PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: HEX
Version: V1
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Previous Report: V1

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Season/competition: Season 2

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	5 / 15
b) Market fit/demand	5 / 15
c) Target Market Size	10 / 10
d) Competitiveness within market sector(s)	3 / 10
e) Integrations & Partnerships	0 / 15
Total Points - Value Proposition	**23 / 65**
2. Tokeneconomics	**Points**
a) Is the token sufficiently distributed?	12 / 15
b) What is the extent of the token's capabilities?	2 / 10
c) Is the issuance model able to improve the coordination of the protocol?	4 / 10
d) Is the value capture model able to accrue and distribute value?	0 / 10
e) Is the token sufficiently liquid to enable active use and trade?	2 / 5
f) Are there any extrinsic productivity use cases?	2 / 10
Total Points - Tokenomics	**22 / 60**
3. Team	**Points**
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	2 / 15
b) Does the team have relevant experience?	0 / 10
c) Does the team participate and help shape the public debate?	2 / 5
d) Is the team able to effectively attract and coordinate resources?	0 / 10
Total Points - Team	**4 / 40**
4. Governance	**Points**

a) Admin Keys	**1 / 20**
b) Extent of Governance capabilities	**0 / 15**
c) Active Governance contributors	**0 / 5**
d) Governance infrastructure	**0 /10**
e) Robustness of Governance process	**0 / 10**
Total Points - Governance	**1 / 60**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	**- / 15**
b) What is the quality of the legal jurisdiction?	**- / 10**
Total Points - Regulatory	**- / 25**
Total	**50 / 225**

1. Value Proposition

The Value Proposition section describes the value a protocol delivers to its users. Based on the proportion of the problem the protocol aims to solve and the potential of the protocol to effectively solve the problem - better than other industry solutions - a Value Proposition rating is created.

a) Novelty of the solution (15 points)

This score evaluates the novelty (uniqueness) of the protocol. Has the protocol introduced any new innovations that help solve user's problems more efficiently? Is the project a fork? To what extent did they copy/fork the original?

Answer:
HEX labels itself as the first blockchain Certificate of Deposit. CD's are traditional finance products that provide interest rate premiums in exchange for deposits set for a period of time. HEX holders stake and receive additional HEX tokens for staking for a predetermined time, interest is paid from a yearly HEX issuance. New HEX is minted by a smart contract with static yearly inflation of 3.69%, rewards are based on staked time commitment.

The token's aim is to become a better store of value than Bitcoin. HEX creates positive price pressure through staking; supply is reduced and early withdrawals are penalised. HEX's theoretical benefits:

- More value created as a store of value with interest and price appreciation (relative to Bitcoin)
- Depositor flexibility to set time deposits (relative to traditional finance CD's)

The 'benefits' only accrue to holders if the incentives are followed by users, however it is hard to determine what value/function is created. Users ultimately only benefit artificially. The highly speculative nature of HEX has led to it being labelled a scam.

To conclude, based on the technical innovations this section is scored 5, staking is quite common within DeFi however relative to traditional finance flexible deposits and trustless interest are an innovation to CD's.

Score: 5

b) Market fit/demand (15 points)

This score evaluates the degree to which the protocol satisfies a strong market demand. The market fit evaluates if the protocol is able to satisfy the needs of a specific market (can also be measured by user adoption/ #of users). To what extent has the protocol proven to meet the demand of a specific market? Is the timing of the product right for the market? Is the protocol targeting the right market?

Answer:
Currently ~419 000 addresses hold HEX according to their own website, but only ~280 000 according to Etherscan, of these holders ~78 000 are stakers. Holder growth since 2019 should be discounted due to airdrops from their launch campaign where Bitcoin holders were able to claim HEX. The exact number of holders who purchased Hex is hard to determine but for the most part; an article indicates Hex was purchased along with airdropped.

Although categorised as a staking protocol Hex doesn't actually perform proof of staking, rather a means to an end of appreciating their token value. The asset market category is probably the best fit category as nothing else can be done with Hex other than buy and hold w/ 'appreciation' potential, overall it is a promising market, representing nearly 20% of the DeFi market according to DeFiPulse.

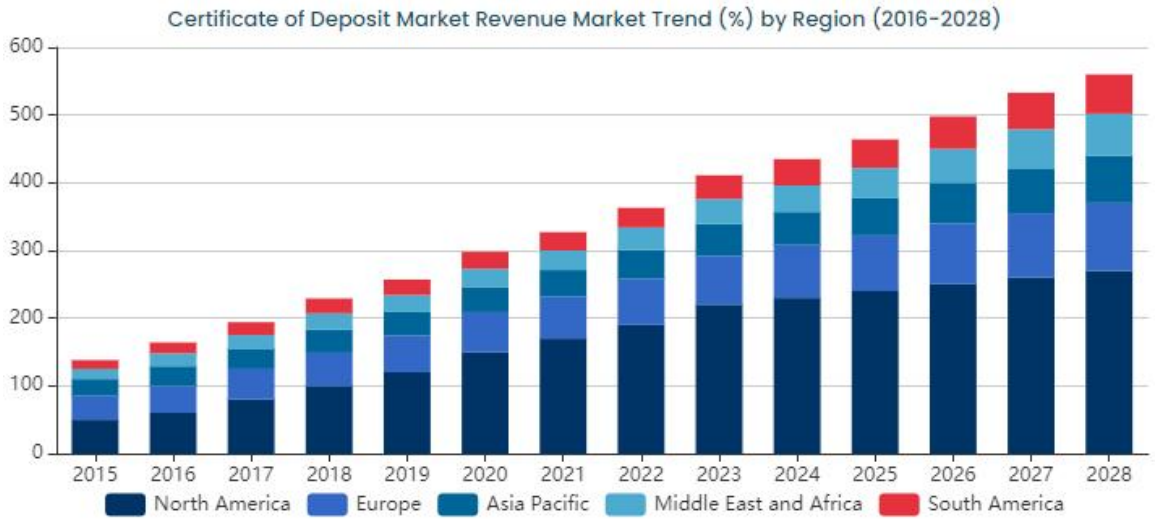
Score: 5

c) Target market size? (10 points)

The target market size evaluates the current and future size of the problem the protocol is aiming to solve. The category of the Open Finance solution can be used as a reference to the target market (for example: Lending). Because Open Finance is by definition global, the global market for a specific problem equals the target market size.

Answer:
Total value locked in DeFi across chains is ~$230B, seeing ~360% growth over the past 12 months.

HEX aims to be a store of value to rival Bitcoin. Outstanding Certificate of Deposits and Commercial Papers in the US alone was estimated to be around $2.5Trillion according to the US Securities and Exchange commission, the global CD market is expected to grow (as measured by revenue below).



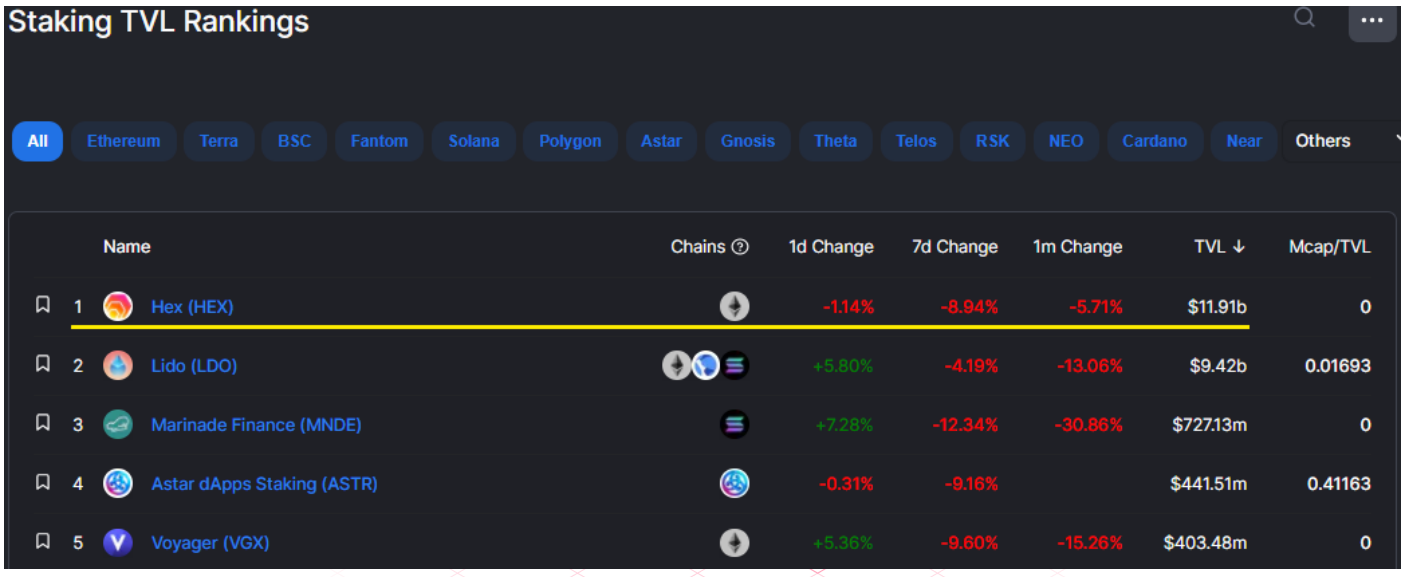
Score: 10

d) Competitiveness within market sector(s) (10 points)

This score evaluates the competitiveness of the protocol within the market sector(s) it operates in. This score offers a relative comparison of the protocol and other protocols operating in the same market sector(s). To evaluate this, metrics to directly compare with the competition can be used (e.g. TVL, trading volume, number of users).

Answer:

HEX currently has ~$12B in TVL on DeFiLlama, it hopes to compete with Bitcoin as a better store of value, comparatively Bitcoin is several times larger when looking at Total holders (40,603,747) and TVL (~$900B) source.



Defillama Staking TVL

To Compare Hex to any other Staking or Asset protocol would be inappropriate, as compared to other protocols like Lido or Badger, Hex performs no other function than to issue its token and encourage staking for the sake of more Hex.

HEX's outsized circulating and staking quantity of 61B $HEX deducts from this score, as the number of stakers increases the actual inflation interest declines. BTC is more significant as a store of value and it is hard to determine Hex's real competitive capabilities so additional points are deducted to give a final score of 3.

Score: 3

e) Integrations & Partnerships (15 points)

Due to crypto's open-source nature, the code of most protocols can easily be forked. This score represents a piece of "unforkable value". Some indicators to look at are the number of applications built on top of the protocol (vertical integration), other entities integrating the protocol's services (horizontal integration) or the number of relevant partnerships (be careful of logo collections/ partnerships without much purpose).

Answer:

HEX has no [partnerships or integrations](#).

Score: 0

2. Tokeneconomics

The Tokeneonomics section assesses the function of a protocol's token. This includes the token distribution, functionalities of the token, the ability of the token to incentivize positive behaviour in the protocol, and the ability of the token to capture a portion of the value created.

a) Is the token sufficiently distributed? (15 points)

The token distribution can be an indicator of a healthy protocol. When the protocol tokens are widely distributed among different stakeholder groups and contributors, this genuinely improves the coordinating capability of the token and strengthens the resiliency of the protocol. Was the initial distribution balanced between relevant stakeholders? Are the tokens distributed over sufficient participants (10, 25, 100 largest addresses)?

Answer:
Initially launched through their 'Adoption Amplifier', Bitcoin holders were able to claim HEX for free for a year. [30,000 addresses](#) claimed HEX from this launch. The top 100 Eth addresses collectively own 46.77% of HEX and circulating supply is currently ~577B - [source](#). Approximately 10% of HEX is currently staked. The largest holding address owns 19% of supply.

Competitor BTC distribution is narrower (in this case wBTC), the top 100 addresses own [~90%](#) of the tokens supply. The initial distribution to stakeholders was skewed towards BTC holders where 30K was distributed to [BTC addresses](#) however currently overall HEX is more distributed.

Score: 12

b) What is the extent of the token's capabilities? (10 points)

Is the token useful within the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way? Does it serve any other purposes?

Answer:
Users can stake HEX between 1 and 5555 days and earn interest. HEX is burned and Stakers receive shares (called "T-Shares") in return. Shares accrues interest in HEX until maturity, T-shares redeemed for HEX at maturity. No governance or other utility exists within the protocol.

Score: 2

c) Is the issuance/distribution model able to improve the coordination of the protocol? (10 points)

To what extent does the issuance of the token support the advancement and function of the protocol? Are the tokens justifiably being issued? Does the issuance model incentivize the right behaviour? Are all relevant stakeholders benefiting from the issuance model?

Answer:
HEX uses an inflation model, fixed yearly 3.69% inflation on unstaked and staked HEX. Issuance is distributed to stakers. At face value this issuance model could be said to incentivize the right behaviours intended by the protocol i.e. upward price pressure and long term staking. However the quantity of HEX (577B) in circulation and continued issuance limits the extent of scarcity created by staking appreciating HEX's price to any significant level, currently only ~10% of Hex is staked. Therefore a score of 4 is given.

Score: 4

d) Is the value capture model able to accrue and distribute value? (10 points)

A value accrual and distribution mechanism can help improve the utility of a token and its ability to be used as an effective coordination mechanism. Does the protocol have mechanisms to distribute some of the value created to the token holders?

Answer:
None (see 1a and 2c)
Score: 0

e) Is the token sufficiently liquid to enable active use and trade? (5 points)

Is the token widely available and is there sufficient liquidity available to facilitate all protocol functionalities?

Answer:
HEX is available on 7 centralised exchanges and 1 decentralised exchange. Centralised exchanges like Bitmart have relatively low liquidity across markets as measured by CoinMarketCap's 0 - 1000 score, where scores

closer to 1000 represent high liquidity, with the highest liquidity score from Yobit with 287. Decentralised exchange Uniswap provides better liquidity scores, 686 being the highest.

Although available on 7 CEXes, liquidity is low to consider them truly available to facilitate the protocol's functionalities. A high liquidity score on Uniswap still limits the score for this section. Given these reasons a score of 2 is given.

Score: 2

f) Are there any extrinsic productivity use cases for the token? (10 points)

Besides the protocol's value distribution model as described in 2. d), can the token be used productively on other protocols (e.g. as collateral, for lending, LPing, yield farming, etc.)?

Answer:
Liquidity Provision on Uniswap.
Score: 2

3. Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favours teams that are publicly identifiable. In the case of an anon team, the track record of the specific anons involved can be taken into account

a) Is the team credible and public? (15 points)

Are the identities of the core contributors and team publicly identified? In the case of anon team members, is there any way to track their background/record?

Answer:
Founded by Richard Heart, "a serial entrepreneur and early Bitcoin adopter". No other person is credited with being a founder, only that Richard developed HEX "with the help of a few blockchain smart contract developers" - source (*see FAQ 'Who invented HEX?'*). It's hard to determine what credibility the team has in DeFi as there is no indication from the sources provided or any alternative 3rd party. Section scored 2 for being public.

Score: 2

b) Does the team have relevant experience? (10 points)

Are there any documents or trails available to showcase the track record of the team? Do the team members have relevant backgrounds and skill sets?

Answer:

Prior to HEX Richard ran a pay-per-click management and search engine optimization company. The dev team members aren't identified.
Score: 0

c) Does the team participate and help shape the public debate? (5 points)

To what extent do the protocol contributors participate in the public debate around open finance? Are the team members giving presentations, sharing their thoughts and opinions, and do they help raise the collective intelligence of the industry?

Answer:
Richard is prominent on Twitter with over 180K followers, has given TV interviews on CNBC Africa, most recently on a podcast and has a crypto content Youtube channel with over 120K subscribers. Majority of these interactions promote HEX or his PulseX Chain.

Score: 2

d) Is the team able to effectively attract and coordinate resources? (10 points)

How effective is the team at attracting and coordinating resources for the benefit of the protocol? Has the team raised sufficient funding or are there mechanisms in place to attract resources when needed?

Answer:
Hex coin sale raised ~$5.7M. It is unclear what happened with the funds beyond Richard Heart, his development team and marketing for Hex.

Score: 0

4. Governance

The Governance section evaluates how the protocol is governed and who the governors are. The different governance functionalities and processes are evaluated to determine to what extent the Protocol will be able to self-govern in a way that ensures the development of the protocols while respecting the needs of all current and future stakeholders.

a) Admin Keys (20 points)

Admin Keys allow some critical functionalities of a protocol to be controlled by an admin. This allows the developers to react to potential bugs, but also creates a risk as the developers could potentially misuse the admin keys to exploit the protocol. Does the protocol have admin keys and how are they managed?

Answer:
According to the HEX website, “HEX code is a single immutable smart contract on the Blockchain which cannot ever be changed.” However this claim was contradicted in Jan 2020 when 1,337 ETH was transferred out of the HEX contract, from the Yahoo article: “it’s currently unclear which parties other than Heart have access to the HEX smart contract and who is responsible for the ETH transfers”.

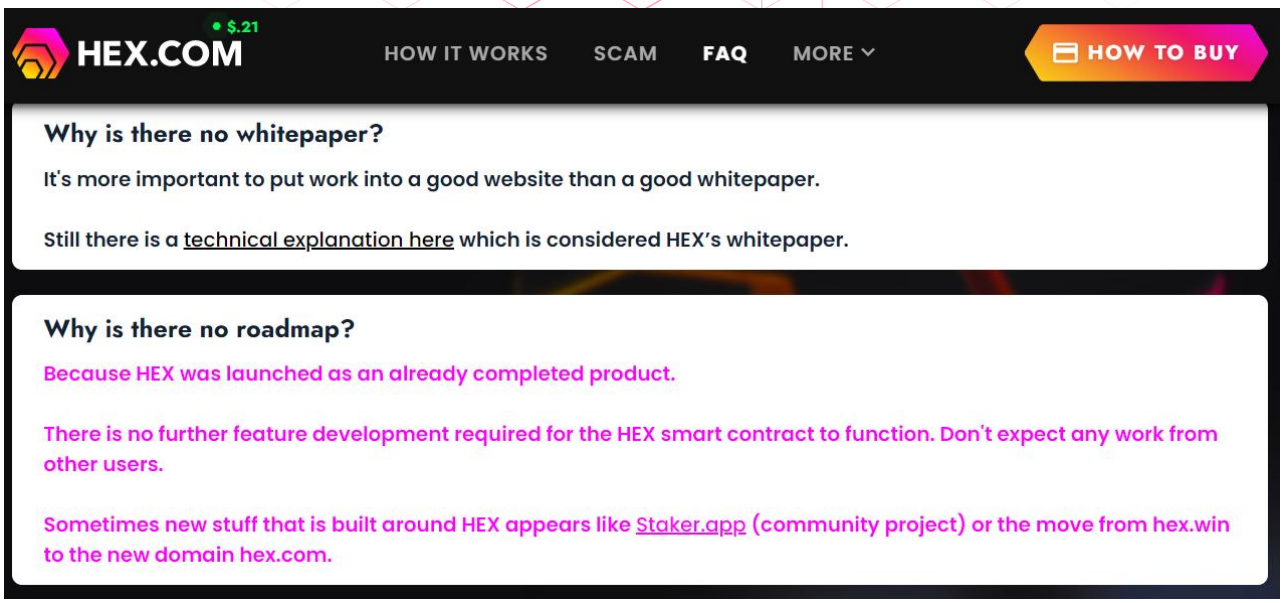
From this 3rd party article I conclude that Richard Heart as the sole founder and given the movement of funds not made by staked users that some form of admin access exists and that Richard is the only person to be assigned responsibility. A Score of 1 is given for the fact Richard is at least known by face and name.

Score: 1

b) Extent of Governance capabilities (15 points)

Distributed governance allows the token holders to participate in the governance of open finance protocols. How much influence does the governance mechanism have? Are the votes affecting on-chain changes or do they function solely as signals to the team?

Answer:
None. HEX does not have governance and holders have no influence on the protocol mechanisms.



Score: 0

c) Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is practiced by the protocol, it's important to have a sufficient number of governors allocate resources to the governance process of the protocol. How many individuals participate in the debate around the protocol? How active are voters?

Answer:

None. see 4b
Score: 0

d) Governance technology/infrastructure (10 points)

The Governance infrastructure relates to the technology, software, and models used by the protocol's governance. Does the protocol have a reliable and usable voting mechanism? Are there channels for governance debate? Is there sufficient documentation available?

Answer:
None, See 4b. Hex users have access to an online community on Telegram and Discord. Users can find 'help-support-security' and 'report' channels on Discord.
Score: 0

e) Robustness of Governance process (10 points)

This score requires documentation specifically on the governance process that sets the basic framework in terms of agreements, norms, and language for governing the protocol and to create social consensus. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer:
None See 4b
Score: 0

5. Regulatory

The Regulatory section describes the extent and quality of the regulatory environment that affects the Protocol. To be able to guarantee functionality, security, and legality the protocol should comply with regulatory requirements, or limit itself to facilitating services to users who are willing to operate outside of the traditional regulatory environment.

a) Does the protocol have any legal accountability? (15 points)

Does the protocol have any form of legal accountability? Can users and partners hold the protocol accountable in case of a breach of the agreement?

Answer:
None, according to HEX "HEX has no central entity, no bureaucracy and no overhead." source (*see under 'The future of investing is here'*) and is a "decentralized product" source.
Score: 0

b) What is the quality of the legal jurisdiction? (10 points)

If the protocol has a legal entity, what is the quality of the jurisdiction the entity is established in? Will the jurisdiction be able to facilitate the legal framework for the protocol to expand while remaining accountable.

Answer:
None.
Score: 0

About the Author: OriginalSK