prePO Research Report

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Key Insights

- prePO is a decentralised trading platform allowing any trader to take a long or short position on pre-public assets, such as pre-IPO stocks and pre-IDO tokens.
- prePO offers competitive yields to both traders and liquidity providers on the platform.
- prePO is powered by PPO, the governance and utility token of the prePO platform, with tokenomics designed to incentivise high quality, active participation and long-term alignment.
- The prePO platform is now live on Arbitrum, with the Arbitrium pre-token market successfully completed and the zkSync pre-token market now tradeable.

Introduction

Decentralised Finance (DeFi) protocols democratise finance and bypass third parties, empowering individuals to engage with each other. Early DeFi protocols pioneered this concept, with MakerDAO being the first successful decentralised stablecoin, AAVE enabling lending and borrowing without intermediaries or stringent KYC requirements, and Uniswap providing a decentralised exchange for trading crypto assets.

Synthetic assets are another DeFi primitive that allows users to gain exposure to real-world assets via blockchain technology, explored by Synthetix and Kwenta, and now paving the way for new creative derivative/synthetic DeFi protocols such as prePO.

prePO

prePO democratises the pre-public investment space by providing unrestricted access to pre-public opportunities for all investors. prePO is a decentralised platform built on the layer-two scaling chain, Arbitrum.

This idea was conceived by prePO's, founder, Xavier Ekkel. Having worked as a software engineer at the unicorn startup Canva and being an active retail investor in both crypto and traditional markets, Ekkel sought to gain exposure to Canva's early-stage success prior to going public. However, as a retail investor, he found himself unable to access any investment opportunity. Recognising that other retail investors likely faced the same predicament, Ekkel set out to create prePO.

Typical factors restricting investors from accessing pre-public opportunities include:

1. Wealth Requirements - Pre-public investing is typically reserved for accredited investors.
2. Geographic Locations - Pre-public investing may be limited in certain regions.
3. Transaction Sizes - Pre-public investing often necessitates substantial minimum ticket sizes.
4. Insider Connections - Pre-public investing can be highly competitive, with allocations often granted only to well-connected accredited investors.
5. Inefficient Secondary Markets - While secondary markets for pre-public investments do exist, they are frequently illiquid and require lengthy lock-up periods as well as significant minimum purchase requirements.

These pre-public trading opportunities are broken down into two distinct categories;

1. Pre Public IPOs such as SpaceX, Discord, and Reddit
2. Pre Token Crypto Projects such as MetaMask, Opensea, Zapper, and zkSync

prePro is Live!

prePO is already live on Arbitrum, having successfully launched its first two pre-token markets, the longly awaited Arbitrum (now closed as the token is live) and another heavily awaited token, zkSync. The pre-token market for Arbitrum achieved the deposit threshold and transacted over 107 ETH in US$215,000 volume over a one week period.

What is Pre-Public Trading On prePO?

Pre-public trading refers to the ability to speculate on a pre-public company's or crypto project's valuation before the company goes public with an IPO or token. prePO will establish a market and set the parameters for speculators to trade within. Once the company officially lists, the market will be closed at the official opening valuation of the company or crypto project. Unlike normal spot trading which concerns the price of a single unit, traders will speculate on the fully-diluted valuation of the pre-public project.

Let's unpack the trading mechanics using a live trading market as an example. The pre-token zkSync market is currently open with the parameters set to:

zkSych prePO Market Parameters

- Valuation Range: $3B — $15B (Fully-Diluted Valuation)
  - Valuation range is the max profit or loss potential of a trade when the asset reaches the lower or upper bound of the range.
- Payout Range: ~16.67% to ~83.33%
  - A range between 0% - 100% representing the minimum and maximum portion of a collateral position for a Long or Short can be redeemed for in a market (e.g. 20%-80%). Access more information on the technicalities of the payout range here.
- Settlement Price: Average of daily Close prices on the top 2 exchanges by 'Liquidity Score' for the zkSync token on CoinMarketCap
  - Closing valuation for the pre-token market.
- Expiry Date: End of March 31st 2024, UTC this is the anticipated token generation event
  - This is the date anticipated token generation event marking the end of the pre-token period.
- Expiry Settlement Price: $9B FDV
 - The pre-token market settles at this price if zkSync token isn't live by the Expiry Date.

Example

Traders are now able to enter a long or short position at a given valuation and set an exit position at a given valuation within the $3B — $15B boundary range.

Below a trade of 0.01 ETH Long with an entry set to $9.3B FDV and an exit set to $13.0B has been entered. The profit simulator in the image provides us with three different scenarios to help us understand the different profit/loss outcomes.

1. **Estimated Profit**: Refers to the theoretical profit if you enter and exit at your selected prices, a $9.4B entry and $13.0B exit, which translates to a 38.28% return on the 0.01ETH.

2. **Max Profit:** Refers to the theoretical profit if you enter at your selected price and exit at the best possible price, a $9.4B entry and a $15B exit (the upper limit of the valuation range), which translates to a 59.70% return on the 0.01 ETH.

3. **Max Loss:** Refers to the theoretical loss if you enter at your selected price and exit at the worst possible price, a $9.4B entry and a $3B exit (the lower limit of the valuation range), which translates to a -68.06% loss on the .01 ETH.
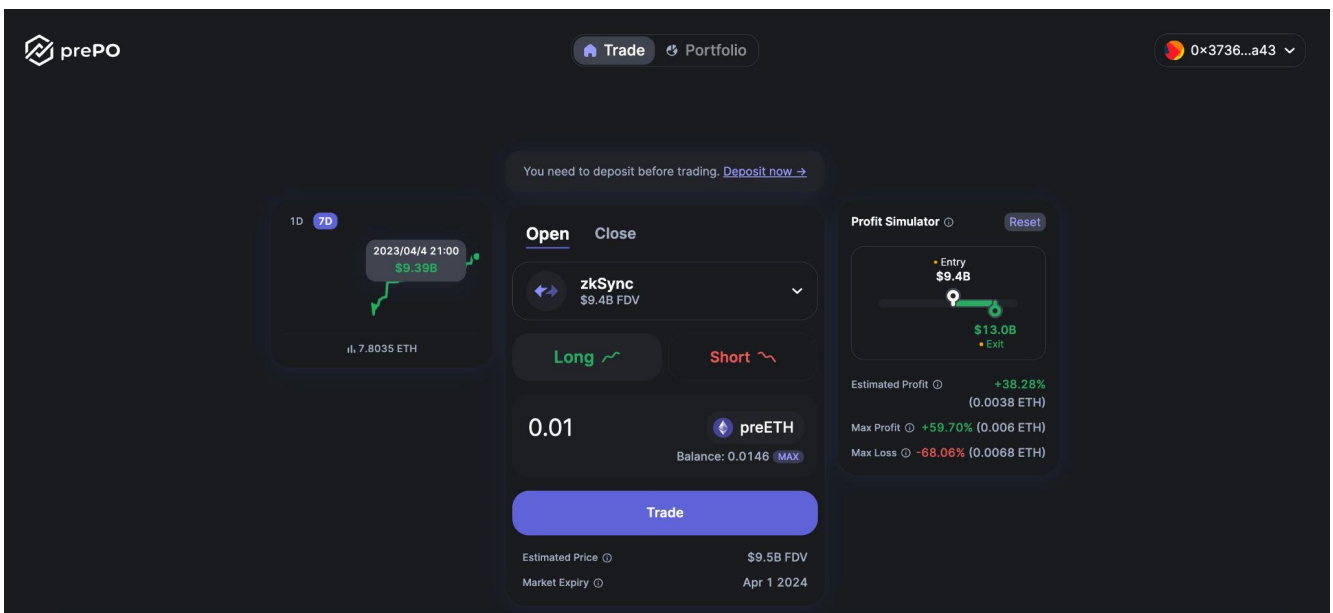
Source: https://app.prePO.io/trade 04/04/2023

How does trading work on prePO?

Trading pre-public assets on prePO is achieved through a specialised automated market maker (AMM) that requires two specific market participants: traders and liquidity providers.

The traders on the platform will speculate on the pre-public valuations of these assets by either taking long or short positions on the valuation, or a combination of both. The liquidity providers provide the liquidity necessary for the market to be made.
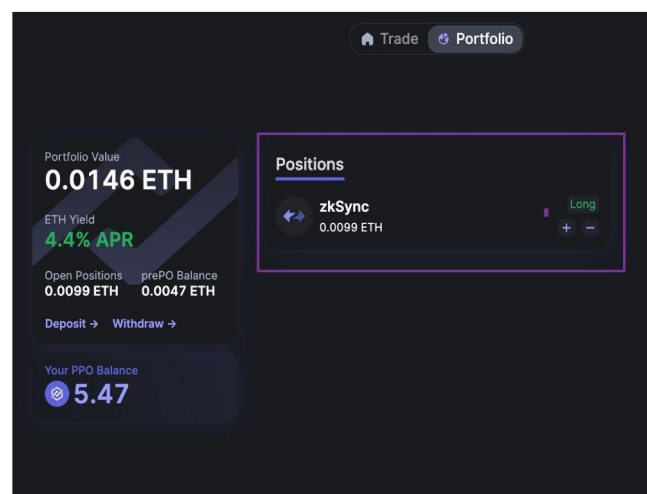
Traders

Regardless of what position the traders set up, they will always need to deposit some form of collateral in a specific crypto asset to create the trade position. In the example above this collateral was 0.01 ETH. Once the ETH was deposited, the trader receives the same amount in preETH, which they can use to enter a long or short position.

Depending on the position created by the trader, they will receive either synthetic long or short ERC20 tokens in return for their deposited collateral/stake. These tokens represent that specific trading position and are fully composable with the Ethereum ecosystem (including Arbitrum), meaning they can be traded or transferred to other wallets.

Here is an example of synthetic long tokens from the example above. I long position has been created on the 'zkSync market' and synthetic long tokens were minted and issued. On etherscan, we can see the synthetic LONG zkSync balance is 0.017, which translates to a 0.0099 ETH position displayed on the prePO interface.

Source: Etherscan.com, prePO.io

To close the position, the trader can simply click 'Close' and 'Approve'. Before Approving, the trader can assess whether they will make a profit or loss on the trade via looking at the profit simulator. In this instance, the trader entered at an FDV of $9.4B and is closing at FDV of $9.3B, which translates to a -1.53% loss. See below.
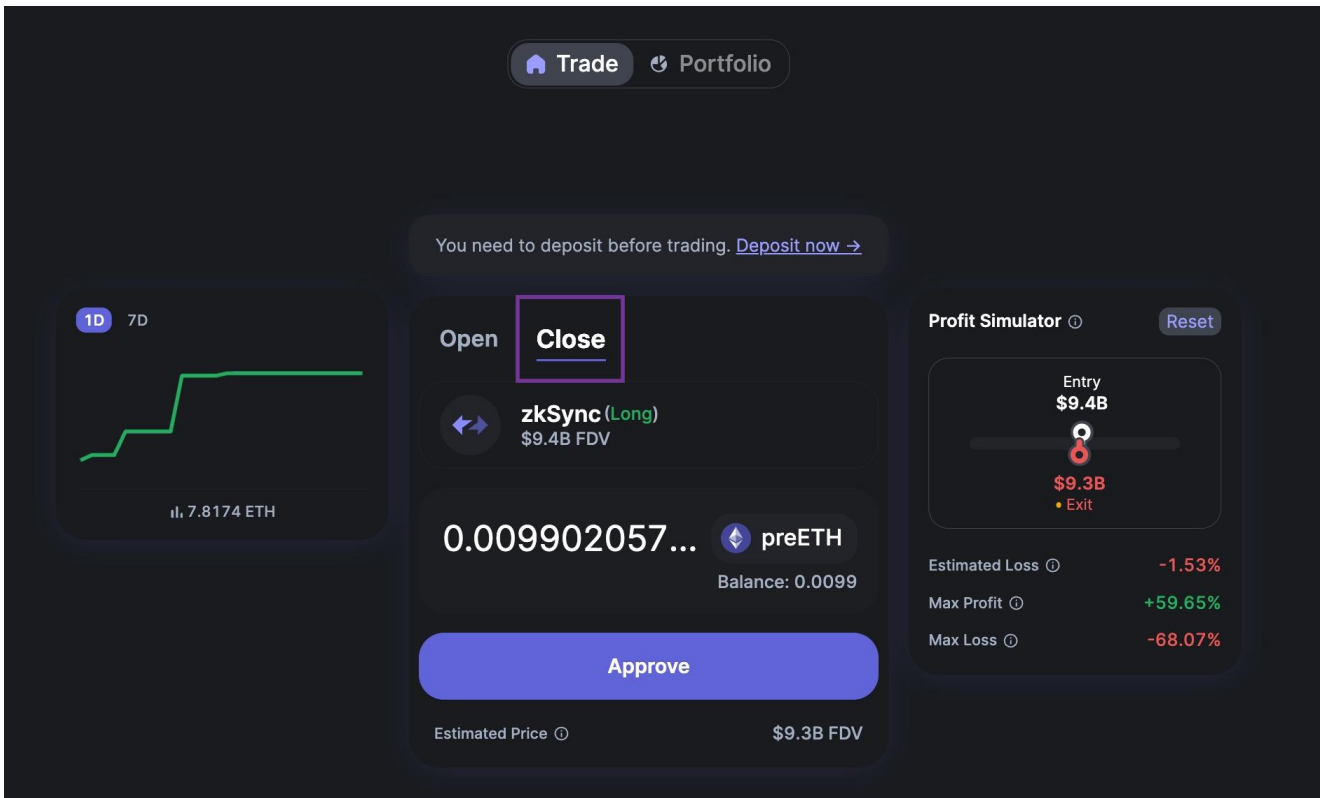
Source: prePO.io

Liquidity Providers (LPs)

The liquidity providers are the market makers in these specialised prePO AMMs. By providing liquidity to the AMM, they can earn transaction fees and extra PPO token rewards. Anyone can be a liquidity provider to these AAMs - all they must do to begin earning is deposit certain crypto assets into an established prePO AMM pool.

This feature is yet to go live for liquidity providers however, the [prePO demo](#) outlines the process of liquidity provision on prePO, using SpaceX as an example.

Rewards

prePO offers a three-layered rewards system for traders and liquidity providers consisting of Position Profit, PPO Token Rewards, and Collateral Yield Rewards. This system aims to enhance returns and mitigate losses while providing attractive yield-bearing opportunities in DeFi.

Using the trading example above, the trade is earning;

- Potential Trade Position Profit (if the long position is favourable)
- Collateral Yield Rewards (earning a 4.4% APY via Lido Staking)
- PPO Token Rewards (5.47 PPO tokens were earned from creating a long position)
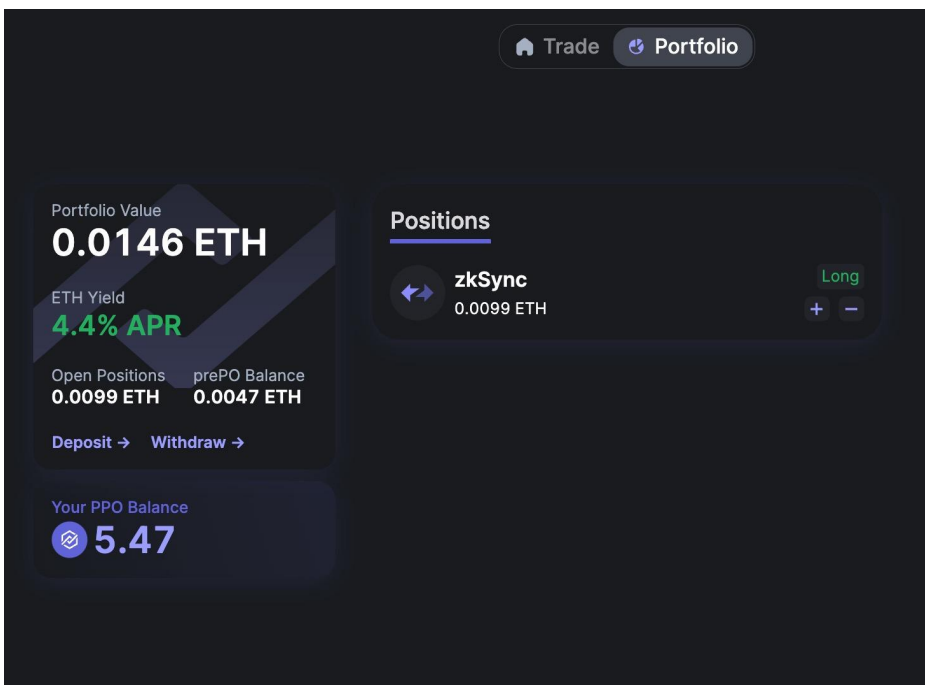
Source: prePO.io

Use Cases of prePO

Democratising Pre-Public Markets

The obvious use case is that of retail investors gaining exposure to pre-public opportunities from which they have always been excluded in the past due to their financial status. Seeing as IPO deals can be very competitive in nature, there is normally a large portion of accredited investors that miss out on these opportunities. prePO will allow exposure to pre-public markets for these individuals.

Hedging Strategies

Thinking deeper about the markets that prePO offers to anyone, there is also potential for accredited investors, that may already have exposure to certain markets, to use prePO as part of a hedging strategy if they need to de-risk a company at a certain valuation.

Promoting Corporate Accountability

prePO could be used to create transparency and accountability across both crypto and traditional financial markets. For example, the founders of a highly anticipated pre-token crypto project decided to increase the founder's token allocation before the token generation event. The pre-token price may decrease on the respective prePO market, signalling an unfair token distribution.

Primary Market Insights

Another useful feature prePO could offer pre-public companies or crypto projects is the insights of pre-public speculators to assist with pricing the company prior to an initial public offering. prePO could act as a decentralised public good that provides anyone with valuable market data on pre-public investment opportunities.

Regulation

prePO is a novel DeFi protocol that focuses on investing in equity and crypto markets by using synthetic assets reflecting pre-public valuations, potentially entering a regulatory grey area. To tackle regulatory risks, prePO aims to be 'sufficiently decentralised,' which entails a widely distributed base of token holders and decentralised decision-making. To achieve this, prePO establishes a DAO, allowing token holders to vote on the project's governance proposals.

Token holders are given the opportunity to vote on various governance proposals, such as new markets, market resolution, fee adjustments, liquidity redirection, representative council members, and treasury fund management. By emphasising decentralisation and involving token holders in decision-making processes, prePO aims to address and mitigate potential regulatory concerns.

PPO Token

PPO, the native token of prePO, serves as the platform's governance and utility token. The tokenomics design encourages high-quality, active participation and long-term alignment, allowing users to earn PPO through various activities on the platform. These activities include trading fee reimbursements, ranking highly in leaderboard contests, performing well for copy traders, participating in market comment sections, and staking PPO for future distributions. Users actively engaged in prePO's governance are also eligible for retroactive rewards, further incentivising contribution to the prePO DAO.

The PPO token is designed to be versatile and multifunctional, maximising its utility and value within the prePO platform. This approach ensures a more interactive experience for users and encourages active participation in both trading and governance activities. As a result, the PPO token plays a crucial role in driving the overall success and growth of the prePO protocol.

For more information on PPO's utility, the prePO docs outline it substantially in the tokenomics section.

Investors

prePO has garnered significant support from venture capital backers, including Apollo Crypto. As a founding member of Upside DAO, Apollo Crypto focuses on accelerating early-stage crypto projects by providing capital, coaching, and connections. After researching the concept and team at prePO, Apollo Crypto enthusiastically became an advisor and seed round investor due to prePO's strong alignment with the investment mandate, primarily focusing on decentralised finance (DeFi) applications.

Beyond Apollo Crypto's backing, prePO has also attracted various angel investors, including founders of various DeFi protocols. These investors provide not only financial support but also offer invaluable industry expertise and connections, further bolstering prePO's potential for success in the rapidly growing decentralised finance landscape.

For the exhaustive list of Institutional Investors and Angel Investors, please visit here.

Roadmap

The live and dynamic roadmap for prePO can now be found here.

Conclusions

prePO aims to democratise pre-public equity investment in a decentralised manner using cryptocurrency, potentially revolutionising how both retail and accredited investors approach investing. This unique concept allows retail investors to participate in pre-public asset speculation while accredited investors and other financial entities gain access to additional hedging tools offered by prePO markets. prePO's permissionless and transparent approach also demonstrates the unprecedented insights provided by a live, 24/7 pre-public asset trading market.

Apollo Crypto sees the synthetic assets sector, facilitated by crypto protocols, as still in its early stages within DeFi. Projects like prePO possess enormous potential due to their ability to empower retail investors, granting them access to trade assets previously out of reach due to traditional financial system limitations and geographical barriers.