

# Bigg Digital Assets Inc.

(CSE: BIGG/ OTCQX: BBKCF/ WKN: A2PS9W)

## Metaverse Acquisition / Anticipating Sector Consolidation

**BUY**

Current Price: C\$0.30

Fair Value: C\$0.51

Risk\*: 4

Sector: Cryptos/Financial Services

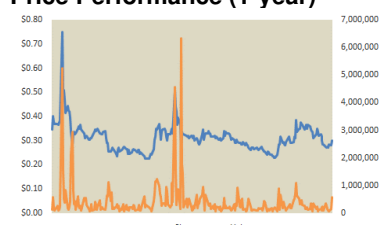
[Click here for more research on the company and to share your views](#)

### Highlights

- Q2 revenue fell 40% YoY (**3% below our estimate**), amid a 57% YoY decline in transaction volume. In comparison, Coinbase (NASDAQ: COIN), operator of the largest crypto exchange in North America, experienced a 58% YoY decline in transaction volume. Global crypto transaction volumes are down **amid increased regulatory scrutiny, and lower prices**.
- BIGG added 6k users in Q2, increasing its **total user-count to 209k**.
- Despite a steep decline in revenue, **EBITDA improved by 41% YoY** (6% lower than our estimate), due to a 41% decline in SG&A expenses. EPS and FCF improved as well, but remain negative.
- In Q2, annualized revenue per user** declined 53% YoY, to \$20 (in line with our estimate) vs \$41 for COIN. On a positive note, **Customer Acquisition Costs** (CAC) fell 48% YoY to \$102 (COIN - \$36), driven by organic and referral signups.
- To diversify revenue and minimize revenue volatility related to crypto prices**, BIGG is increasing its ownership in privately held TerraZero Technologies, from 30% to 100%, by issuing 62M shares (\$20M). In H1-2023, TerraZero generated \$1.5M in revenue (\$2.5M in net losses) building metaverse projects for a wide range of clients including Miller Lite (NYSE: TAP), PwC, Atlantic Records (NASDAQ: WMG), and others. This deal will strengthen BIGG's balance sheet, as **TerraZero has \$5M in cash**.
- In Q3, **we anticipate revenue to remain flat QoQ**. Despite a 17% dip in global crypto trading volumes this quarter vs Q2, we believe BIGG's growing user-base, and U.S. expansion will counterbalance the negative impact of reduced trading activity.

Sid Rajeev, B.Tech, CFA, MBA  
Head of Research

### Price Performance (1-year)



	YTD	12M
BIGG	33%	-13%
CSE	-26%	-55%

### Company Data

52-Week Range	\$0.22 - \$0.75
Shares O/S	255M
Market Cap.	\$77M
Current Yield	N/A
P/E (forward)	N/A
P/B	3.6x

Key Financial Data YE: Dec 31st	2022	2023E	2024E
Cash	5,678,236	1,354,926	155,759
Working Capital	9,608,306	7,869,662	7,310,170
Total Assets	67,402,627	101,173,265	100,821,787
Total Debt	-	-	-
Revenue	7,472,820	6,701,999	11,316,450
Net Income - adj.	(18,262,954)	(15,791,843)	(13,931,107)
EPS - adj.	(0.07)	(0.06)	(0.04)

\*See last page for important disclosures, rating, and risk definitions. All figures in C\$ unless otherwise specified.

## Key Operating Metrics

*BIGG's trading platform, Netcoins, is available to users in Canada and 17 U.S. states*

*Users can transact in up to 42 cryptos (previously 37)*

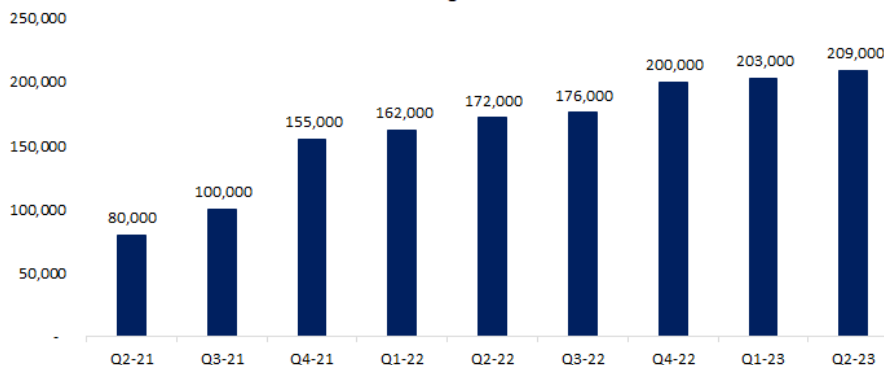
*At the end of Q2, Netcoins had 209k registered users, up 22% YoY*

*In Q2, transaction volume was down 57% YoY; for comparison, COIN's trading volume was down 58% YoY*

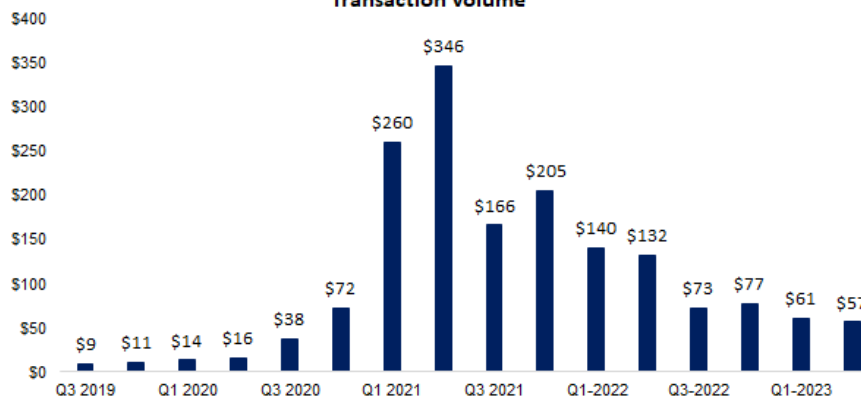
*Revenue/user was down 10% QoQ*

*However, BIGG was able to lower its CAC by 51% QoQ*

Netcoins - Registered Users

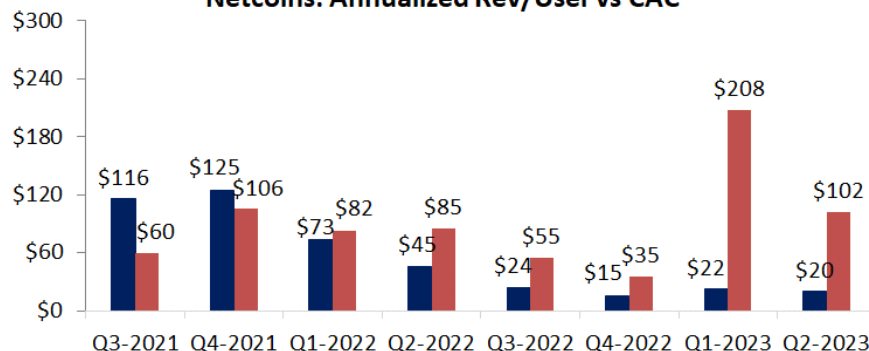


Transaction Volume



Key Metrics	2021	2022	Q1-2023	Q2-2022	Q2-2023	QoQ	YoY	COIN
Registered Users (end of period)	155,000	200,000	203,000	172,000	209,000	3%	22%	105,000,000
Trading Volume	\$977,556,484	\$421,885,116	\$60,946,503	\$131,326,917	\$56,828,778	-7%	-57%	\$195,750,000,000
Average Volume Per User (p.a.)	\$8,499	\$2,377	\$1,210	\$3,146	\$1,103	-9%	-65%	\$7,557
Transaction Revenue	\$12,512,723	\$5,442,318	\$1,115,321	\$1,746,648	\$1,022,918	-8%	-41%	\$505,862,550
Revenue % of Volume	1.28%	1.29%	1.83%	1.33%	1.80%	-2%	35%	0.26%
Revenue Per User (p.a.)	\$109	\$31	\$22	\$42	\$20	-10%	-53%	\$20
Ad/Marketing Expenses	\$7,519,755	\$5,951,122	\$625,445	\$1,953,888	\$613,723	-2%	-69%	\$86,367,600
CAC/User	\$94	\$132	\$208	\$195	\$102	-51%	-48%	\$31

Netcoins: Annualized Rev/User vs CAC



Source: FRC / Company

## Management Plans

Management intends to continue expanding within the U.S.

Further Strategic Investments in Crypto, Metaverse, NFT, Blockchain, and/or DeFi	Focus on adding institutional investors  BIGG uplist to TSX (pending market conditions)	Further US expansion for Netcoins in 2023	Netcoins Product Expansions (Netcoins Pay, Software As A Service, Staking)	Blockchain Intelligence Group to add wide variety of blockchains - push on sales and marketing
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Source: Company

## Financials

STATEMENT OF OPERATIONS									
YE DEC 31	Q1-2022	Q1-2023	YoY%	Q2-2022	Q2-2023	YoY%	H1-2022	H1-2023	YoY%
Transaction Revenue	\$1,973,754	\$1,115,321	-43%	\$1,746,648	\$1,022,918	-41%	\$3,720,402	\$2,138,239	-43%
Product Revenue	\$334,406	\$327,604	-2%	\$372,717	\$259,568	-30%	\$707,123	\$587,172	-17%
Service Revenue	\$202,066	\$82,392	-59%	\$127,288	\$66,690	-48%	\$329,354	\$149,082	-55%
<b>Total Revenue</b>	<b>\$2,510,226</b>	<b>\$1,525,317</b>	<b>-39%</b>	<b>\$2,246,653</b>	<b>\$1,349,176</b>	<b>-40%</b>	<b>\$4,756,879</b>	<b>\$2,874,493</b>	<b>-40%</b>
COGS	\$104,182	\$43,023	-59%	\$91,324	\$73,649	-19%	\$195,506	\$116,672	-40%
SG&A Expense	\$6,147,913	\$4,555,769	-26%	\$7,444,485	\$4,395,017	-41%	\$13,592,398	\$8,950,786	-34%
<b>EBITDA - adjusted</b>	<b>-\$3,741,869</b>	<b>-\$3,073,475</b>	<b>18%</b>	<b>-\$5,289,156</b>	<b>-\$3,119,490</b>	<b>41%</b>	<b>-\$9,031,025</b>	<b>-\$6,192,965</b>	<b>31%</b>
Net Profit (Loss) - adjusted	-\$4,620,397	-\$4,787,915	-4%	-\$5,775,442	-\$3,298,636	43%	-\$10,395,839	-\$8,086,551	22%
EPS - adjusted	-\$0.02	-\$0.02	0%	-\$0.02	-\$0.01	45%	-\$0.04	-\$0.03	25%

Q2 revenue was down 40% YoY, and 3% below our estimate, due to lower than expected B2B revenue

However, EBITDA improved 41% YoY, due to a 41% YoY decline in SG&A expenses

EPS and FCF improved as well, but remain negative

Strong balance sheet, with no debt

### Summary of Cash Flows

YE Dec 31	H1-2022	H1-2023
Cash Flows from Operations	(42,829,823)	(6,353,990)
Cash Flows from Investing	16,489,319	2,984,990
Cash Flows from Financing	717,730	105,262
Net Change	(25,622,774)	(3,263,738)
FOREX	3,741	(35,049)
<b>Free Cash Flows</b>	<b>(43,036,735)</b>	<b>(6,443,330)</b>

### Liquidity and Capital Structure

YE Dec 31	2022	Q1-2023	Q2-2023
Cash	\$5,678,236	\$3,578,842	\$2,379,449
Working Capital	\$9,608,306	\$11,926,611	\$10,017,419
Current Ratio	1.22	1.18	1.16
AUM (incl. cash)	\$62,767,862	\$86,944,181	\$82,706,741
AUM (incl. cash), net of deposits	\$22,486,856	\$24,332,945	\$20,311,613
LT Debt	-	-	-
Total Debt	-	-	-

	# Options	Strike Price	Value	Warrants	Strike Price	Value
Total Outstanding	18,973,750	\$0.68	\$12,947,400	-	-	-
In-the-Money	\$1,903,750	\$0.11	\$206,100	-	-	-

Source: Company, FRC

## FRC Projections and Valuation

We are lowering our 2023, and 2024, EPS forecasts due to the TerraZero acquisition

Pending a clear revenue growth plan from management, we are modeling a gradual shift to profitability for TerraZero

Our DCF valuation decreased from \$0.70 to \$0.59/share, amid potential share dilution from the TerraZero acquisition

We are maintaining our assumption that Netcoins will achieve 1M users by the end of this decade

	2023E (Old)	2023E (New)	2024E (Old)	2024E (New)
Trading Volume	\$338,643,411	\$338,643,411	\$497,875,754	\$497,875,754
Fee as a % of Volume	1.3%	1.3%	1.3%	1.3%
Revenue	\$6,162,780	\$6,701,999	\$8,567,280	\$11,316,450
EBITDA	-\$13,693,051	-\$15,663,095	-\$12,218,843	-\$13,629,491
Net Income	-\$13,821,799	-\$15,791,843	-\$12,520,459	-\$13,931,107
EPS	-\$0.05	-\$0.06	-\$0.05	-\$0.04

DCF Model	2023E (Q3-Q4)	2024E	2029E	2030E	Terminal
EBIT(1-tax)	(7,790,555)	(13,931,107)	27,069,400	30,447,154	
Non-Cash Expenses	2,301,616	1,801,616	2,216,038	2,311,759	
Change in Working Capital	(1,403,083)	(639,675)	(1,607,887)	(721,532)	
Cash from Operations	(6,892,022)	(12,769,167)	27,677,551	32,037,382	
CAPEX	(340,660)	(430,000)	(430,000)	(430,000)	
Free Cash Flow	(7,232,682)	(13,199,167)	27,247,551	31,607,382	
Present Value	(7,022,816)	(11,392,154)	13,050,412	13,456,519	145,896,998
Discount Rate	12.5%				
Terminal Growth	3%				
Present Value	164,226,716				
Cash - Debt	25,311,613				
Fair Value	189,538,329				
Shares O/S	318,557,151				
Value per Share (C\$)	\$0.59				

Source: FRC

The average sector EV/R (forward) is up 19% since our previous report in June 2023

BIGG is trading at a 35% discount (previously 36%) to comparables

Maintaining our risk rating of 4 (Speculative)

Company	EV/R (forward)
CME Group	13.8x
Hut 8 Mining	9.3x
Marathon Digital	7.0x
Coinbase Global	6.5x
Riot Platforms	5.3x
Bit Digital	5.0x
CleanSpark	4.3x
HIVE Blockchain Technologies	3.3x
Bitfarms Ltd.	2.6x
BIGG Digital (PV of our 2030 estimate)	2.4x
PayPal Holdings	2.4x
Argo Blockchain	2.1x
Digihost	1.8x
Block Inc.	1.6x
Greenidge Generation	1.3x
Banxa	0.6x
<b>Average</b>	<b>3.7x</b>
<b>Fair Value of BIGG</b>	<b>\$0.42</b>

Source: S&P Capital IQ / FRC

**We are reiterating our BUY rating, and adjusting our fair value estimate from \$0.53 to \$0.51/share (the average of our DCF and comparables valuations).** We continue to expect sector-wide consolidation. BIGG's growing user-base, and status as a registered platform, make it an attractive M&A target.

## Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- The crypto market is subject to regulatory scrutiny and intervention
- No guarantee that the company will continue to gain traction
- **Highly competitive sector**
- Risk of technology failure
- Cybersecurity risk
- Central banks are considering introducing their own digital currencies, which may limit the transactional use of private cryptos
- **Emergence of Decentralized Exchanges (DEX)** that allow peer-to-peer crypto transactions

## Appendix

STATEMENTS OF OPERATIONS (C\$) YE Dec 31	2022	2023E	2024E
Product Revenue	1,487,834	1,212,135	1,442,440
Service Revenue	542,668	337,500	401,625
TerraZero		750,000	3,000,000
Transaction Revenue	5,442,318	4,402,364	6,472,385
<b>Total Revenues</b>	<b>7,472,820</b>	<b>6,701,999</b>	<b>11,316,450</b>
COGS	364,529	1,003,076	3,115,823
<b>Gross Profit</b>	<b>7,108,291</b>	<b>5,698,923</b>	<b>8,200,628</b>
SG&A	23,418,395	19,362,018	20,330,119
Share-based compensation	1,766,447	2,000,000	1,500,000
<b>EBITDA</b>	<b>(18,076,551)</b>	<b>(15,663,095)</b>	<b>(13,629,491)</b>
D&A	381,866	301,616	301,616
<b>EBIT</b>	<b>(18,458,417)</b>	<b>(15,964,711)</b>	<b>(13,931,107)</b>
Net financing expense	(195,463)	(172,868)	-
<b>EBT</b>	<b>(18,262,954)</b>	<b>(15,791,843)</b>	<b>(13,931,107)</b>
Income tax expense	-	-	-
Unusual/Non-recurring	25,890,228	-	-
<b>Net Income (Net Loss)</b>	<b>(44,153,182)</b>	<b>(15,791,843)</b>	<b>(13,931,107)</b>
EPS	(0.18)	(0.06)	(0.04)

BALANCE SHEET (C\$) YE Dec 31	2022	2023E	2024E
<b>Assets</b>			
Cash	5,678,236	1,354,926	155,759
Investments			
Restricted Cash	5,741,137	5,741,137	5,741,137
Receivables	2,206,486	938,280	1,584,303
Digital Currency Inventory	39,591,608	64,940,342	64,940,342
Prepays and other current assets	666,196	732,816	806,097
<b>Current Assets</b>	<b>53,883,663</b>	<b>73,707,500</b>	<b>73,227,638</b>
Investments	7,687,622	22,687,622	22,687,622
PP&E and ROU assets	568,323	568,323	568,323
Marketable securities	942,865	942,865	942,865
Digital Currencies	3,126,394	1,944,811	1,944,811
Goodwill	1,071,851	1,200,235	1,328,619
Intangibles	121,909	121,909	121,909
<b>Total Assets</b>	<b>67,402,627</b>	<b>101,173,265</b>	<b>100,821,787</b>
<b>Liabilities &amp; Shareholders' Equity</b>			
Payables and accrued liabilities	3,402,754	2,851,113	2,930,743
Customer deposits	40,281,006	62,395,128	62,395,128
Contingent liability and others	562,953	562,953	562,953
Lease liability	28,644	28,644	28,644
<b>Current Liabilities</b>	<b>44,275,357</b>	<b>65,837,838</b>	<b>65,917,468</b>
Loan from related parties			
Lease liabilities	7,264	7,264	7,264
<b>Total Liabilities</b>	<b>44,282,621</b>	<b>65,845,102</b>	<b>65,924,732</b>
Equity	111,250,936	131,250,936	131,250,936
Deficit and AOCI	(88,130,930)	(95,922,773)	(96,353,881)
<b>Total Liabilities and Shareholder's Equity</b>	<b>67,402,627</b>	<b>101,173,265</b>	<b>100,821,787</b>



<b>STATEMENTS OF CASH FLOWS (C\$)</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>YE Dec 31</b>			
<b>Operating Activities</b>			
Net loss for the period	(44,153,182)	(15,791,843)	(13,931,107)
<b>Items not involving cash</b>			
D&A	381,867	301,616	301,616
Share-based compensation	1,766,477	2,000,000	1,500,000
Restricted Cash	1,207,172		
Foreign exchange gain (loss)	(17,320)	-	-
Gain on sale of digital currencies	21,835,115	-	-
Gain on sale of investments	4,104,078	-	-
Other	6,110	-	-
<b>FFO</b>	<b>(14,869,683)</b>	<b>(13,490,227)</b>	<b>(12,129,491)</b>
Prepaid expense	98,602	(66,620)	(73,282)
Receivables	756,254	1,268,206	(646,023)
Deferred Revenue and Others	129,828	-	-
Customer Deposits	(42,542,586)	22,114,122	-
Digital currency inventory	36,743,819	(24,167,151)	-
Accounts payable and accrued liabilities	1,270,719	(551,641)	79,630
<b>Changes in WC</b>	<b>(3,543,364)</b>	<b>(1,403,083)</b>	<b>(639,675)</b>
<b>Cash from (used in) Operations</b>	<b>(18,413,047)</b>	<b>(14,893,310)</b>	<b>(12,769,167)</b>
<b>Investing activities</b>			
PP&E	(430,772)	(430,000)	(430,000)
Digital currencies	3,123,511	6,000,000	12,000,000
Investments	(11,621,813)		-
<b>Cash used in Investing Activities</b>	<b>(8,929,074)</b>	<b>5,570,000</b>	<b>11,570,000</b>
<b>Financing activities</b>			
Equity	1,192,491	5,000,000	-
Lease	(30,380)	-	-
<b>Cash provided by Financing Activities</b>	<b>1,162,111</b>	<b>5,000,000</b>	<b>-</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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