

POLYGON'S EVOLUTION: FROM MATIC NETWORK TO A MULTI-LAYER BLOCKCHAIN

EXECUTIVE SUMMARY

- **Polygon Background:** Established as Matic Network in 2017 in India, Polygon has grown to be one of Asia's leading blockchains, focusing on solving Ethereum's scaling challenges.
- **Technological Progress:** Over time, Polygon has introduced advanced scaling solutions like zkEVM and expanded its ecosystem.
- **Polygon 2.0:** Polygon 2.0 and the transition from MATIC to POL reflect Polygon's ambition to evolve into a multi-layer, interconnected network for broader blockchain interoperability.
- **Polygon's Return Performance:** Polygon's annual returns have been highly volatile, reflecting broader market conditions, regulatory pressures and increasing competition within the Layer-2 space.
- **Bitcoin Dominance:** Since the market low of November 2022, Bitcoin's dominance has steadily risen, highlighting a shift toward "flight to quality" in the crypto space.

BACKGROUND

Polygon PoS

Polygon PoS is an EVM-compatible, proof-of-stake sidechain for Ethereum, with high throughput and low costs.



Polygon, originally known as Matic Network, was established in 2017 in Mumbai, India, by Jaynti Kanani, Sandeep Nailwal and Anurag Arjun. The founders brought varied technical and business experiences to the initiative.

Polygon is one of the most prominent crypto blockchains to emerge from India and even holds a significant reputation across Asia. Founded amidst considerable uncertainty around India's crypto regulations, Polygon demonstrated resilience and innovation at a time when the regulatory landscape for digital assets was still evolving.

The project aimed to solve Ethereum's prevalent challenges, such as high transaction fees and network congestion. Initially, the focus was on using Plasma technology, a Layer-2 scaling method, to streamline Ethereum transactions by handling some operations off the main chain for quicker and more cost-effective processing.

KEY DEVELOPMENTS

To advance its growth, the platform raised approximately USD 5 million through an Initial Exchange Offering (IEO) on Binance Launchpad in April 2019, by selling 1.9 billion tokens at USD 0.00263 per token, representing 19% of the total token supply.(Source: Binance)

In February 2021, the project rebranded to Polygon, signaling a broader vision to become a multi-chain scaling solution not only for Ethereum but also for other blockchain networks. This rebranding introduced the Polygon SDK, a framework supporting various scaling options such as Zero-Knowledge Rollups.

TECHNOLOGICAL PROGRESS

Polygon zkEVM

Polygon zkEVM is a Layer 2 network of the Ethereum Virtual Machine (EVM), a zero-knowledge (ZK) rollup scaling solution.



Polygon has since introduced several innovations, including the release of Polygon zkEVM, a zero-knowledge rollup designed to improve Ethereum's scalability while utilizing its security. The platform has also undergone significant updates, including the 2023 and 2024 launch of the POL token, which replaced MATIC for staking across multiple Layer-2 solutions.

The network has formed strategic alliances with well-known firms such as Disney, Mastercard and Starbucks. It has also played a role in notable projects, like launching NFTs for Donald Trump and enabling JPMorgan's first public blockchain trade.

POLYGON 2.0



The shift from MATIC to POL signifies a crucial evolution for Polygon, marking a new phase in functionality and governance. Initiated in September 2024, this rebranding is part of the Polygon 2.0 vision to enhance network capabilities and foster a multi-layer ecosystem. It emphasizes Polygon's objective to scale Ethereum via Layer-2 chains, establishing itself as a leading blockchain that supports multiple chains.

This transition responds to the need for a flexible infrastructure that addresses increasing demands for scalability and efficiency. MATIC was initially a utility token for gas fees and staking on Polygon's Proof-of-Stake chain. However, as the network evolved, a more complex token was necessary, leading to the introduction of POL as the central token for Polygon 2.0, enhancing compatibility with Ethereum and enabling seamless blockchain interactions.

POL builds on MATIC's purpose by offering advanced functionality suited to Polygon's ecosystem. It serves as the main staking and gas token across various Layer-2 solutions, creating a unified experience for users and developers. This transition supports new tokenomics that promote sustainability, provide additional rewards to attract validators and secure the network. Additionally, POL incorporates a controlled inflation mechanism to ensure stable rewards without excessive inflation.

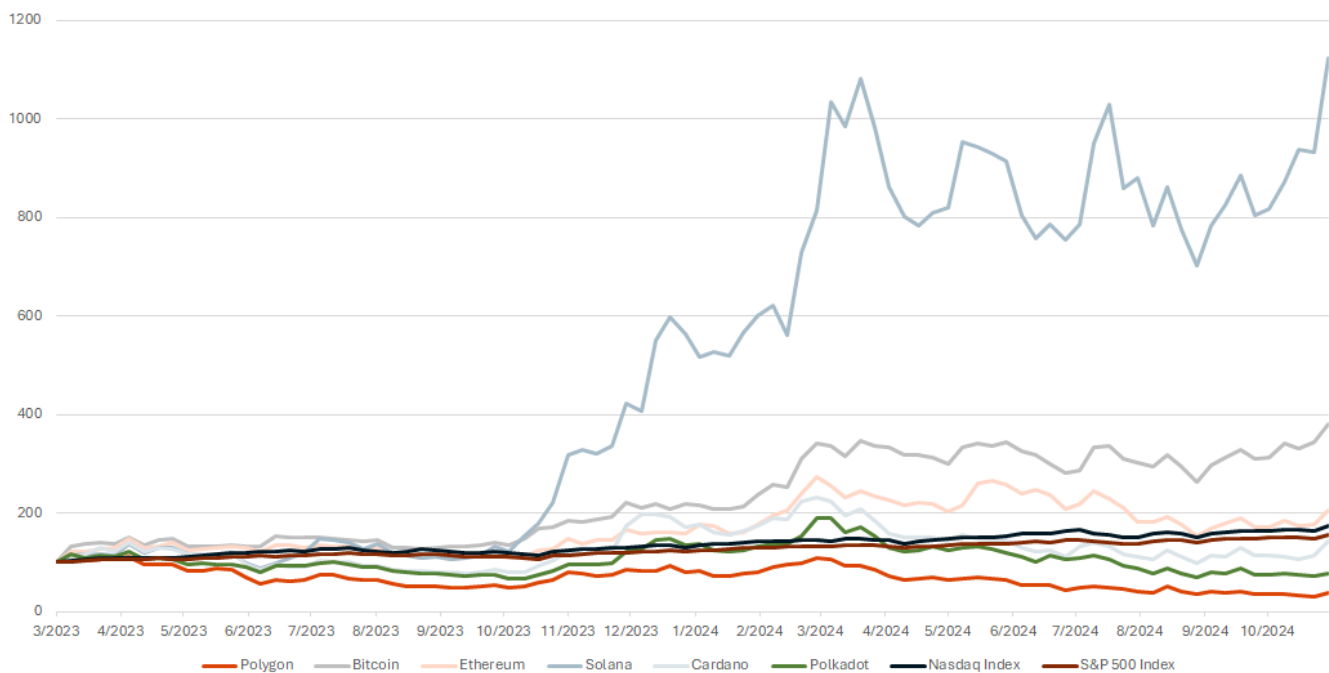
Polygon has established an issuance model featuring an annual inflation rate of 2%. A portion of this inflation will be allocated to validators to ensure network security, while another segment will be directed towards the community treasury to foster ecosystem development. This approach aims to encourage greater participation from validators. (Source: Binance)

POLYGON'S ANNUAL PERFORMANCE (2020-2024)

POLYGON PRICE PERFORMANCE



2023 - 2024 YEAR TO DATE ASSET PRICE PERFORMANCE (%) (REBASED)



2020 (+28% Return): In 2020, Polygon started gaining attention as an Ethereum Layer-2 solution. This was the year it began to gain traction by providing faster and cheaper transactions through its Plasma and Proof-of-Stake (PoS) solutions, which were crucial as Ethereum faced scaling challenges. This steady progress helped MATIC achieve a modest 28% return, setting the foundation for future growth as Ethereum's congestion issues became more apparent.

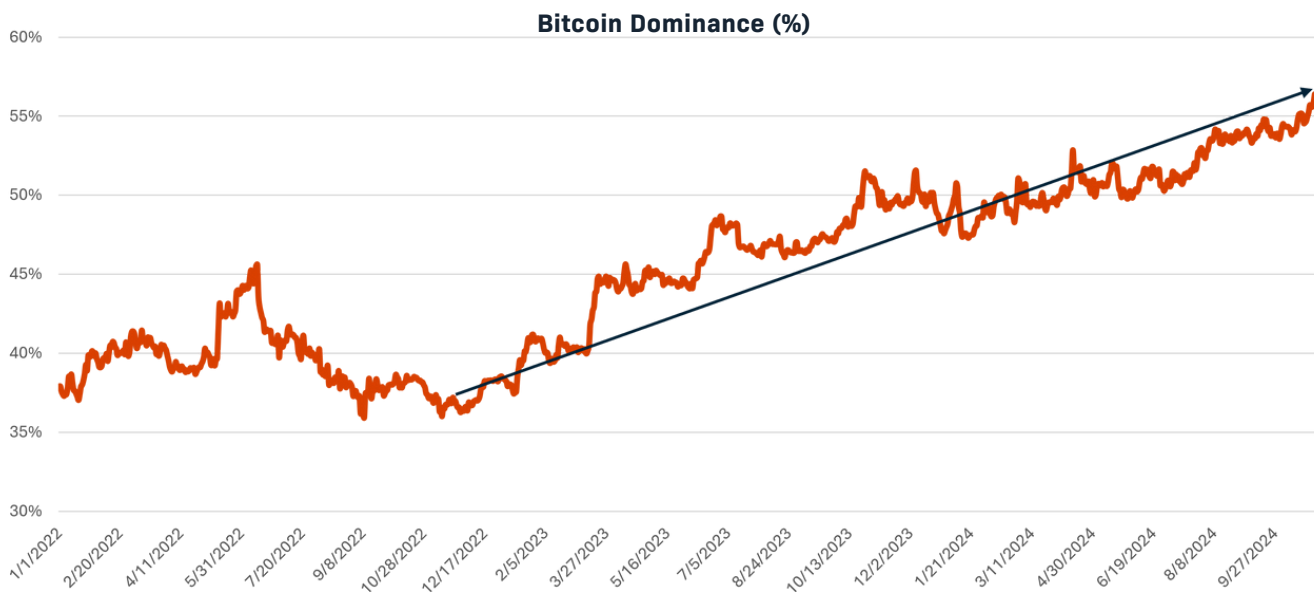
2021 (+14,232% Return): The crypto bull run of 2021 was instrumental for Polygon. Its rebranding and expansion to become a multi-chain ecosystem attracts a wave of developers and decentralized applications. Major partnerships, such as those with Google BigQuery and prominent backers like Mark Cuban, further elevated its status. Additionally, the growth of decentralized finance and NFTs on Ethereum boosted demand for Polygon's Layer-2 scaling solutions, driving an astronomical return of over 14,000% during the peak of the crypto market.

2022 (-70% Return): 2022 was a challenging year across the crypto industry and Polygon was not immune. Market-wide downturns, exacerbated by events like the collapse of major crypto exchanges (e.g. FTX), led to severe declines. Furthermore, Polygon faced stiff competition from newer Layer-2 solutions such as Arbitrum and Optimism, which began capturing market share with their technologies. These emerging competitors, combined with regulatory uncertainties and the general bear market, contributed to a 70% decline in Polygon's value.

2023 (+28% Return): In 2023, Polygon attempted to regain momentum with significant technological advancements, including the launch of its zkEVM (Ethereum Virtual Machine) aimed at improving scalability and security. However, mid-year challenges arose due to increased regulatory scrutiny in the US, with the SEC categorizing MATIC among assets with potential securities implications, leading to negative market sentiment. Despite these setbacks, Polygon's announcement with Polygon 2.0, a new governance framework and multi-chain architecture, revived some investor confidence, resulting in a modest annual gain.

2024 Year-To-Date (-58% Return as of Nov 10, 2024): The decline in 2024 reflects ongoing challenges for Polygon. While Polygon 2.0 and the migration from MATIC to POL have brought technological upgrades, the transition may create temporary and potential market uncertainties. Additionally, newer competition from zkSync and StarkNet has intensified. Coupled with broader crypto market volatility, these factors have resulted in a 58% decline in Polygon's price year-to-date.

BITCOIN DOMINANCE



Since the beginning of the current bull market, which started at the market low in November 2022, Bitcoin's dominance ratio has shown a steady increase, rising from around 36% to over 56%. This rise in dominance indicates a shift in investor focus toward Bitcoin, the most established crypto, over riskier altcoins. The preference for Bitcoin highlights a 'flight to quality' as investors seek stability, particularly during volatile periods. As a result, Bitcoin has significantly outperformed most altcoins since November 2022, reflecting its appeal as a trusted asset even within a rising market.

In conclusion, Polygon's evolution from Matic Network to Polygon 2.0 reflects its commitment to tackling Ethereum's scalability issues and advancing blockchain interoperability through innovative technology and strategic partnerships. Despite its volatile performance and challenges from market competition and regulatory scrutiny, Polygon's focus on Layer-2 solutions and the migration to the POL token demonstrate its adaptability and ambition to remain a leader in the crypto ecosystem. As Bitcoin's dominance underscores a shift toward established assets, Polygon's trajectory will depend on its ability to attract developers, secure its network and deliver a seamless multi-layer experience for decentralized applications.

EQUITIESFIRST LENDING MODEL

By offering crypto-backed financing with a diverse range of altcoins as collateral, EquitiesFirst provides investors with the flexibility to leverage their crypto assets while maintaining exposure to their potential appreciation. Choice of altcoins as collateral include Polygon, Solana, Cardano, Polkadot, Avalanche, Ripple, Dogecoin, Bitcoin Cash, Litecoin, etc. We can provide terms similar to those we previously offered for Bitcoin and Ethereum.

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