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Llama has compiled a runway analysis on the Aave treasury utilizing actual and predicted spend over a >12 month time horizon. We encourage the community to provide feedback and ask questions to gain clarity.

Before presenting the analysis, we'd like to note that, wherever possible, we've erred on the side of being conservative

. We've modeled a $200k monthly expense buffer for third party vendors, a liquidity mining expense of $209k/month in our base cases, and have not included additional revenue that is expected as a result of the launch of GHO or the integration of BPTs and other assets as collateral on the protocol.

Full report here.

Summary

At a high level, Aave has the following runway under the scenarios outlined below (assuming current expense rate):

- Total Treasury Runway (AAVE and all market reserves)
- 3.2 years

of runway if the market remains flat

- 2.5 years

of runway if the market falls 50%

- 3.6 years

of runway if the market rises 50%

- 3.2 years

of runway if the market remains flat

- 2.5 years

of runway if the market falls 50%

- 3.6 years

of runway if the market rises 50%

- Stablecoin (only) Runway
- 7.4 years

of runway if the market remains flat

- 2.9 years

of runway if the market falls 50%

- Positive cash flow

if the market rises 50%

- 7.4 years

of runway if the market remains flat

- 2.9 years

of runway if the market falls 50%

- Positive cash flow

if the market rises 50%

- AAVE (only) Runway (e.g. Aave-denominated expenses)
- 2.6 years

of runway if the market remains flat

- 2.3 years

of runway if the market falls 50%

- 2.8 years

of runway if the market rises 50%

- 2.6 years

of runway if the market remains flat

- 2.3 years

of runway if the market falls 50%

- 2.8 years

of runway if the market rises 50%

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scenarios

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In the total treasury scenario,

Base case

assumption implies:

- AAVE token price is flat
- TVL is flat
- Expense buffer for third parties is $200k

Bull case

assumption implies:

- AAVE token price is up 50%
- TVL is up 50%
- Expense buffer for third parties is $200k

Bear case

assumption implies:

- AAVE token price is down 50%
- TVL is down 50%
- Expense buffer for third parties is $200k

For more details on the runway analysis, you can access the reporthere.

Purpose of the Analysis

For the DAO to grow in a sustainable manner, sufficient understanding and visibility of working capital constraints must be observed to guarantee the longevity of the community and adjust to ensure Aave reaches its full potential.

We aim to provide an illustrative treasury runway analysis under various expense and market price scenarios. Specifically, the runway analysis serves to inform the community regarding the impact of:

- Variable runway scenarios based on expense with 3rd party vendors

- The potential upside and downside impact of market value scenarios

Treasury Makeup

Aave's treasury stands at nearly ~$132m

as of November 30, 2022. The vast majority of this value is denominated in AAVE, representing 73.8%

of the total treasury. The treasury currently holds $31.7m in stablecoins and $2.6m in non-stable assets, representing 25.4%

of the total treasury value. For purposes of this analysis, all non-stable assets except strategic assets were sold and included as stablecoins denominated in 'USDC'. Strategic partnerships in CRV, BAL, CVX in the amount of $1.0m, representing 0.8%

of the total treasury, which includes the incrementalpartnership with Balancer DAO (part 2), were omitted from the analysis.

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Treasury Runway - Assumptions

There are four key assumptions to consider when estimating Aave's runway:

1. Market fluctuations
2. While predicting future prices and market environment is impractical, we've chosen to run our analysis at five different average future market values for total value locked (TVL) in the Aave protocol: down 50%, down 25%, status quo, up 25%, up 50%.
3. Protocol fee revenue
4. Reserve Factor and liquidations income forecast as a percentage of TVL in the Aave protocol, using a year-to-date historical average as the baseline for future revenues.
5. Staking revenue
6. for revenues generated on asset deposits, we've chosen to run our analysis using a 2.5% APY on stablecoin assets.
7. Assumed monthly expenses
8. we've reviewed Aave governance contracts for direct payments to third parties and, for purposes of this analysis, we've assumed $1.9M, $2.1M, and $2.4M average monthly spend. See the monthly expense breakout for further details.

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Treasury Runway - Findings

Under existing conditions ($2.1m in monthly vendor spend

at today's market prices, $2.4m in LM and Staking expenses), we estimate that Aave has ~3.2 years of runway

. An extreme bear scenario (market decline of 50%) would cut this runway down to 2.5 years. In contrast, a bull scenario (market increase of 50%) would extend this runway to 3.6 years.

Assuming an increase in monthly vendor expenses from $2.1m to $2.4m, we estimate that Aave has ~2.9 years of runway. An extreme bear scenario (market decline of 50%) would cut this runway down to 2.2 years. In contrast, a bull scenario (market increase of 50%) would extend this runway to 3.3 years.

In the model above, we do not account for GHO revenue generation as the project is not yet live. However, outside of the model, we assessed the TVL required by GHO to breakeven on the DAO's expenses (vendors, LM, and staking). At a 2% interest rate, GHO would need approximately $2b in TVL to cover the DAO's current outflows (($3.32m*12) / 2% = $2b).

Considering only current vendor costs ($2.1m/month), this number would be $1.3bn in TVL (($2.1m*12) / 2% = $1.3).

Note: All figures current as of UTC Close 11/30/2022.

If you have any feedback, comments, or questions, please feel free to leave them in the comments below.