

Arbitrum GovHack Track

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Track 5 - Strategic Big Bets

Challenge Statement:

How can Arbitrum DAO execute strategic big bets to scale growth and outpace competitors via M&A transactions?

Members:

The initiative will be led by a dedicated team from [Areta](#).

- [Bernard Schmid](#), Co-founder and Governance Lead at Areta
- [Karl-Martin Ahrend](#), Co-founder and M&A Lead at Areta
- [Jan-Philip Grabs](#), Co-founder and Capital Formation Lead at Areta
- [Siddharth Shah](#), VP Strategic Governance at Areta
- [Yacine Boughazi](#), VP Investment Banking at Areta

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Loom Recording:

[here](#)

Pitch Deck:

[here](#)

Proposal

[Non-Constitutional] M&A for Arbitrum DAO

Abstract

This proposal outlines the opportunity for Arbitrum DAO to form an M&A Group focused on identifying and executing on M&A opportunities. Arbitrum is among the largest, most active DAOs in the space with a \$8 billion treasury.

One of the primary ways for Arbitrum to scalably deploy capital and grow rapidly is to get in the M&A game, and the upside is potentially massive.

Additionally, this is a largely untapped opportunity in crypto, only explored by a few different projects in the space; therefore, delving deeper into M&A would enable Arbitrum to get a jump-start on its competitors.

This is a foundational proposal for Phase 1 led by Areta to explore the feasibility of Arbitrum DAO pursuing M&A strategic transactions.

1. Motivation / Opportunity

Why Arbitrum Should Enter the M&A Market Now

Arbitrum DAO has significant potential to be the first movers in this market. Other leading ecosystems have started to

explore the opportunity as well (e.g., Uniswap's former discussion which is not moving ahead at the moment), and Polygon has made M&A a cornerstone of its growth strategy.

Several M&A market catalysts are converging:

- Early Industry Maturation:

Incumbents buying companies with high growth potential.

- Protracted Bear Market Distress:

Leads to increased distressed sales.

- Buy or Build:

Newcomers to web3 consider acquiring instead of in-house development.

- Regulation & Compliance:

Companies acquire those with necessary licenses to navigate regulations.

- Acquire:

Companies buy others mainly for their web3 developer talent.

Several blockchain protocols have already demonstrated the power of M&A.

2. Case Study

Polygon's Acquisition of Mir

Polygon's acquisition of Mir for \$400M in Nov 2021, specializing in recursive zero-knowledge proofs for efficient L2 solutions, complements its ZK-focused strategy. Along with the Hermez acquisition, it boosts Polygon's scaling vision, exemplified by the recent AggLayer announcement, aligning with its buy-and-build approach toward blockchain scalability.

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3. Solution

M&A Ideas for Arbitrum

There are several initial ways in which M&A could act as a key growth driver for the Arbitrum ecosystem (non-exhaustive)

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1. Tech Talent Acqui-Hires

Acquire or acqui-hire a team and enable them to focus on building tech for (or otherwise servicing) the Arbitrum DAO. The best opportunities are tier-1 tech teams that need distribution.

Some examples in web3:

- [Polygon's aforementioned acquisition of Mir](#). This transaction presents a compelling narrative for Arbitrum: The founders of the Mir protocol had technically built the best ZK chain, but launching a token would've likely led to failure. Therefore, the acquisition was mutually beneficial.
- [Offchain Labs bought Prysmatic Labs](#), one of the core engineering teams behind the Merge, bringing in 11 new engineering talents to Offchain Labs.
- Acquire or Strategically Invest in Complementary Infrastructure / Protocols

Zero-knowledge technology, e.g., could play a large part in Arbitrum's future and strategic acquisitions/investments could accelerate the realization of this vision. Arbitrum can super-charge its entry into the ZK space by acquiring or investing in pioneers in the ZK space, such as [Lagrange](#), [Panther Protocol](#), [Herodotus](#), [Ingonyama](#), or [Supranational](#) (examples for illustrative purposes).

1. Acquire L2s

The L2 space, currently saturated and fragmented, is poised for growth. Efforts to unify liquidity and enhance interoperability are underway but require time to mature, leading to temporary fragmentation. Arbitrum, with its substantial treasury, has the opportunity to acquire L2s, aiming to consolidate the ecosystem, expand its user base, and mitigate competition and fragmentation.

1. Acquire Applications as L3s for Arbitrum Orbit

Arbitrum is a clear leader in the derivatives and DeFi markets and has made great strides in DeFi generally, while there are 50+ projects currently confirmed to be launching as Orbit chains. However, M&A presents the DAO with an opportunity to identify gaps in the types of applications Arbitrum supports and that it thinks present strategically important use cases going forward in the crypto space - these could range from borrowing and lending protocols, PERP DEXs, NFT DEXs, gaming, etc., and would enable the Orbit ecosystem to scale even more rapidly.

4. Rationale / How / Timeline

Tenets of the M&A Group

The proposed M&A Group would follow the key tenets below:

Phase 1:

Feasibility Sprint & Community Review

12 weeks Sprint + 4 weeks Review

- Clarify the regulatory, and logistical considerations with Arbitrum pursuing M&A strategic transactions in a feasibility assessment, including:
- Ownership of equity and whether the DAO can own any equity;
- Engage with the community and all relevant stakeholders to outline the challenges and risks associated with the DAO engaging in M&A, and identify mitigants;
- Enable the community to review the findings of the feasibility assessment and signal their approval to formally form the M&A Group.
- Ownership of equity and whether the DAO can own any equity;
- Engage with the community and all relevant stakeholders to outline the challenges and risks associated with the DAO engaging in M&A, and identify mitigants;
- Enable the community to review the findings of the feasibility assessment and signal their approval to formally form the M&A Group.
- Disclaimer

: Phase 1 will be halted at any time if we encounter significant obstacles.

Phase 2: Target Setting & Target Identification

12 weeks

- After feasibility is proven and the community has reviewed it, we will submit another proposal to start the execution of M&A activities. Before beginning the target selection process, we will align on strategic objectives and transition the group to get operational.

5. Overall Cost

Costs for this proposal are broken into two portions:

- Monthly fee throughout Phase 1: \$25k USD (budgeted below cost as a commitment from Areta to support this precedent-setting initiative)
- Legal fee budget: \$100k USD for legal fees only used for external law firms (not us). Rest of budget will be transferred

back to the DAO

6. Initiative Lead

The initiative will be led by a dedicated team from [Areta](#), a leading independent crypto-native investment bank team specializing in mergers & acquisitions and complex financial transactions for some of the leading companies and DAOs in the crypto space.

Our experience from prior careers at Blackstone and JPMorgan helped us lead the first acquisition of [Coingecko](#), the sale of [Solscan to Etherscan](#), and the strategic wind-down of [Gro DAO](#).

We have been long-time contributors to Arbitrum's Initiatives and have long-term vision in the DAO. Relevant experiences include leading the [Uniswap](#)-Arbitrum Grant Program, being part of the [ArbitrumDAO Procurement Committee](#), and leading [initiatives for SafeDAO](#).

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Reference links

- Pitch Deck: [here](#)
- Areta Website: [here](#)