

Yearn Finance
For Fiscal Year 2021



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Yearn Finance Overview

Yearn Finance (“Yearn”) is the leading yield-aggregator protocol in decentralized finance (“DeFi”) operating on the Ethereum blockchain. The protocol launched in early 2020 with the iEarn product that algorithmically shifts stablecoins (USDC, USDT, DAI) between several lending protocols in DeFi to obtain the most optimal interest rates at all times. This product is known as the yPool on Curve Finance. Curve is a decentralized stablecoin exchange focusing on low-slippage swaps between various stablecoin assets. In July 2020, the YFI token was distributed over approximately 10 days to users that provided capital into liquidity pools involving the yPool – a process known as “farming” or “yield-farming”. The YFI token governs the Yearn protocol.

Shortly after the distribution of the YFI token the yVault product offering was introduced. yVaults enable users to deposit capital into smart contracts and Strategists – specialized yield-farming experts – automatically and efficiently earn yield on behalf of the depositors. Gas costs are socialized across the entire pool making it more economical for small users to participate in yield-farming. Users also do not need to have an advanced knowledge of DeFi, yield-farming, or liquidity providing, as the Strategist will perform the necessary actions on behalf of the user. Profits from yield-farming are periodically harvested by the Strategist and deposited back into the vault; depositors have claims over these profits. The yVault product represents Yearn’s core business, but starting in early 2021 Yearn Treasury began engaging in yield-farming with its own assets to generate additional cash flows.

Version 2 of the yVault product was launched in early 2021 and includes a revised fee schedule and the ability for vaults to incorporate multiple strategies per vault.



Yearn generated \$44.6m EBITDA for FY-21 with Q2-21 being it's most profitable quarter.

Basis of presentation

The financial statements are presented on an accrual basis of accounting. The fiscal year for Yearn ends calendar year ending December 31st. Figures are displayed in United States dollars ("USD") and rounded to the nearest thousand. The financial statements are compiled with the use of estimates and non USD assets are converted to USD by obtaining closing prices from [Coingecko.com](https://www.coingecko.com/), or by obtaining prices directly by querying the Ethereum blockchain. The financial statements have not undergone a comprehensive financial audit by a professional third party accounting firm. They are intended for informational purposes only and should not be used for financial, investment, or advice of any kind. There may contain immaterial arithmetic errors in the tables presented, this is due to rounding.

The yVault product line remains the pillar of Yearn's core business and revenue generation.

- yVault revenue peaked in Q2-21 and slightly declined in Q3-21, but rebounded in Q4-21.
- Yearn vaults migrated to v2 yVaults, and this migration process completed in Q4-21. v2 yVaults are more advanced, secure, and efficient for end users.
- Q2-21 profitability was derived from increased total-value-locked (TVL) in Yearn vaults and elevated prices of the Curve governance token (CRV). These tokens are sold automatically by the Yearn vaults to generate yield for users. Yearn takes a performance fee and management fee for automating this process for end users.
- Yearn's performance fee is 10% of profits and a 2% management for assets held in Yearn vaults.

Yearn continues to perform yield farming activities with idle assets held in treasury.

- Revenue generated from yVaults are used by treasury to earn additional yield for the DAO.
- Yearn generated \$2.1m in revenue from idle assets held in treasury. This revenue offsets a portion of the operating expenses necessary to maintain and oversee the protocol.
- The majority of this revenue is derived from a collateralized debt position (CDP) open in the MakerDAO protocol with Yearn's governance token (YFI) as collateral. Yearn mints DAI, Maker's native stablecoin, and deposits it into various Yearn yVaults to earn yield.

Note: The income statement has not undergone a comprehensive financial statement audit by an independent audit firm.

\$ in thousands	FY20	Q1-21	Q2-21	Q3-21	Oct-21	Nov-21	Dec-21	Q4-21	FY-21
Revenue									
yVault	4,822	7,279	26,927	20,477	7,386	8,257	7,870	23,512	78,195
v2 vaults	0	2,587	21,932	20,341	7,386	8,257	7,870	23,512	68,372
v1 vaults	4,821	4,686	4,995	133	-	-	-	-	9,814
vault dust	-	7	-	2	-	-	-	-	9
Yield farming	-	548	868	266	243	204	41	489	2,171
Other miscellaneous revenue	212	-	-	-	-	-	-	-	-
Total revenue	5,034	7,827	27,795	20,743	7,629	8,461	7,911	24,001	80,366
Strategist fees	-	1,803	8,510	5,331	2,071	2,077	1,632	5,781	21,426
Yearn Partners	-	56	750	781	500	706	629	1,835	3,422
Gas costs	103	208	607	497	171	398	173	741	2,053
Cost of revenue	103	2,067	9,868	6,609	2,742	3,181	2,434	8,356	26,901
Gross profit	4,824	5,760	17,927	14,134	4,887	5,280	5,477	15,644	53,465
Operating expenses									
Token-based compensation	10,743	6,704	6,966	7,300	2,582	2,637	2,637	7,856	28,826
Administrative salaries	497	347	806	898	333	305	319	958	3,009
Security	225	206	81	280	-	35	31	65	632
Grants	162	401	231	976	98	92	1,765	1,955	3,564
Other operating expenses	27	11,273	504	373	143	231	212	585	12,736
Total operating expenses	11,654	18,931	8,589	9,828	3,156	3,299	4,964	11,420	48,767
Net operating profit	(6,830)	(13,171)	9,338	4,306	1,730	1,981	514	4,225	4,698
Total other income/(expenses)	(13)	161	(362)	(31)	(16)	(16)	(14)	(46)	(277)
Net income	(6,842)	(13,010)	8,977	4,275	1,714	1,965	500	4,179	4,421
Add:									
Interest	-	154	362	31	16	16	14	46	592
Taxes	-	-	-	-	-	-	-	-	-
Depreciation & amortization	-	-	-	-	-	-	-	-	-
EBITDA	(6,842)	(12,856)	9,338	4,306	1,730	1,981	514	4,225	5,013
Add:									
Token-based compensation	10,743	6,704	6,966	7,300	2,582	2,637	2,637	7,856	28,826
Non-recurring items:	(218)	11,028	-	-	-	-	-	-	11,028
yvDAI incident	-	11,080	-	-	-	-	-	-	11,080
Airdrops	(212)	-	-	-	-	-	-	-	-
Contribution revenue	(6)	(53)	-	-	-	-	-	-	(53)
Capital gain/(loss)	19	(262)	-	-	-	-	-	-	(262)
Adjusted EBITDA	3,701	4,614	16,304	11,606	4,313	4,618	3,151	12,081	44,605

Note: The income statement has not undergone a comprehensive financial statement audit.

Income Statement – continued

Strategists fees were Yearn's largest cash expense for FY-21.

- Strategists are specialized developers working for Yearn that oversee and manage the yVaults.
- These strategists earn 10% of the profits generated by yVaults as compensation.
- Beginning in Q2-2022, Yearn is transitioning away from this model and will instead compensate all Yearn contributors, including strategists, with a profit sharing model that distributes 45% of net income to contributors.

Yearn Partners is a collaborative program with other DAOs in DeFi sharing profits with these DAOs for TVL contributed to Yearn vaults.

- DAOs can contribute assets to Yearn's vaults or drive users of their products to utilize and benefit from Yearn's vaults.
- In exchange for driving assets to Yearn's vaults these partners will receive profit sharing depending on the amount of assets they contribute.
- For FY-21, Yearn paid members of the Yearn Partners program \$3.4m. This contributed capital benefits the Yearn DAO as it increases fees generated by the Yearn protocol. It also benefits these respective DAOs as their users can earn yield using Yearn vaults, or the DAO can build products novel around Yearn yVaults.

Gas costs necessary to run and operate the yVaults are paid by the Yearn protocol.

- The Ethereum blockchain charges fees for using the network. These fees are related to harvesting and maintaining yVaults that generate yield for depositors. Yearn covers the gas costs entirely.
- For FY-21, Yearn incurred \$2.0m in gas fees.
- The fees Yearn incurs related to gas depends on the price of Ether – the native currency of the Ethereum blockchain – and the frequency the Yearn protocol needs to interact with the blockchain. Cost of revenue is a variable costs that increases or decreases directly with top line revenue.

Token-based compensation is vested YFI tokens given to core contributors and is a non-cash expense.

- Contributors of the Yearn protocol receive vested YFI to compensate them for their work on the protocol.
- These packages are typically vested for 3 years with a 6 month cliff starting when the contributor begins work.
- These compensation packages are non-cash as they are paid in YFI from treasury, and as such are excluded from earnings to arrive at EBITDA.
- These strategists earn 10% of the profits generated by yVaults as compensation.

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Income Statement – continued

Administrative salaries, security, grants, and other operating expenses are all related to maintaining and developing the Yearn protocol and its products.

- Core contributors also receive cash compensation for the work with the DAO. In Q2-22, this model is transitioning to a profit sharing model described in slide 4.
- Administrative salaries slowly increased each quarter of the year as Yearn onboarded additional contributors.
- Security are related to audits or other services necessary to keep Yearn vaults safe, secure, and operating as intended.
- Grants are paid to contributors of the Yearn DAO through the Coordinape program. In Q4-21, there was a year-end bonus paid to contributors.
- Other operating expenses are other fees incurred by the DAO that does not fall into the above categories. In Q1-21, Yearn's yvDAI vault suffered an exploit of \$11m. This depositors of this vault were reimbursed by the Yearn DAO. This exploit was one-time in nature as such we have excluded it for EBITDA.

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Adjusted EBITDA	3,701	4,614	16,304	11,606	4,313	4,618	3,151	12,081	44,605

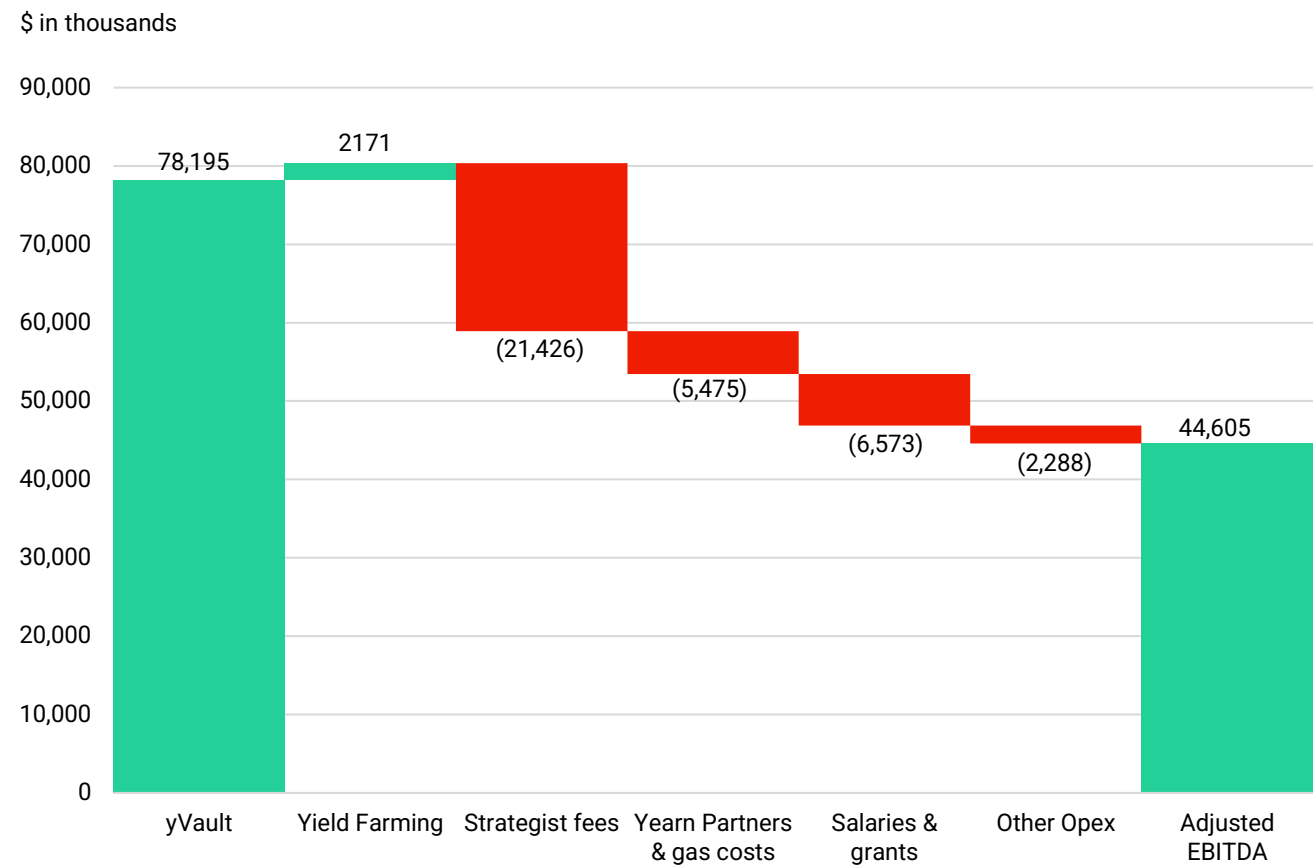
Note: The income statement has not undergone a comprehensive financial statement audit.

Yearn has very high operating margins (~ 55%) as Strategist fees are paid from revenue generated from yVaults. 10% of the performance fee is paid to Strategists and 10% is paid to the Yearn protocol.

Key Drivers of Financial Results

- Presented in the chart at right are the key financial drivers for FY-21 for adjusted EBITDA. Items adjusted include, interest, taxes, depreciation & amortization, non cash expenses (token-based compensation), non recurring items (airdrops, donations, one time unforeseen losses, and capital gains/(losses)).
- yVault revenue is primary driver of adjusted EBITDA for the fiscal year, and we anticipate this trend will continue for the foreseeable future.
- Strategists earn 50% of the performance fee generated by vaults the remaining 50% is shared with the Yearn DAO. This structure is changing in Q2-22 and instead strategists will share 45% of net income with all Yearn contributors.
- Majority of the operating expenses though relatively small as a percentage of revenue are related to salaries, grants, or other expenses necessary to maintain and develop the protocol.
- Yearn experienced 500% growth in adjusted EBITDA growth from annualized FY-20 (not pictured) to FY-21. This figure annualizes FY-20 since the prior year only had 5 months of financial activity.

FY-21 Key Financial Drivers



yVault revenue grew nearly 15% between Q3-21 and Q4-21, and continues to demonstrate an important product market fit in the DeFi space

- The table presented at right only displays the top 25 yVaults sorted by total revenue for FY-21. Yearn has launched over 125 yVaults included vaults phased out and no longer in production.
- The yvDAI vault is the leading revenue generating vault for the fiscal year (\$13m) partly due to its role within the Alchemix protocol. Users of the Alchemix protocol deposit DAI into our yvDAI vault earning yield. Alchemix enables these users to obtain a line of credit in the form of aUSD, a synthetic token native to the Alchemix protocol. The yvDAI vault is also used by several of our other yVaults. We expect this vault to contribute meaningful revenue in the future.
- By year-end all vaults transitioned from v1 to v2 yVaults. Our v2 vaults are more sophisticated, secure, and efficient. We continue to explore and develop optimizations to our yVault product line.
- The yvStETH vault generated \$11m in revenue for the fiscal year and remains one of the best ways to obtain a risk-adjusted yield on Ether without significant risks impermanent loss risks.
- The yvIronBank vault utilizes the Iron Bank lending protocol which is a sub-product within the Yearn ecosystem. This generated \$6m in revenue for the Yearn protocol in FY-21.
- The majority of our yVaults are focused on Curve Finance strategies by earning CRV rewards and depositing into liquidity pools on Curve.

Revenue by Top 25 yVaults

\$ in thousands	Q1-21	Q2-21	Q3-21	Oct-21	Nov-21	Dec-21	Q4-21	FY-21
yvDAI	596	5,782	3,468	906	1,481	1,317	3,705	13,551
yvSTETH	652	2,569	1,982	1,752	2,162	2,055	5,970	11,173
yvUSDC	389	2,996	4,286	477	850	1,034	2,361	10,031
yvIronBank	4	2,550	1,682	856	816	921	2,593	6,829
yvWETH	115	846	551	435	605	678	1,718	3,229
yvUSDT	0	324	1,053	522	354	273	1,149	2,525
yvsETH	481	1,461	280	8	7	-	14	2,236
yvLUSD	-	642	760	56	55	98	209	1,611
yvFRAX	-	245	599	189	165	264	618	1,462
yvWBTC	3	637	479	71	115	110	295	1,414
yvALUSD	-	313	540	161	119	126	406	1,258
yvEURS	-	298	408	177	151	109	437	1,143
yvPBTC	-	41	696	73	-	27	100	837
yvOBTC	-	83	291	40	82	7	128	502
yvLINK	-	203	284	50	67	45	162	649
yvUSDP	-	317	230	30	84	46	160	707
yvHBTC	-	299	224	88	94	49	231	753
yvDAI v1	257	184	19	-	-	-	-	459
yvBBTC	-	104	244	56	-	-	56	404
yvSAAVE	-	114	174	27	15	8	50	338
yvSUSD	-	104	147	45	4	17	66	317
yvTriCrypto	-	37	175	1	-	2	3	216
yvA3CRV	-	54	112	9	-	8	17	184
yvSBTC	-	28	91	25	9	1	34	153
yvTUSD v1	42	30	13	-	-	-	-	85
Other miscellaneous yVaults	4,740	6,668	1,690	1,333	1,022	675	3,031	16,129
Total yVault revenue	7,279	26,927	20,477	7,386	8,257	7,870	23,512	78,195

Net assets was the highest in the year on December 31st, 2021, and Yearn owns \$186m in assets, including \$136m in native YFI tokens and \$25m in cash.

Yearn maintains a healthy cash buffer and as of YE-21 held \$25.8m in cash on its balance sheet. This is roughly fifteen months of Yearn's fixed operating expenses.

- Cash and cash equivalents are stablecoins (DAI, USDC, USDT, etc) or stablecoins deposited into Yearn yVaults earning yield, which are effectively cash equivalents.
- Yearn's yBudget team maintains a sufficient cash buffer to cover operations and insulate the protocol from adverse market conditions that could impact maintaining core products.
- Fixed operating expenses (salaries, security, grants, etc.) were approximately \$19.9m for FY-21. Yearn held \$25.8m in cash and cash equivalents on it's balance sheet on December 31st, 2021 which is enough to cover fifteen months of these expenses.

Accounts receivable and Inventory are related to Yearn's yield-farming activities with idle treasury assets.

- Accounts receivable are earned but unharvested rewards related to yield-farming. These are accrued in accordance with the accrual basis of accounting.
- Inventory is line of credit drawn with decentralized lending protocols that Yearn uses to earn yield with idle treasury assets.

Prepaid expenses and security deposits are legal and infrastructure costs.

- Legal payments are amortized over 12 months.
- Security deposits are related to a service agreement with Alchemy.

\$ in thousands	Dec-20	Mar-21	Jun-21	Sep-21	Oct-21	Nov-21	Dec-21
Assets							
Cash & cash equivalents	803	2,544	8,084	18,048	19,958	33,105	25,822
Accounts receivable	-	541	-	266	509	714	755
Inventory	-	13,890	-	13,050	13,050	13,050	13,050
Prepaid expenses	16	48	30	845	756	673	589
Security deposits	-	60	60	60	60	60	60
Other short term assets	9	112	802	614	924	1,139	3,779
Total current assets	828	17,195	8,976	32,883	35,258	48,741	44,055
YFI	676	153,337	136,912	117,061	134,267	116,263	136,055
ETH	-	1,010	3,433	5,783	9,907	3,126	2,017
BTC	532	190	669	1,825	2,642	757	758
Other long term assets	-	1,696	1,157	1,722	2,291	4,454	3,648
Total long term assets	1,208	156,234	142,171	126,391	149,108	124,601	142,477
Total assets	2,036	173,429	151,147	159,274	184,366	173,342	186,532
Liabilities							
Accounts payable	3	71	248	383	500	706	629
Accrued expenses	-	406	421	406	455	343	2,084
Interest payable	-	154	334	365	381	397	411
Total current liabilities	3	630	1,004	1,154	1,335	1,446	3,124
MakerDAO	-	20,970	6,199	19,199	19,199	19,199	12,199
Unit.xyz	-	4,000	-	-	-	-	-
Long term liabilities	-	24,970	6,199	19,199	19,199	19,199	12,199
Total liabilities	3	25,601	7,203	20,354	20,535	20,646	15,323
Total liabilities and equity	2,036	173,429	151,147	159,274	184,366	173,342	186,532

Note: The balance sheet above has not undergone a comprehensive financial statement audit.

Balance Sheet – continued.

Other long term assets are KP3R tokens or KP3/ETH liquidity provider tokens held by treasury.

- The liquidity provider tokens are required to generate credits needed to pay keepers performing harvesting functions for Yearn yVaults.
- We do not anticipate selling these tokens in the near future as they are necessary to generate keeper credits used to harvest profits generated by yVaults.

Accounts payable are due to service providers or members of the Yearn Partners program. Accrued expenses are earned but unpaid salaries or grants to Yearn contributors.

- These expenses are accrued in accordance with the accrual basis of accounting.
- Accrued expenses was higher than average on Dec-21 as contributors received a year-end bonus. This was accrued in Dec-21, but paid in Jan-22.

Interest payable and long term liabilities are interest expenses or debt related to loans the DAO obtained from decentralized lending protocols.

- Yearn maintains sufficient cash reserves to fully pay off this debt and accrued interest at all times.
- The CDP held with Unit.xyz was closed in Jun-21, and as of December 31st, 2021 Yearn only had a debt position open on MakerDAO.

\$ in thousands	Dec-20	Mar-21	Jun-21	Sep-21	Oct-21	Nov-21	Dec-21
Assets							
Cash & cash equivalents	803	2,544	8,084	18,048	19,958	33,105	25,822
Accounts receivable	-	541	-	266	509	714	755
Inventory	-	13,890	-	13,050	13,050	13,050	13,050
Prepaid expenses	16	48	30	845	756	673	589
Security deposits	-	60	60	60	60	60	60
Other short term assets	9	112	802	614	924	1,139	3,779
Total current assets	828	17,195	8,976	32,883	35,258	48,741	44,055
YFI	676	153,337	136,912	117,061	134,267	116,263	136,055
ETH	-	1,010	3,433	5,783	9,907	3,126	2,017
BTC	532	190	669	1,825	2,642	757	758
Other long term assets	-	1,696	1,157	1,722	2,291	4,454	3,648
Total long term assets	1,208	156,234	142,171	126,391	149,108	124,601	142,477
Total assets	2,036	173,429	151,147	159,274	184,366	173,342	186,532
Liabilities							
Accounts payable	3	71	248	383	500	706	629
Accrued expenses	-	406	421	406	455	343	2,084
Interest payable	-	154	334	365	381	397	411
Total current liabilities	3	630	1,004	1,154	1,335	1,446	3,124
MakerDAO	-	20,970	6,199	19,199	19,199	19,199	12,199
Unit.xyz	-	4,000	-	-	-	-	-
Long term liabilities	-	24,970	6,199	19,199	19,199	19,199	12,199
Total liabilities	3	25,601	7,203	20,354	20,535	20,646	15,323
Total liabilities and equity	2,036	173,429	151,147	159,274	184,366	173,342	186,532

Note: The balance sheet above has not undergone a comprehensive financial statement audit.

Balance Sheet – continued.

Other short term assets are cryptoassets earned from non-stablecoin yVaults.

- The Yearn protocol earns a 10% performance fee and a 2% management for assets deposited into yVaults. Some vaults are for volatile cryptoassets, which represents this line on the balance sheet.
- These assets are periodically sold for cash to cover operations and/or used for YFI buybacks.

Yearn's treasury held 4,119 YFI as of December 31st, 2021 worth approximately \$136m.

- YFI held in treasury is used to onboard new contributors and compensate them with vesting packages, and to earn yield by drawing debt with decentralized lending protocols in DeFi.
- Treasury also periodically purchases YFI tokens using excess cash from operations. These purchase amounts are evaluated monthly by the yBudget team.

Ether and wrapped Bitcoin tokens earned from yVaults are periodically sold to cover operations and conduct YFI buybacks.

- Nearly all wrapped Bitcoin tokens earned from vaults are sold periodically. These proceeds are used to cover operating expenses and/or conduct YFI buybacks. The balances are not zero in the table presented at right, as there were wrapped Bitcoin not liquidated by month-end.
- In Nov-21, yBudget strived to consistently liquidate more ETH yVault tokens to cover operating expenses and/or conduct YFI buybacks

\$ in thousands	Dec-20	Mar-21	Jun-21	Sep-21	Oct-21	Nov-21	Dec-21
Assets							
Cash & cash equivalents	803	2,544	8,084	18,048	19,958	33,105	25,822
Accounts receivable	-	541	-	266	509	714	755
Inventory	-	13,890	-	13,050	13,050	13,050	13,050
Prepaid expenses	16	48	30	845	756	673	589
Security deposits	-	60	60	60	60	60	60
Other short term assets	9	112	802	614	924	1,139	3,779
Total current assets	828	17,195	8,976	32,883	35,258	48,741	44,055
YFI	676	153,337	136,912	117,061	134,267	116,263	136,055
ETH	-	1,010	3,433	5,783	9,907	3,126	2,017
BTC	532	190	669	1,825	2,642	757	758
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Total long term assets	1,208	156,234	142,171	126,391	149,108	124,601	142,477
Total assets	2,036	173,429	151,147	159,274	184,366	173,342	186,532
Liabilities							
Accounts payable	3	71	248	383	500	706	629
Accrued expenses	-	406	421	406	455	343	2,084
Interest payable	-	154	334	365	381	397	411
Total current liabilities	3	630	1,004	1,154	1,335	1,446	3,124
MakerDAO	-	20,970	6,199	19,199	19,199	19,199	12,199
Unit.xyz	-	4,000	-	-	-	-	-
Long term liabilities	-	24,970	6,199	19,199	19,199	19,199	12,199
Total liabilities	3	25,601	7,203	20,354	20,535	20,646	15,323
Total liabilities and equity	2,036	173,429	151,147	159,274	184,366	173,342	186,532

Note: The balance sheet above has not undergone a comprehensive financial statement audit.

Sources

Revenue data was obtained from token transfers between several addresses controlled by the Yearn protocol. These Ethereum addresses are listed below.

- Treasury vault: 0x93a62da5a14c80f265dabc077fcee437b1a0efde
- Multi sig: 0xf3eb4acf3df3cdea7399794d0869ef76a6efaff52
- Governance staking: 0xba37b002abafdd8e89a1995da52740bbc013d992

Specicic transaction data can be found in on our online financial dashbarod.

- <https://www.yfistats.com/>
- Token prices were obtained from [Coingecko](#) , a historical price provider of all major cryptocurrencies, or by running an archive Ethereum node and querying prices directly from the blockchain.

Please contact the team either via Telegram or discord for any specific questions.

- t.me/yearnfinance
- <https://discord.com/yearn>