

Zacks Small-Cap Research

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INX Digital Co

(OTCQB: INXDF)

INXDF: 2Q Revenues Meet and Outlook Remains Positive

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 \$0.58 per share on the recent investment and potential acquisition.

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 company reported 2Q earnings that showed revenues inline with estimates and earnings that were slightly below estimates due to fluctuations in the price of the company's token.

Current Price (08/15/23) \$0.28
Valuation \$0.58

SUMMARY DATA

52-Week High \$0.34
52-Week Low \$0.10
One-Year Return (%) N/A
Beta N/A
Average Daily Volume (sh) 8,157

Shares Outstanding (mil) 207
Market Capitalization (\$mil) \$57
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
Industry

Small Growth
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 A	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	-0.08 A	-0.02 E	-0.02 E	-0.12 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

Company Update

INX is a company that provides regulated trading platforms for digital securities and cryptocurrencies and that we believe has an excellent chance to grow market share due to its regulatory structure and prudent management. The company reported 2Q earnings today, the highlights of which follow:

- Cash and cash equivalents remained steady at approximately \$15.5 million, with another \$7.6 million invested in investment grade bonds and Treasuries.
- The company revealed its Reserve Fund set aside for the protection of customer funds stood at \$36.0 million.
- Q2 revenues were inline with our expectations and up 161% over the same quarter a year ago at \$1.6 million.
- The company announced that new customer registrations increased 50.1% compared to last quarter.
- Customer funds held by INX Digital increased 36% compared to 1Q2023.
- 2Q earnings came in at -\$0.08 per share, but that includes a \$0.06 loss due to INX tokens having an unrealized loss. Excluding that loss, the company would have lost \$0.02 per share—inline with our estimates.

The total market opportunity for INX in the growing cryptocurrency trading market is expected to grow to between \$5-11 billion, depending on the cryptocurrency research firm you look at, by 2030. We view the 2Q earnings release as evidence that the INX strategy of having a regulated environment to trade and hold these instruments, as well as becoming a leader in the issuing of security tokens, is gaining traction. Revenues and customer acquisition numbers continue to grow at a rapid rate and the adoption of security tokens as a means to obtain needed capital is growing, all of which speak to the upside potential we see in INXDF.

We also continue to follow and want to remind investors of the INX recent announcement that Republic Group, described as “a global financial firm operating a digital merchant bank and a network of investment platforms,” is investing \$5.25 million into the company in exchange for approximately 9.5% of outstanding shares. The deal, according to INX, values INX at approximately \$50 million before the transaction. INX has also entered into collaboration agreement with Republic in which “the parties will seek to expand the breadth and depth of tokenization infrastructure and access to digital assets for investors worldwide.” Among the items that we believe will benefit INX in the collaboration are:

- Republic’s token will be listed on the INX exchange. And discussions will take place to integrate the INX and Republic tokens.
- Republic will introduce potential cryptocurrency investors to INX platforms.
- Republic will refer clients currently with Republic to INX for services that INX provides.

We believe this collaboration will benefit INX but the company does have to pay 75% of the net revenues of the new issuers gained from Republic to Republic—a reasonable agreement in our view.

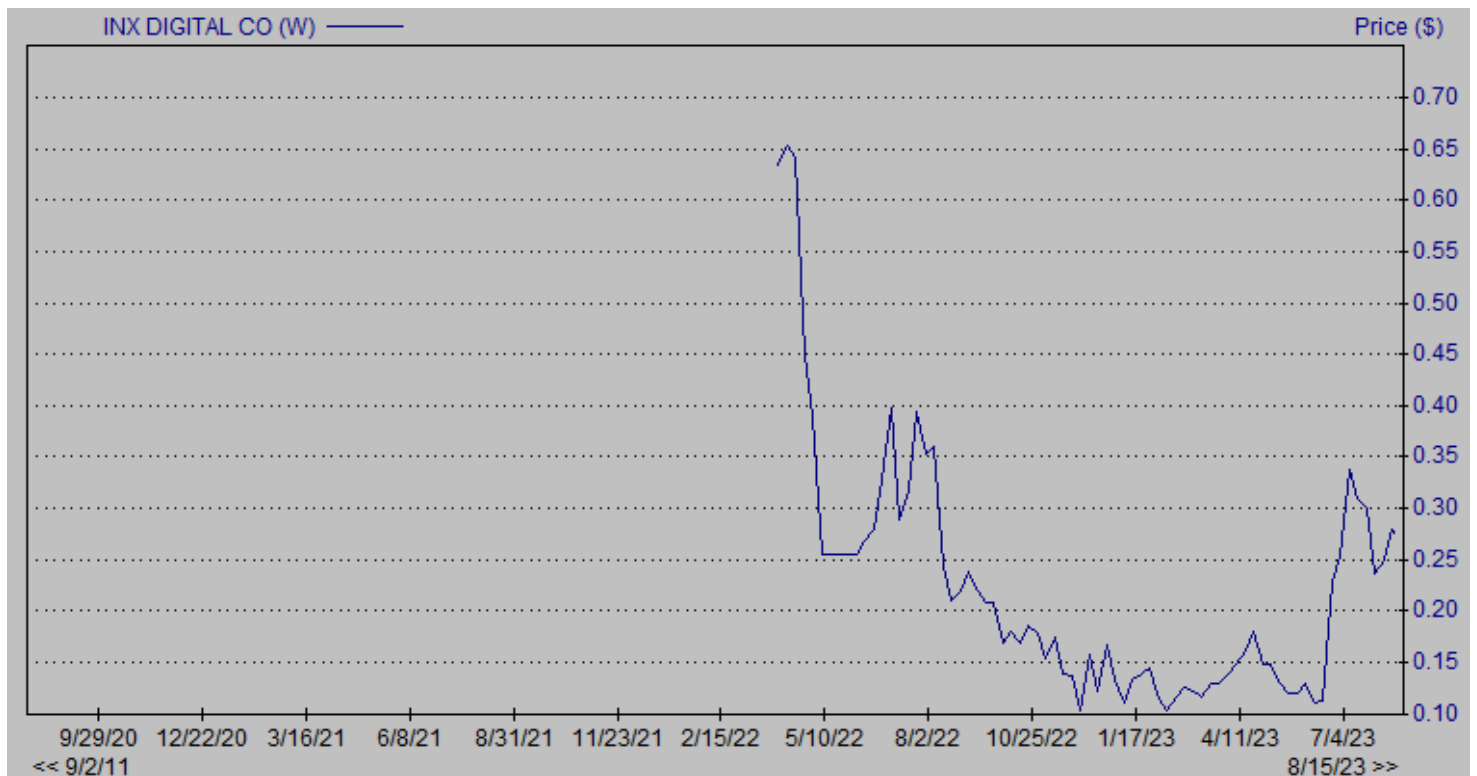
Additionally, and this is what we continue to watch closely, the two parties have committed to enter a non-binding term sheet once the above transaction closes, in which Republic would acquire 100% of INX at a valuation up to \$120 million. The company made sure to note that this announcement does not guarantee that an acquisition will occur under those terms or be completed at all.

INX is in a state of flux where investors don't know if the company will continue as a public entity but we believe the investment in the company by Republic, combined with potential business impact from recent events, makes INXDF a very attractive investment alternative for investors with a modestly higher risk tolerance.

INCOME STATEMENT AND BALANCE SHEET PROJECTIONS

INX Limited Income Statement and Balance Sheet								
(in thousands, except share and per share data)								
		2022A	1Q2023A	2Q2023A	3Q2023E	4Q2023E	2024E	2025E
Revenue	Net Revenue	4,273	1,583	1,589	1,621	1,653	6,613	9,919
Operating Expenses/(Income)								
	Research and Development	5,306	1,030	1,024	1,034	1,045	1,082	1,136
	Sales and Marketing	7,026	1,058	1,085	1,096	1,107	1,114	1,173
	General and Administrative	16,577	4,244	3,319	3,352	3,386	4,032	3,830
	Fair Value Adj. for INX Token	(8,294)	(219)	180	0	0	(274)	(342)
	Total operating (expenses)/income	20,615	6,113	5,608	5,482	5,537	5,954	5,797
Gain/(loss) from Operations		(16,342)	(4,530)	(4,019)	(3,862)	(3,884)	659	4,122
(Expense)/Income								
	Gain/(loss) on INX Tokens Issued	230,299	3,778	(13,765)	0	0	0	0
	Finance Income	787	376	366	410	420	380	384
	Finance Expense	(6,549)	(225)	(116)	(100)	(100)	(227)	(230)
	Income/(loss) Before Income Tax	208,195	(601)	(17,534)	(3,552)	(3,564)	812	4,276
	Tax Expenses	(119)	0	(17)	(98)	(97)	0	0
	Net income/(loss)	208,076	(601)	(17,551)	(3,650)	(3,661)	812	4,276
Other Income Adjustments		(1,442)	315	100	(97)	(96)	(98)	(98)
Total Comprehensive Income		206,634	(286)	(17,451)	(3,747)	(3,757)	714	4,178
Earnings/(loss) per share, diluted		\$0.97	(\$0.00)	(\$0.08)	(\$0.02)	(\$0.02)	\$0.00	\$0.02
Wtd Avg Number of Shares Outstanding--Diluted		213,279,353	208,710,911	209,993,638	212,093,574	214,214,510	210,798,020	212,906,000
Assets								
Current Assets								
	Cash and cash equivalents	25,688	27,620	28,064	28,345	28,628	28,279	32,402
	Short-term investments	23,506	23,041	23,085	23,316	23,549	24,193	25,403
	Digital assets	2,597	3,331	3,898	3,937	3,976	3,364	3,398
	Accounts receivable, net	506	1,112	900	909	918	1,134	1,157
	Other current assets	5,240	5,325	6,865	6,934	7,003	5,485	5,649
Total Current Assets		57,537	60,429	62,812	63,440	64,075	62,456	68,008
	Property and Equip., net	395	406	380	376	372	398	390
	Digital assets	0	0	0	0	0	0	0
	Investments	16,380	11,425	7,998	7,918	7,839	11,654	11,887
	Other non-current assets	7,127	6,928	6,459	6,524	6,589	6,655	6,721
Total Assets		81,439	79,188	77,649	78,258	78,875	81,162	87,006
Liabilities and Stockholder Equity								
Current Liabilities								
	Account payable	2,461	2,824	2,866	2,895	2,924	2,852	2,938
	Funds due to customers	2,609	3,080	4,193	4,235	4,277	3,142	3,204
	INX Token Liability	58,427	54,694	67,111	67,782	68,460	55,788	56,904
	Other current liabilities	519	528	2,195	2,217	2,239	533	539
Total Current Liabilities		64,016	61,126	76,365	77,129	77,900	62,315	63,584
	Non-current liabilities	868	732	708	715	722	725	717
Total Liabilities		64,884	61,858	77,073	77,844	78,622	63,040	64,302
Stockholder Equity								
	Share capital and share premium	57,053	58,114	58,811	59,096	59,687	58,204	55,567
	Contribution to equity by con. s.h.	582	582	582	588	292	582	582
	Other	(1,254)	(865)	(765)	(773)	(780)	(894)	(923)
	Accumulated Deficit	(39,826)	(40,501)	(58,052)	(58,497)	(58,945)	(39,770)	(32,522)
Total Equity		16,555	17,330	576	415	253	18,122	22,704
Total Liabilities and Stockholder Equity		81,439	79,188	77,649	78,258	78,875	81,162	87,006

HISTORICAL STOCK PRICE



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