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Zacks Small-Cap Research (NOTE)

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DeFi Technologies Inc. (OTCQB: DEFTF)

DEFTF: Underappreciated Earnings Power

Research Note

We highlight the following key takeaways coming off of DeFi Technologies' 1Q24 shareholder conference call (see our 1Q24 earnings review report published on 5/16/24 for our initial analysis of financial results):

1. **Accelerating earnings power:** Assuming the price of Bitcoin (BTC) hits $100,000 (currently ~$70K) and Solana (SOL) trends up to $225 (currently $177), management puts Valour's pro forma AUM at $1.35 billion, or essentially double the $670 million of assets as of 3/31/24. Following the launches of DeFi Alpha (discussed next) and Valour's BTC staking ETP, all-in revenue yields are approaching 10% of AUM – implying run-rate revenue in the range of $135 million. Adding in a conservative assumption for DeFi Alpha ($50 million per year) and ~$10 million of annual operating costs suggests net income of roughly $175 million. Applying a reasonable 15x P/E multiple translates into a stock price north of $7.

2. **DeFi Alpha – another powerful revenue driver:** On the call, senior officials provided a bit more color into DeFi Alpha. The new business was launched in 2Q24 with the aim of leveraging DEFTF's excess liquidity to capitalize on digital assets arbitrage opportunities. By taking low-risk positions and limiting protocol exposures, DeFi Alpha can minimize revenue volatility while generating sizeable incremental revenues ($40 million in 2Q24 through mid-May). Looking ahead, related contributions likely remain lumpy in the near term, but build over time as the business scales.

3. **AUM rebound, with a potentially sizeable net flow catalyst:** We see a number of near- and longer-term catalysts for Valour's ETP AUM. Notably, our back-of-the-envelope math suggests QTD market depreciation has meaningfully improved in the last week or so. We now put Valour's QTD weighted-average market impact at -10% vs. -20% last week. Furthermore, with the odds that the SEC will approve spot Ethereum ETFs sharply rising in the last couple of days, we would expect to see a step up in demand for Valour's ETH ETP assuming approval. Indeed, Valour's BTC ETP benefitted from accelerating inflows around the SEC's approval of BTC ETFs. Importantly, Valour's ETH ETP provides exposure to Ethereum, with zero management fees – a key differentiating factor as awareness of and demand for ETH products rises. Longer-term flow drivers include increasingly launching digital asset ETPs in the Middle East, Asia, and the UK, as well as leveraging Reflexivity research coverage to bolster demand for new product launches.

4. **Broadening capital management story:** As of 3/31/24, DEFTF reported $7 million of cash and cash equivalents on the balance sheet. Thus far in 2Q24, DeFi Alpha generated $40 million, and management paid down $19.5 million of debt using existing cash. Based on our math, the company currently maintains ~$27.5 million of cash – ample liquidity to further strengthen the

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balance sheet and return excess capital to shareholders. Indeed, management seems more willing to step in and repurchase shares, particularly assuming the stock's valuation discount remains wide, and is exploring instituting a dividend for shareholders.

5. **Uplisting represents another potential catalyst for the stock:** Management continues to have ongoing discussions with senior exchanges both here in the U.S. and abroad around potentially uplisting the stock. While DEFTF likely needs to be trading above $2 per share in order to uplist, moving to a senior stock exchange would undoubtedly improve awareness of the story and boost the stock's liquidity, thereby opening up ownership of DeFi's shares to a broader pool of institutional investors.

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