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Zacks Small-Cap Research

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INX Digital Co (OTCQB: INXDF)

INXDF: Earnings Beat Estimates as Momentum Grows

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 $0.90 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 (05/17/23)	$0.12
Valuation	**$0.90**

SUMMARY DATA

52-Week High	**$0.18**
52-Week Low	**$0.10**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**10,789**
Shares Outstanding (mil)	**207**
Market Capitalization ($mil)	**$25**
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	1.6 A	1.6 E	1.6 E	1.7 E	6.5 E
2024	1.6 E	1.6 E	1.7 E	1.8 E	6.7 E
2025	2.0 E	2.5 E	2.5 E	3.0 E	10.1 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	0.00 A	-0.02 E	-0.02 E	-0.02 E	-0.06 E
2024	0.00 E	0.00 E	0.00 E	0.00 E	0.00 E
2025	0.00 E	0.00 E	0.01 E	0.01 E	0.02 E

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Company Update

INX, which is a company that provides a regulated trading platform for digital securities and cryptocurrencies, reported 1Q 2023 earnings recently and the highlights follow:

- Earnings beat estimates of a loss by breaking even for the quarter.
- Revenues of $1.4 million were a little short of estimates on lighter-than-expected trading volume.
- The company's balance sheet remains solid, with over $50 million in cash and short-term investments on hand and very light liability load.

We continue to be excited about the INX because of the way that the company 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. 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.

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 near-term growth in revenue is slightly lower than our projections and we believe, given the tightening of financial conditions, growing revenues may be slower than expected for the next few quarters. As a result, we have adjusted our estimates and adjusted our price target to $0.90. We remain very positive on INX and believe that rapid growth for revenue is in the not-too-distant future.

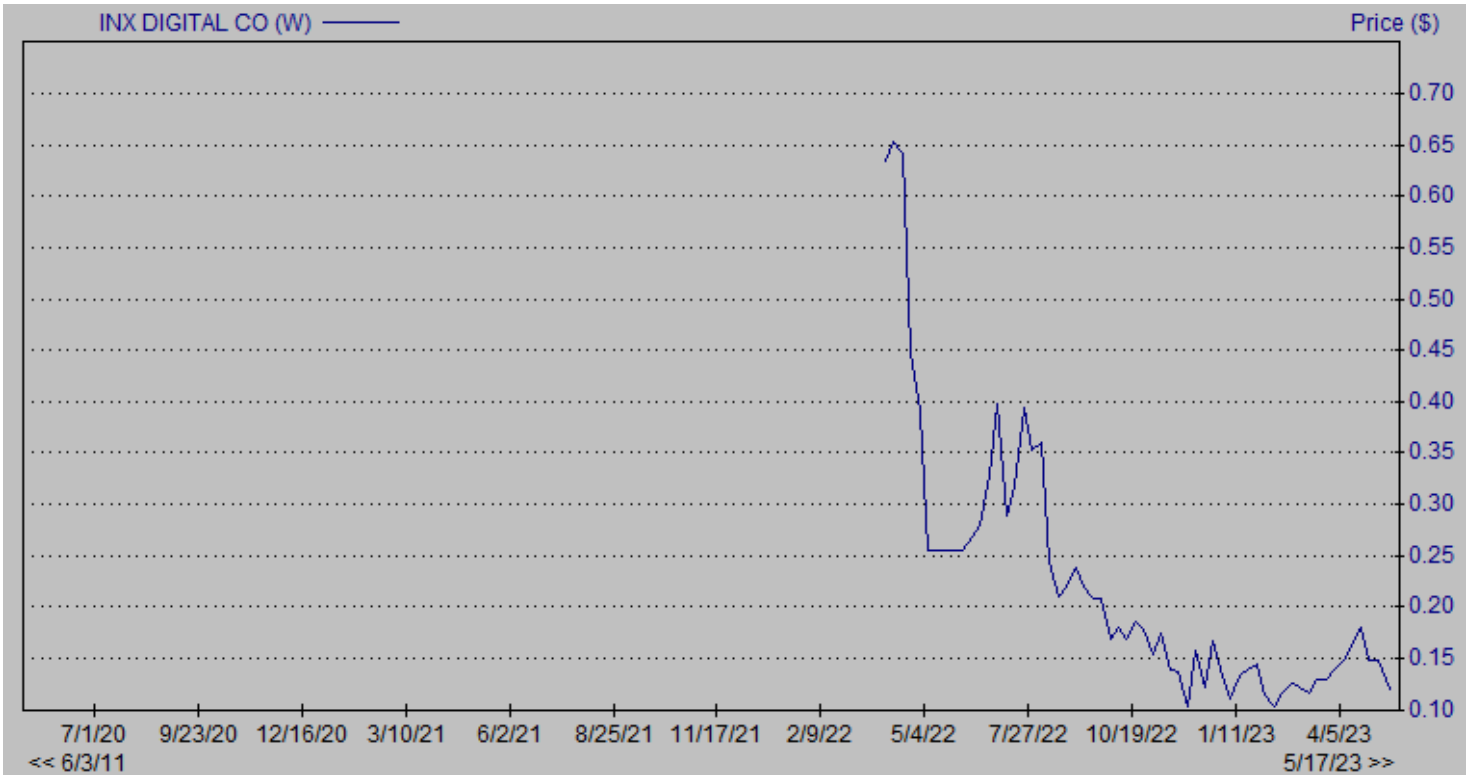
It has been a long road as the company sought to do things the right way and by keeping customers' needs at the forefront of planning. We will end this report with a quote from the CEO, Shy Datika, that illustrates why we view INX in such a positive light and encourage investors to take a look at adding 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)								
		2022A	**1Q2023A**	**2Q2023E**	**3Q2023E**	**4Q2023E**	**2024E**	**2025E**
Revenue	Net Revenue	4,273	1,583	1,615	1,647	1,680	6,720	10,079
Operating Expenses/(Income)								
	Research and Development	5,306	1,030	1,040	1,051	1,061	1,082	1,136
	Sales and Marketing	7,026	1,058	1,069	1,079	1,090	1,114	1,173
	General and Administrative	16,577	4,244	4,286	4,329	4,373	4,032	3,830
	Fair Value Adj. for INX Token	(8,294)	(219)	0	0	0	(274)	(342)
	Total operating (expenses)/income	20,615	6,113	6,395	6,459	6,524	5,954	5,797
Gain/(loss) from Operations		(16,342)	(4,530)	(4,781)	(4,812)	(4,844)	766	4,283
(Expense)/Income								
	Gain/(loss) on INX Tokens Issued	230,299	3,778	0	0	0	0	0
	Finance Income	787	376	400	410	420	380	384
	Finance Expense	(6,549)	(225)	(100)	(100)	(100)	(227)	(230)
	Income/(loss) Before Income Tax	208,195	(601)	(4,481)	(4,502)	(4,524)	918	4,437
	Tax Expenses	(119)	0	(99)	(98)	(97)	0	0
	Net income/(loss)	208,076	(601)	(4,580)	(4,600)	(4,621)	918	4,437
Other Income Adjustments		(1,442)	315	(98)	(97)	(96)	(98)	(98)
Total Comprehensive Income		206,634	(286)	(4,678)	(4,697)	(4,717)	820	4,339
Earnings/(loss) per share, diluted		$0.97	($0.00)	($0.02)	($0.02)	($0.02)	$0.00	$0.02
Wtd Avg Number of Shares Outstanding--Diluted		213,279,353	208,710,911	210,798,020	212,906,000	215,035,060	210,798,020	212,906,000
Assets								
Current Assets								
	Cash and cash equivalents	25,688	27,620	27,896	28,175	28,457	28,386	32,669
	Short-term investments	23,506	23,041	23,271	23,504	23,739	24,193	25,403
	Digital assets	2,597	3,331	3,364	3,398	3,432	3,364	3,398
	Accounts receivable, net	506	1,112	1,123	1,134	1,146	1,134	1,157
	Other current assets	5,240	5,325	5,378	5,432	5,486	5,485	5,649
Total Current Assets		57,537	60,429	61,033	61,644	62,260	62,562	68,275
	Property and Equip., net	395	406	402	398	394	398	390
	Digital assets	0	0	0	0	0	0	0
	Investments	16,380	11,425	11,311	11,198	11,086	11,654	11,887
	Other non-current assets	7,127	6,928	6,928	6,928	6,928	6,789	6,654
Total Assets		81,439	79,188	79,674	80,167	80,668	81,403	87,206
Liabilities and Stockholder Equity								
Current Liabilities								
	Account payable	2,461	2,824	2,852	2,881	2,910	2,852	2,938
	Funds due to customers	2,609	3,080	3,111	3,142	3,173	3,142	3,204
	INX Token Liability	58,427	54,694	55,241	55,793	56,351	55,788	56,904
	Other current liabilities	519	528	533	539	544	533	539
Total Current Liabilities		64,016	61,126	61,737	62,355	62,978	62,315	63,584
	Non-current liabilities	868	732	739	747	754	725	717
Total Liabilities		64,884	61,858	62,477	63,101	63,732	63,040	64,302
Stockholder Equity								
	Share capital and share premium	57,053	58,114	58,389	58,670	59,257	58,204	55,567
	Contribution to equity by con. s.h.	582	582	588	594	298	582	582
	Other	(1,254)	(865)	(874)	(882)	(891)	(894)	(923)
	Accumulated Deficit	(39,826)	(40,501)	(40,906)	(41,315)	(41,728)	(39,529)	(32,322)
Total Equity		16,555	17,330	17,197	17,066	16,935	18,363	22,904
Total Liabilities and Stockholder Equity		81,439	79,188	79,674	80,168	80,667	81,403	87,206

HISTORICAL STOCK PRICE



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