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# Zacks Small-Cap Research

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## INX Digital Co (OTCQB: INXDF)

### INXDF: Revenues Beat Estimates

INXDF is a company looking to change the financial world by offering a regulated platform able to build a community of digital investors and capital seekers. We value INXDF at $1.47 per share using the DCF model.

### OUTLOOK

INX Digital is a company that provides a regulated platform where verified customers can trade cryptocurrencies and security tokens on a secure and around the clock basis.

The security token market appears poised to explode and INX is the only company to this point to introduce an SEC-approved security token. We believe this gives them an enormous advantage in an industry with exponential growth potential.

| | |
|---|---|
| Current Price (04/03/23) | $0.15 |
| **Valuation** | **$1.47** |

### SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$0.16** |
| **52-Week Low** | **$0.10** |
| **One-Year Return (%)** | **N/A** |
| **Beta** | **N/A** |
| **Average Daily Volume (sh)** | **9,380** |
| **Shares Outstanding (mil)** | **207** |
| **Market Capitalization ($mil)** | **$31** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **N/A** |
| **Insider Ownership (%)** | **N/A** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **N/A** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/A** |
| **P/E using 2023 Estimate** | **N/A** |
| **P/E using 2024 Estimate** | **N/A** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Medium** |
| **Type of Stock** | **Small Growth** |
| **Industry** | **Financial Services** |

### ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2022 | NA | 0.9 A | 1.1 A | 2.1 E | 4.3 A |
| 2023 | 1.9 E | 2.3 E | 2.5 E | 2.8 E | 9.5 E |
| 2024 | 3.2 E | 3.6 E | 3.7 E | 3.8 E | 14.3 E |
| 2025 | 4.0 E | 5.0 E | 5.9 E | 6.5 E | 21.4 E |

**Earnings (per share)**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2022 | NA | 0.36 A | (0.05) A | (0.02) E | 0.98 A |
| 2023 | (0.02) E | 0.00 E | 0.00 E | 0.02 E | 0.00 E |
| 2024 | 0.00 E | 0.00 E | 0.01 E | 0.01 E | 0.02 E |
| 2025 | 0.01 E | 0.01 E | 0.01 E | 0.02 E | 0.05 E |

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## Company Update

INX provides a regulated trading platform for digital securities and cryptocurrencies—that that sounds like something investors could use right about now. This report is not going to detail the failings of other companies that claim to provide trading services to the crypto universe but in the past six months we've seen a massive fraud case, one of the largest platforms fined by a regulator, a bankruptcy or two, and it goes on. What's the answer for the confidence problem plaguing the crypto trading industry right now—INX. We are excited about the company because of the way that INX is shaping the blockchain industry through its willingness to work in a regulated environment with oversight from regulators such as the SEC and FINRA.

Those regulatory agencies have been a troubling issue to the crypto world that was founded on freedom from such restraints and oversight these agencies typically provide. But as the industry has matured, investors have realized that some guardrails are not only nice to have but needed to ensure a fair market in which investors can have confidence—and that's what we believe INX provides. Investment in INX is not an investment in cryptocurrency, investing in INX is an investment in a fintech company that has the necessary technology, expertise and licenses to offer primary and secondary market of security tokens and digital assets to investors in the U.S. and globally under the umbrella of regulatory oversight and protections on a single trading platform. Therefore, we aren't going to opine on the viability or worth of any one cryptocurrency and don't claim to have any expertise on that subject. But we can see the growth of the industry at large and the ability to invest in an SEC registered company that has regulated operations in an industry that is projected by Allied Market Research to reach $4.94 billion by 2030 is one that we're interested in.

But that's only one side of the INX business…and not the one that we are the most excited about—and is forecast by several research firms cited by the company to grow by 50x to $16 trillion by 2030. That side of the INX story is Security Tokenization. Details of the tokenization operation and trading platform follows but when the chairman of the largest asset manager in the world, Larry Fink of Blackrock, says that "The next generation of securities will be tokenization" we believe investors should take notice. INX is the world's first company to debut and successfully complete an SEC-registered IPO of a blockchain security token (the INX Token). The public offering of the INX Token was registered under the United States Securities Act of 1933 and, in such registration, the INX Token is deemed to be an "equity security" under relevant SEC rules and regulations. We'll talk more about the INX token, but the point here is that the company has the experience needed in this burgeoning industry to help companies to bring tokens to market and provide a place for them to be traded with confidence.

The methodical and responsible way that INX has built their company in an industry that has often been described as the Wild, Wild, West is attention grabbing after the industry has received attention for all of the wrong reasons is something that we believe investors should and will pay attention to.

The company recently reported fiscal year 2022 financial results and revenues came in better than expected at $4.3 million, up 77% from 2021. Importantly, given the issues in the banking system and the cryptocurrency world, INX reports year-end cash balances of almost $30 million, while also setting aside a reserve fund for the protection of customer assets in the amount of $36 million.

The company also announced that, since the end of the reporting period, INX has brought four primary offerings to market, exclusively available on INX.One. Again, this is the area of the business that we believe has the greatest potential and these growth numbers are encouraging to that thesis.

It has been a long road as the company sought to do things the right way and by keeping customers' needs at the forefront of planning. We will end this report with a quote from the CEO, Shy Datika, that illustrates why we view INX in such a positive light and encourage investors to take a look at adding INXDF to a portfolio:

"As industry giants are challenged by regulators, we have armed ourselves with regulations. As investors become more aware and more concerned with the pitfalls of unregulated trading platforms, we can provide a secure and safe harbor. INX puts customers first! We have a fully audited and segregated cash reserve fund as described in our INX Token F-1 prospectus. We maintain 1:1 balances for customers and do not use customer assets. We do not, in any way, shape, or form, leverage or re-invest customer assets. On our INX Securities ATS, customers get full transparency as they control their assets, their keys, and their wallets. We will continue developing new services and technologies to further expand opportunities while keeping our clients safe."

## PROJECTED INCOME STATEMENT & BALANCE SHEET

| INX Limited Income Statement and Balance Sheet (in thousands, except share and per share data) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2Q2022A | 3Q2022A | 2022A | 2023E | 2024E | 2025E |
| Revenue | | 887 | 1,101 | 4,273 | 9,500 | 14,250 | 21,375 |
| Operating Expenses/(Income) | | | | | | | |
| | Research and Development | 2,019 | 1,668 | 5,306 | 2,150 | 2,258 | 2,370 |
| | Sales and Marketing | 1,819 | 2,147 | 7,026 | 4,275 | 4,502 | 4,740 |
| | General and Administrative | 6,005 | 3,862 | 16,577 | 5,220 | 4,959 | 4,711 |
| | Fair Value Adj. for INX Token | (3,672) | 116 | (8,294) | 0 | 0 | 0 |
| | Total operating (expenses)/income | 6,171 | 7,793 | 20,615 | 11,645 | 11,718 | 11,822 |
| Gain/(loss) from Operations | | (5,284) | (6,692) | (16,342) | (2,145) | 2,532 | 9,553 |
| (Expense)/Income | | | | | | | |
| | Gain/(loss) on INX Tokens Issued | 78,224 | (5,327) | 230,299 | 0 | 0 | 0 |
| | Finance Income | 4,144 | 1,940 | 787 | 1,500 | 1,515 | 1,530 |
| | Finance Expense | (119) | (63) | (6,549) | (100) | (101) | (102) |
| | Income/(loss) Before Income Tax | 76,965 | (10,142) | 208,195 | (745) | 3,946 | 10,982 |
| | Tax Expenses | (83) | (38) | (119) | (100) | (101) | (102) |
| | Net income/(loss) | 76,882 | (10,180) | 208,076 | (845) | 3,845 | 10,880 |
| Other Income Adjustments | | 406 | (163) | (1,442) | (99) | (98) | (98) |
| Total Comprehensive Income | | 77,288 | (10,343) | 206,634 | (944) | 3,747 | 10,782 |
| Earnings/(loss) per share, diluted | | $0.36 | ($0.05) | $0.97 | ($0.00) | $0.02 | $0.05 |
| Wtd Avg Number of Shares Outstanding--Diluted | | 215,747,326 | 204,690,439 | 213,279,353 | 215,412,147 | 217,566,268 | 219,741,931 |
| | | | | | | | |
| | | | | | | | |
| Assets | | | | | | | |
| Current Assets | | | | | | | |
| | Cash and cash equivalents | 53,678 | 34,484 | 25,688 | 23,543 | 26,075 | 35,628 |
| | Short-term investments | 9,561 | 17,076 | 23,506 | 24,681 | 25,915 | 27,211 |
| | Digital assets | 1,843 | 2,658 | 2,597 | 2,623 | 2,649 | 2,676 |
| | Accounts receivable, net | 747 | 732 | 506 | 516 | 526 | 537 |
| | Other current assets | 2,905 | 3,968 | 5,240 | 5,397 | 5,559 | 5,726 |
| Total Current Assets | | 68,734 | 58,918 | 57,537 | 56,761 | 60,725 | 71,778 |
| | | | | | | | |
| | Property and Equip., net | 430 | 408 | 395 | 387 | 379 | 372 |
| | Digital assets | 448 | 0 | 0 | 0 | 0 | 0 |
| | Investments | 13,173 | 18,958 | 16,380 | 16,708 | 17,042 | 17,383 |
| | Other non-current assets | 7,835 | 7,232 | 7,127 | 6,984 | 6,845 | 6,708 |
| Total Assets | | 90,620 | 85,516 | 81,439 | 80,840 | 84,991 | 96,240 |
| | | | | | | | |
| Liabilities and Stockholder Equity | | | | | | | |
| Current Liabilities | | | | | | | |
| | Account payable | 2,974 | 2,712 | 2,461 | 2,486 | 2,510 | 2,586 |
| | Funds due to customers | 1,982 | 2,253 | 2,609 | 2,661 | 2,714 | 2,769 |
| | INX Token Liability | 88,106 | 93,966 | 58,427 | 59,596 | 60,787 | 62,003 |
| | Other current liabilities | 499 | 507 | 519 | 524 | 529 | 535 |
| Total Current Liabilities | | 93,561 | 99,438 | 64,016 | 65,267 | 66,542 | 67,892 |
| | Non-current liabilities | 1,519 | 1,007 | 868 | 859 | 851 | 842 |
| Total Liabilities | | 95,080 | 100,445 | 64,884 | 66,126 | 67,392 | 68,735 |
| Stockholder Equity | | | | | | | |
| | Share capital and share premium | 54,789 | 56,021 | 57,053 | 55,153 | 57,108 | 59,852 |
| | Contribution to equity by con. s.h. | 582 | 582 | 582 | 582 | 582 | 582 |
| | Other | (302) | (1,823) | (1,254) | (1,295) | (1,338) | (1,382) |
| | Accumulated Deficit | (59,529) | (69,709) | (39,826) | (39,725) | (38,753) | (31,546) |
| Total Equity | | (4,460) | (14,929) | 16,555 | 14,714 | 17,599 | 27,506 |
| Total Liabilities and Stockholder Equity | | 90,620 | 85,516 | 81,439 | 80,840 | 84,991 | 96,240 |

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