



## Investment Thesis

# Aave AAVE

Token type	Governance Token
Price	\$81.93
Sector	Decentralized Finance (DeFi)
Industry	Credit/Lending
Market Cap	\$996M

## Key Figures

52-Week Range	\$45.47 - \$458.00
Market Rank	#44
Market Capitalization	\$996 million
Total Value Locked (TVL)	\$6,03 billion
Annualized Protocol Revenue	\$148.76 million
Annualized Borrowing Volume	\$4.24 billion
Circulating Supply	13,915,773
Volume (24h)	\$392,694,279
ATH	\$662.72
ATH Date	May 28, 2021

## Overview

Aave is an Ethereum-based decentralized **lending market protocol** where users can participate as depositors or borrowers. In Aave, any loan of non-zero duration must be overcollateralized. Requiring collateral contractually prevents a counterparty from defaulting – if a loan falls below its collateralization ratio, the position is liquidated by a "keeper" to pay back the borrower's debt. The Aave protocol supports two main types of markets, where depositors can provide liquidity to earn a passive income. The first is for conventional ERC-20 tokens like ETH, USDC, and DAI. The second is specific to LP (liquidity pool) tokens from decentralized exchanges (DEXs) like Uniswap. Interest rates are algorithmically pooled and optimized based on debt utilization. The Aave Protocol also supports "**flash loans**", a DeFi innovation that democratizes access to liquidity for immediately profitable ventures. A flash loan is an instant (uncollateralized) loan paid back with required interest within the same transaction – a smart contract enforces repayment, so there is no counterparty risk. In addition, Aave has a **credit delegation** feature that allows users (delegators) to allocate collateral to potential borrowers. Importantly, **all loans in Aave are ultimately backed by collateral**, regardless of whose collateral it is. Finally, the AAVE token yields voting rights on the platform and participates in value capture. AAVE holders are also incentivized to stake their tokens in the Safety Module (SM), a mitigation tool against unexpected loss of funds.

- In 2017, Stani Kulechov founded Aave (originally called ETHlend) after raising \$16.2 million in an Initial Coin Offering (ICO).
- In 2020, the Aave Protocol was launched.
- In January 2022, Aave launched its "**permissioned**" **DeFi platform for institutions**, Aave Arc.
- In March 2022, Aave V3 (the third version of the protocol) launched on six different chains, including Avalanche, Fantom and Polygon.
- In July 2022, Aave Companies proposed to the DAO the creation of a native, decentralized, and **fully-collateralized stablecoin**, "**GHO**", pegged to the US dollar.

## Key takeaways

- Aave is an Ethereum-based decentralized lending protocol.
- It is the second-largest DeFi protocol by TVL, only behind MakerDAO.
- Aave has introduced various DeFi innovations, expanded to multiple chains, and entirely new markets (e.g., Aave Arc for institutions).

## Risk factors

- **Smart contract risk.** Risk of a bug, design flaw or potential attack surfaces on the smart contract layer.
- **Oracle failure risk.** Risk of the Oracle system not properly updating the prices in case of extreme market downturn and network congestion.
- **Regulatory uncertainty.**

Figure 1:  
Price Performance (2-years)



Figure 2:  
Total Value Locked (TVL)



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