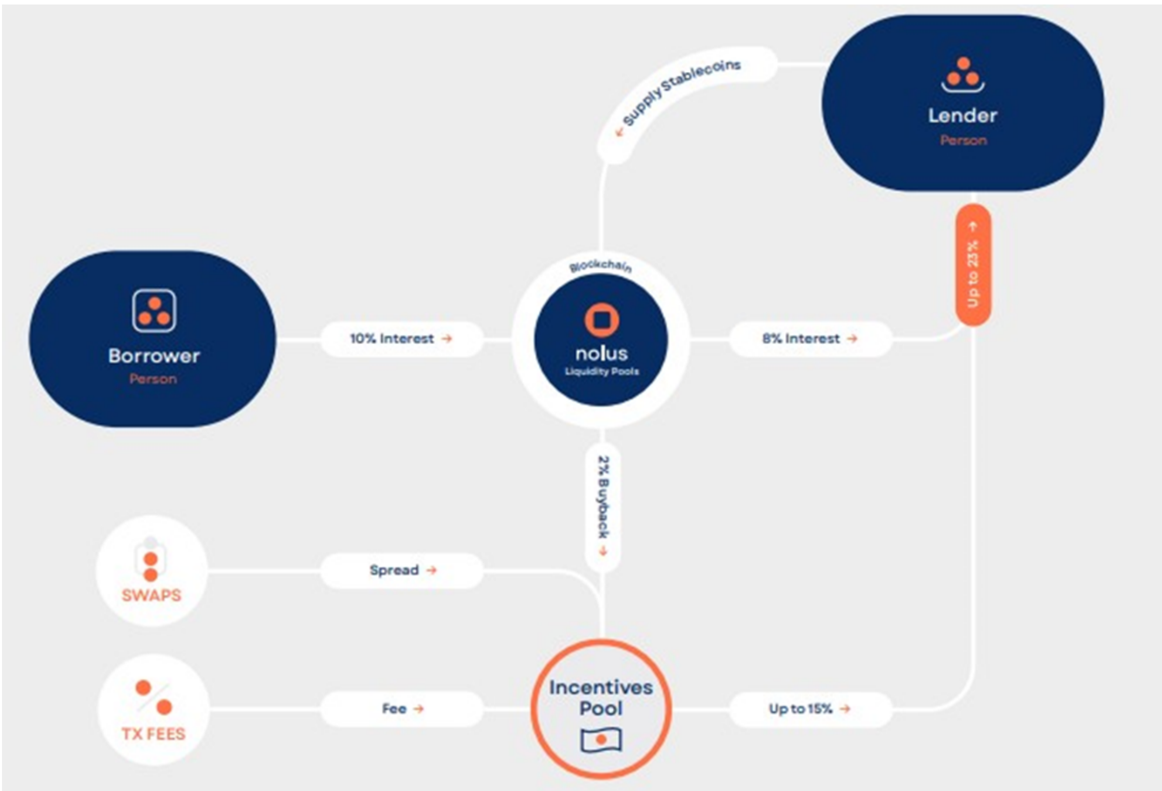
Overview

Already in the final stage of development, Nolus utilizes a Proof-of-Stake Layer-1 blockchain built using the Cosmos SDK. The Nolus DeFi Lease provides up to 150% financing on the initial investment, where users retain ownership over the digital asset and are exposed to a lower risk of margin calls and transaction costs. IBC and ICA are enabled, allowing Nolus to utilize leveraged liquid staking from the beginning.

Nolus DeFi Lease is a novel buy now-pay later product transferred into the crypto universe. Users can secure a larger amount of desired digital assets than their current equity and never miss the potential upside value gain.



The protocol’s money market will incentivize lenders with additional rewards above the initially agreed interest through the release of Nolus tokens (NLS). The never-changing fixed borrower terms of interest throughout the lease contract provide predictability for future cash flows and reward distributions toward lenders. The cumulative profits of the protocol lease contracts, swap spreads, and transaction fees will buy back NLS tokens from the open market, driving the price appreciation of the token.



Solved Inefficiencies

Lack of Ownership ➡ *Retained Ownership*
Leveraged products provide no ownership of the underlying asset. With Nolus, the ownershipstays with the user at all times.

Over-collateralization ➡ *Efficient Lending*
The industry suffers from steep over-collateralization requirements. Collateral locked is between 2x to 5x from the loan provided which leaves a large amount of capital unused. The Nolus DeFi Lease provides financing up to 150% on the initial investment thus reducing the level of collateralization by at least 3 times.

Risk of Liquidation ➡ Lower Liquidations
Risk of liquidation and loss of equity is extremely high with current lending platforms. Both CeFi and DeFi lending solutions liquidate the collateral when its price depreciates by 20% to 40% from its original position. The Nolus DeFi Lease has 40% lower liquidation rates compared to the market average (all parameters equal), indicating up to 67% depreciation in the price of the digital asset.

High Costs ➡ Low Cost & Predictability
Effective interest rates vary between 11% and 19% for CeFi, while DeFi solutions have variable interest that can go above 30%. Transaction fees on Ethereum can reach 50% of the transaction for smaller amounts. With Nolus, the total costs of financing and transactions are low – the never-changing interest rate is locked at contract creation, with little to no additional transaction cost.

Missing Out ➡ 3x on a Locked Price
Limited liquidity prevents larger purchases today. If provided as collateral, only 50% of the holdings can be used as an investment vehicle to expand one's exposure. With Nolus, the price of the desired asset is locked in at the contract creation, and the user has at least three times more purchasing power today. The user can repay part or the entire loan just by the asset price appreciation.

Nexo Incubation

Nolus is incubated by Credissimo, a leading European FinTech Group founded in 2007, which also incubated Nexo. Nexo is a crypto lender where users can buy assets, borrow against them, or swap between 300+ pairs. Nexo is currently sitting at a $659.73M FDV and at its peak had a $3.15B FDV. The team mentioned that they have learned a lot from launching Nexo and are using that information to improve Nolus.

Investment Thesis

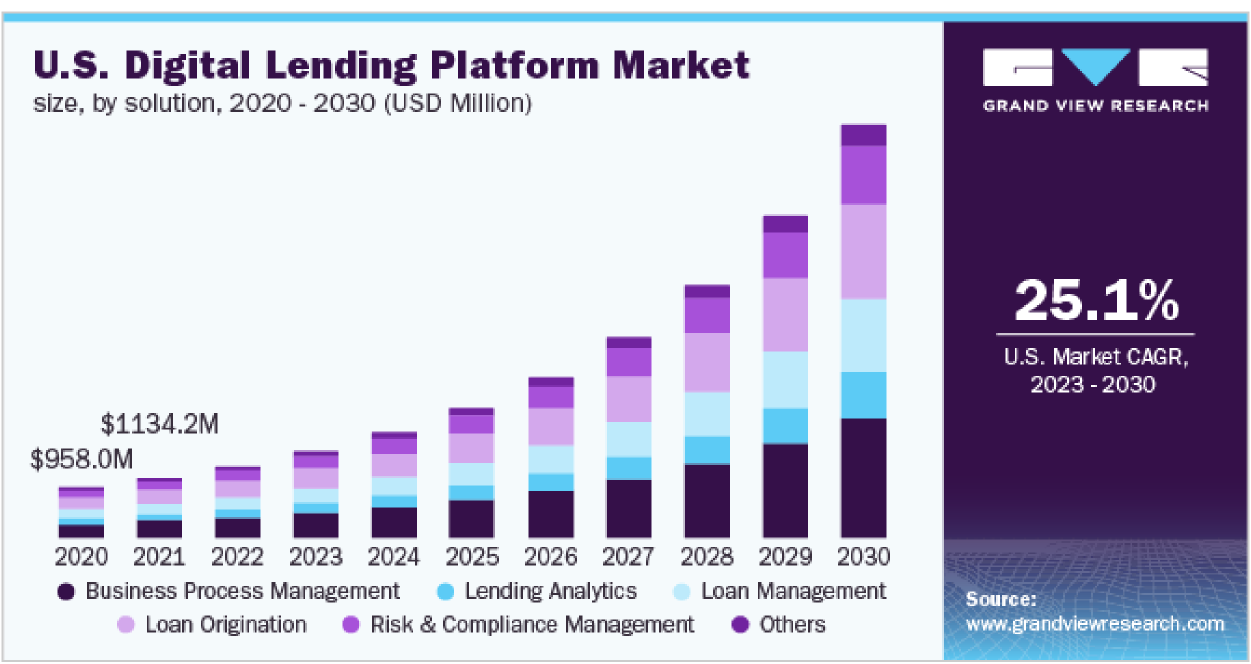
Nolus is an app-specific L1 lending solution built on Cosmos to launch in Q4 2022 (audited by Oak Securities) that aims to tackle some of the current inefficiencies in the CeFi and DeFi markets.

Nolus is raising $1.5M at a $20M post-money FDV. The deal is structured as a token deal with 7.5% (1B tokens) of the total supply for sale. We are bullish on Nolus since it is introducing innovative lending mechanics that provides up to 150% financing on the initial investment, where users retain ownership over the digital asset and are exposed to a lower risk of margin calls and transaction costs. Nolus also has a strong team that incubated Nexo, a crypto project with a $659.73M FDV, and has the potential to do a 27x based on current comps.

Market Size

According to CoinGecko, the Lending/Borrowing market cap today is $2.57B which means Nolus has an addressable market size of at least $2.5B.

Grand View Research (GVR) reports that the global digital lending platform market size was valued at $5.84B in 2021 and is expected to register a compound annual growth rate (CAGR) of 25.9% from 2022 to 2030. GVR projects a $44.50B market size in 2030.



Assumptions

Nolus is assuming it can support financing up to 150% on all investments indefinitely. Nolus is also assuming its DeFi Lease has 40% lower liquidation rates compared to the market average. Nolus is assuming its under collateralization lending method is sustainable and will not cause mass liquidations.

Risks

Mass Liquidations

There is a major risk of mass liquidations as Nolus is offering 150% financing on all investments. This means that a user can invest 1 ETH and Nolus offers up to 2.5 ETH in financing. Nolus does this by utilizing the appreciation of the ETH to pay for the entire loan. However, if appreciation rates crash and users are no longer able to pay back their loans, there will potentially be mass liquidations.

Potential

An investment in Nolus will compound as crypto lending and borrowing becomes more mainstream. If the token is designed correctly to accrue value as Nolus generates more revenue through transaction fees, the token price should compound proportionately to the revenue generated.

<u>Current Comps Valuations:</u>

- Aave - $1.01B FDV
- Maker - $654M FDV
- Compound - $358M FDV
- Kava - $345M FDV
- Umee - $83M FDV

By taking the average FDV of Nolus’s closest competitors (Aave, Maker, Compound, Kava, and Umee), we found that Nolus has the potential to reach a $539M FDV which would be 27x from its current $20M FDV.