

Bitcoin Well Inc.

(TSXV: BTCW / OTCQB: BCNWF)

Gaining Traction Through a Low-Fee Non-Custodial Platform

BUY

Current Price: C\$0.04

Fair Value: C\$0.15

Risk*: 4

Sector: **Cryptos/Financial Services**

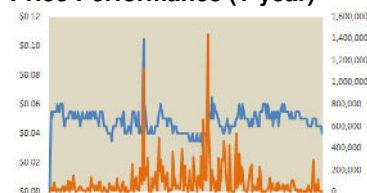
[Click here for more research on the company and to share your views](#)

Highlights

- **Q2 revenue was up 13% YoY**, beating our estimate by 6%, driven by the company's online platform and ATM business.
- At the end of Q2, **BTCW operated 287 crypto ATMs** across Canada, up from 266 at the end of Q1. The company's online platform (launched in Q4-2022) had **6,000 users at the end of Q2**, up from 3,800 at the end of Q1. Management aims to launch services in the U.S. this year.
- **EBITDA improved YoY (-\$1.34M to -\$0.33M)**, but was 62% lower than our forecast, due to higher than expected G&A expenses.
- Unlike conventional crypto exchanges, BTCW does not hold private keys or funds, making it a **non-custodial crypto platform, offering users full control over their holdings**. We believe BTCW's non-custodial feature offers protection to users. Note that several custodial crypto exchanges have either imploded or filed for bankruptcy this year.
- Investor sentiment towards cyptos has improved this year, amid higher Bitcoin prices (up 67% YTD). Spherical Insights (a market research/consultancy firm) predicts the global crypto exchange market will grow from US\$33B in 2021, to US\$348B by 2030, reflecting a **CAGR of 30%**. That said, we believe **sector risks remain elevated** due to volatile crypto prices, and increased regulatory scrutiny of crypto platforms.
- BTCW's forward EV/R is 24% lower than comparables. **Upcoming catalysts** include ramping up of online operations, and improving outlook for non-custodial platforms.

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

Price Performance (1-year)



	YTD	12M
BTCW	-11%	-27%
TSXV	4%	-7%

Company Data

52-Week Range	\$0.03-\$0.11
Shares O/S	176M
Market Cap.	\$7M
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A

Key Financial Data (C\$)	2022	2023E	2024E
YE December 31			
Cash	\$3,946,525	\$1,826,928	\$570,050
Digital Assets	\$5,999,847	\$5,999,847	\$5,999,847
Total Assets	\$14,024,476	\$12,229,665	\$10,814,315
Total Debt	\$18,716,495	\$20,342,446	\$21,342,446
Transaction Volume	\$66,731,242	\$63,882,455	\$86,588,649
Revenue	\$4,424,226	\$4,921,425	\$5,782,126
Net Income/(Loss)	-\$5,991,501	-\$4,696,284	-\$3,806,857
EPS (basic)	-\$0.03	-\$0.03	-\$0.02

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

Primary Services

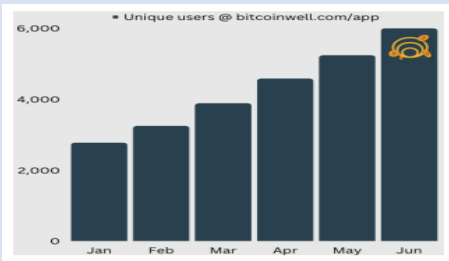
Three offerings targeting retail and institutional investors

As BTCW does not hold customer funds, it has minimal regulatory requirements vs conventional crypto exchanges

Aiming to grow quickly through a low-fee trading platform

Targeting an underserved crypto ATM market in Canada; there are 82k ATMs in Canada currently, of which, 3% (2,690) offer crypto services; for comparison, 6% of ATMs in the U.S. offer crypto services

We believe there is room for 2,500+ crypto ATMs in Canada

ATM Network Service	Online Platform	Infinite Service (personalized/white-glove service)
Launched in 2013	Launched in Q4-2022	Launched in 2018
Targeting retail investors	Targeting retail investors	Targeting high net worth and institutional investors
<p>Users can buy/sell cryptos, such as Bitcoin, Ethereum, Litecoin, and Bitcoin Cash</p> <p>287 ATMs across Canada (10% market share in Canada/up from 266 in May 2023), including 173 directly owned, and 114 through a 50:50 partnership program with RapidCash – a large ATM operator in Canada; RapidCash is planning 100 new ATMs this year.</p> <p>BTCW is also planning partnerships with other operators for growing its network, and/or licensing its software to ATM operators</p> <p>Transaction fee: \$3-\$5 per transaction; competitors typically charge \$3-\$10</p> <p>In addition, BTCW generates approximately 10% of transaction volume in revenue as a spread, which we believe is in line with that of competitors</p>	<p>Users can buy/sell Bitcoin, and pay bills using Bitcoin; This is BTCW's most scalable business</p> <p>6,000 users at the end of Q2, up from 3,800 at the end of Q1; management is aiming to add 10k-20k users in the next 12 months; Planning to expand to the U.S. this year</p> <p style="text-align: center;">Online Platform Users</p>  <p style="text-align: center;">Source: Company</p> <p>Transaction fee: 0.21% of transaction volume vs 1%-2% for competitors; we note that BTCW's fee is among the lowest in the sector</p> <p>We believe BTCW is able to offer lower fees as its other two divisions (ATM and Infinite) have higher margins; in addition, BTCW has minimal regulatory requirements/costs relative to conventional exchanges.</p>	<p>A personalized (white-glove service) offering to high-net worth individuals/institutions for conducting larger crypto transactions (\$5k to \$5M)</p> <p>Offered online, as well as at BTCW's physical offices in Edmonton and Calgary</p> <p>Has serviced 250+ customers to date</p> <p>Transactions per customer have ranged between \$3k and \$22M</p> <p>Transaction fee: 2% up to \$10k 1.5% for \$10k to \$100k 1% for \$100k+</p>

Marketing

In Q2-2023, BTCW spent 10% of revenue for marketing (15% in 2022) vs 15%-80% by comparables. The company has been **primarily relying on word-of-mouth marketing, referrals, and success-based marketing campaigns using influencers**. Our discussions with management indicated that they are estimating \$10 in Customer Acquisition Costs (CAC) vs annual revenue of \$13/user (\$6k transaction volume times 0.21%). This compares to \$16 in CAC, and \$20 in revenue/user for Coinbase (NASDAQ: COIN) – operator of the largest crypto exchange in the U.S.

Financials

In Q2, Transaction Volume/TV was down 27% YoY, due to lower volume from the Infinite division, which has been historically volatile, partially offset by strong growth in the online platform and ATM business

However, as the ATM business has higher margins (revenue per TV), Q2 revenue was up 13% YoY, beating our estimate by 6%

EBITDA improved YoY, but was 62% lower than our forecast due to higher than expected G&A expenses

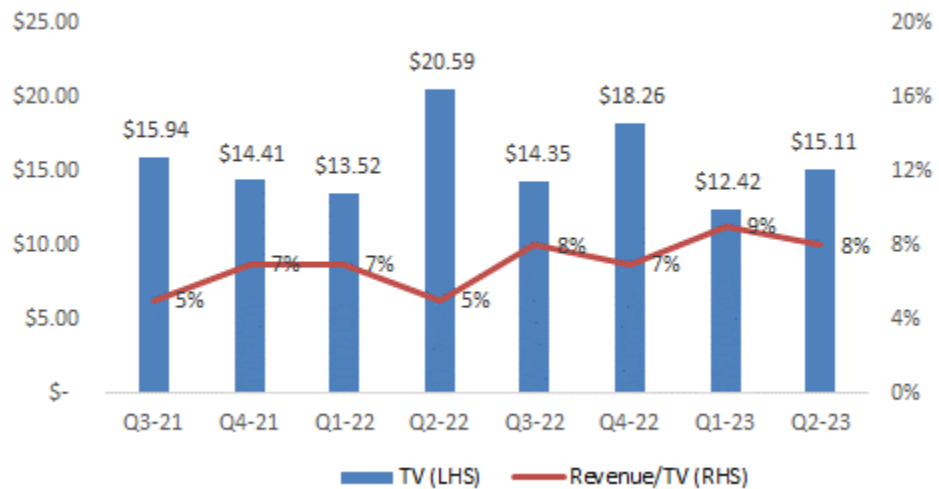
FCF improved YoY as well

At the end of Q2, BTCW had \$11M in cash and digital assets, and \$21M in debt

Pursuing a \$2.5M equity financing

None of the outstanding options and warrants are in the money

Transaction Volume (TV) vs Revenue / TV



STATEMENT OF OPERATIONS (C\$)									
	Q1-2022	Q1-2023	YoY%	Q2-2022	Q2-2023	YoY%	H1-2022	H1-2023	YoY%
ATM + Infinite	\$13,066,426	\$11,481,528	-12%	\$20,303,146	\$13,097,998	-35%	\$33,369,572	\$24,579,526	-26%
Online Platform	\$462,378	\$935,232	102%	\$283,208	\$2,014,695	611%	\$745,586	\$2,949,927	296%
Transaction Volume	\$13,528,804	\$12,416,760	-8%	\$20,586,354	\$15,112,693	-27%	\$34,115,158	\$27,529,453	-19%
ATM + Infinite	\$12,122,708	\$10,403,282	-14%	\$19,250,873	\$11,901,465		\$31,373,581	\$22,304,747	
Online Platform	\$441,306	\$927,723	110%	\$269,722	\$2,008,943		\$711,028	\$2,936,666	
Cost of revenue	\$12,564,014	\$11,331,005	-10%	\$19,520,595	\$13,910,408	-29%	\$32,084,609	\$25,241,413	-21%
Revenue	\$964,790	\$1,085,755	13%	\$1,065,759	\$1,202,285	13%	\$2,030,549	\$2,288,040	13%
SG&A expense	\$2,171,769	\$1,293,268	-40%	\$2,165,984	\$1,411,400	-35%	\$4,337,753	\$2,704,668	-38%
Marketing & advtg expense	\$247,024	\$50,366	-80%	\$242,367	\$123,834	-49%	\$489,391	\$174,200	-64%
EBITDA	-\$1,454,003	-\$257,880	-82%	-\$1,342,592	-\$332,948	-75%	-\$2,796,595	-\$590,828	-79%
Net Profit (Loss)	-\$2,061,333	-\$3,523,368	71%	-\$1,094,724	-\$1,453,259	33%	-\$3,156,057	-\$4,976,627	58%
EPS	-\$0.01	-\$0.02	70%	-\$0.01	-\$0.01	33%	-\$0.02	-\$0.03	58%

Margins	Q1-2022	Q1-2023	Q2-2022	Q2-2023	H1-2022	H1-2023
Revenue to TV	7%	9%	5%	8%	6%	8%
SG&A	225%	119%	203%	117%	214%	118%
Marketing & advertising	26%	5%	23%	10%	24%	8%

Summary of Cash Flows	Q1-2022	Q1-2023	Q2-2022	Q2-2023	H1-2022	H1-2023
Operating	\$1,885,369	\$290,290	-\$6,256,511	-\$5,197,362	-\$4,371,142	-\$4,907,072
Investing	-\$618,449	\$0	-\$115,078	\$36,173	-\$733,527	\$36,173
Financing	\$3,382,572	-\$866,238	\$878,039	\$4,168,484	\$4,260,611	\$3,302,246
Net	\$4,649,492	-\$575,948	-\$5,493,550	-\$992,705	-\$844,058	-\$1,568,653
FCF	\$1,266,920	\$290,290	-\$6,371,589	-\$5,161,189	-\$5,104,669	-\$4,870,899

Liquidity & Capital Structure	2022	Q1-2023	Q2-2023
Cash	\$3,946,525	\$3,037,627	\$2,377,872
Digital assets	\$5,999,847	\$6,121,009	\$8,853,552
Cash plus Digital Assets	\$9,946,372	\$9,158,636	\$11,231,424
Working Capital	\$2,957,233	\$4,444,425	\$6,689,283
Current Ratio	1.36	1.76	2.12
LT debt	\$11,416,495	\$13,603,265	\$16,192,446
Total debt	\$18,716,495	\$18,753,265	\$21,443,539
LT Debt / Capital	89%	113%	116%
Debt / Capital	145%	156%	153%

Source: Company Filings, FRC

	# Options	Strike Price	Value
Total Outstanding	10,472,133	\$0.11	1,183,423
In-the-Money	-		-
	Warrants	Strike Price	Value
Total Outstanding	21,569,000	\$0.27	\$5,813,375
In-the-Money	-		-

Source: Company Filings, FRC

FRC Projections and Valuation

We are lowering our EBITDA and EPS forecasts due to higher G&A, depreciation, and interest expenses

	2023E (Old)	2023E (New)	2024E (Old)	2024E (New)
Online Users (Unique)	7,500	7,500	15,000	1,500
# of ATMs	310	360	310	360
Transaction Volume (TV)	\$96,814,923	\$63,882,455	\$135,957,069	\$86,588,649
Revenue/TV	4.8%	7.7%	4.0%	6.7%
Revenue	\$4,661,552	\$4,921,425	\$5,417,065	\$5,782,126
EBITDA	-\$712,984	-\$1,151,745	-\$39,060	-\$47,181
Net Income	-\$3,043,932	-\$4,696,284	-\$1,692,212	-\$3,806,857
EPS	-\$0.02	-\$0.03	-\$0.01	-\$0.02

As a result, our DCF valuation decreased from \$0.19 to \$0.17/share

DCF Model	2023E	2024E	2029E	2030E	Terminal
EBIT(1-tax)	(1,004,916)	(1,315,104)	5,685,671	8,452,631	
Non-Cash Expenses	1,713,719	1,838,856	682,476	704,099	
Change in Working Capital	4,480,013	(42,491)	(54,230)	(56,942)	
Cash from Operations	5,188,816	481,261	6,313,916	9,099,789	
CAPEX	(536,173)	(250,000)	(250,000)	(250,000)	
Free Cash Flow	4,652,643	231,261	6,063,916	8,849,789	
Present Value	4,189,637	181,085	2,360,711	2,995,882	25,714,650
Discount Rate	15%				
Terminal Growth	3%				
Present Value	39,177,422				
Cash - Debt	(10,212,115)				
Fair Value	28,965,307				
Shares O/S	175,535,160				
Value per Share (C\$)	\$0.17				

Source: FRC

BTCW is trading at a 24% discount relative to its comparables (previously 26%)

Company	EV/R (forward)
Bitcoin Well	3.0x
Block Inc.	1.6x
Coinbase	5.5x
Global Payments	5.6x
Jack Henry	5.6x
Moneygram (acquired)	1.3x
Paypal Holdings Inc.	2.2x
Transaction/Payment Processing Services Industry	6.4x
Average (excluding outliers)	3.9x
BTCW's Premium/Discount	-24%

Source: S&P Capital IQ and FRC

We are lowering our fair value estimate from \$0.16 to \$0.15/share

Valuation Methods	Fair Value per share (\$)	Weight
DCF Valuation	\$0.17	50.0%
Valuation @ EV/R	\$0.07	50.0%
Fair Value Estimate (\$)		\$0.15

Source: FRC

We are reiterating our BUY rating, and adjusting our fair value estimate from \$0.16 to \$0.15/share. With rising concerns over custodial crypto platforms, we believe non-custodial crypto companies, such as BTCW, should gain traction.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The crypto market is **subject to regulatory scrutiny and intervention**
- No guarantee that the company will be able to grow its online business
- **Highly competitive sector**
- Volatility in crypto prices
- Risk of technology failure
- Cybersecurity risk
- **Leveraged balance sheet**

Maintaining a risk rating of 4

Appendix

STATEMENTS OF OPERATIONS (\$)			
YE December 31	2022	2023E	2024E
Transaction Volume	66,731,242	63,882,455	86,588,649
Direct Expenses	62,307,016	58,961,030	80,806,523
Revenue	4,424,226	4,921,425	5,782,126
SG&A	7,056,063	5,527,468	5,251,095
Marketing & advertising	643,894	545,702	578,213
EBITDA	(3,275,731)	(1,151,745)	(47,181)
D&A	2,159,814	1,390,999	1,500,000
EBIT	(5,435,545)	(2,542,744)	(1,547,181)
Net financing expense	1,729,785	1,830,820	1,920,820
EBT	(7,165,330)	(4,373,564)	(3,468,001)
Income tax expense	778,167	-	-
Fair value change	(5,310,491)	-	-
Impairment	3,163,599	-	-
Share-based compensation	313,889	322,720	338,856
Unusual/Non-recurring expense	(118,993)	-	-
Net Income (Net Loss)	(5,991,501)	(4,696,284)	(3,806,857)
EPS	(0.03)	(0.03)	(0.02)
BALANCE SHEET (\$)			
YE December 31	2022	2023E	2024E
Assets			
Cash	3,946,525	1,826,928	570,050
Trade & receivables	368,239	552,359	579,976
Digital assets	5,999,847	5,999,847	5,999,847
Inventory	710,693	852,832	895,473
Other current assets	55,124	57,880	60,774
Current Assets	11,080,428	9,289,845	8,106,120
PP&E	1,390,999	1,500,000	1,250,000
Right-of-use asset	32,917	102,431	102,431
Intangible Assets	1,170,132	969,889	969,889
Other long term assets	350,000	367,500	385,875
Total Assets	14,024,476	12,229,665	10,814,315
Liabilities & Shareholders' Equity			
Payables and accrued liabilities	681,393	613,254	643,916
Loans - crypto	-	-	-
Current portion of borrowings	7,300,000	5,150,000	5,150,000
Current portion of lease liabilities	39,489	39,489	39,489
Other current liabilities	102,313	107,429	112,800
Current Liabilities	8,123,195	5,910,171	5,946,205
Borrowings	11,416,495	15,192,446	16,192,446
Other long term liabilities	316,519	332,345	348,962
Total Liabilities	19,856,209	21,434,962	22,487,614
Share capital	12,095,172	12,095,172	12,095,172
Contributed surplus	1,484,329	2,807,049	4,145,905
Warrants	1,636,581	1,636,581	1,636,581
AOCI	1,645,954	1,645,954	1,645,954
Deficit	(22,693,769)	(27,390,053)	(31,196,910)
Total Liabilities and SE	14,024,476	12,229,665	10,814,315

STATEMENTS OF CASH FLOWS (\$) YE December 31	2022	2023E	2024E
Operating Activities			
Net loss for the period	(5,991,501)	(4,696,284)	(3,806,857)
Items not involving cash			
Depreciation	2,159,814	1,390,999	1,500,000
Share-based payments	313,889	322,720	338,856
Fair value change	(5,310,491)		
Deferred income tax	631,318	-	-
Goodwill	303,342		
Restructuring	2,339,112	-	-
Gain on debt settlement	(118,993)	-	-
Others	-	-	-
FFO	(5,673,510)	(2,982,565)	(1,968,001)
Trade & other receivables	262,089	(184,120)	(27,618)
Other current assets	500,237	(2,756)	(2,894)
Inventory	(276,133)	(142,139)	(42,642)
Digital assets	(3,080,314)	-	-
Accounts payable & accrued expenses	(563,287)	(68,139)	30,663
Current income tax receivable	(245,546)		
Others			
Changes in WC	(3,402,954)	(397,154)	(42,491)
Cash from (used in) Operations	(9,076,464)	(3,379,719)	(2,010,492)
Investing activities			
PP&E	(147,291)	(500,000)	(250,000)
Intangible assets	(567,507)	200,243	-
Others	(6,066)	(87,014)	(18,375)
Cash used in Investing Activities	(720,864)	(386,771)	(268,375)
Financing activities			
Equity	40,000		
Debt	9,045,299	1,625,951	1,000,000
Lease	(125,058)	-	-
Others	(16,237)	20,942	21,989
Cash provided by Financing Activities	8,944,004	1,646,893	1,021,989

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.

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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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