

August 11, 2022

ETHER CAPITAL CORPORATION (ETHC-NEO, \$2.37)

SOLID Q2; UPDATING NAV ESTIMATES

Rating: BUY
New Target Price: \$4.00
Old Target Price: \$5.50

Ether Capital Corporation		ETHC	
<i>(Currency is C\$ unless noted otherwise)</i>			
Last Price (\$)		\$2.37	
Target Price (\$)		\$4.00	
Return to Target		69%	
52-Week Trading Range (\$)	1.30 / 5.49		
Average Daily Volume (30-Day)		40.9K	
MARKET INFO			
FD ITM Shares Outstanding (M)		34.5	
Market Capitalization (\$M)		\$81.7	
Cash and Equiv. (\$M)		\$3.8	
Debt (\$M)		\$0.0	
Enterprise Value (\$M)		\$77.8	
HOLDINGS			
Ethereum (\$M)		\$107.5	
Wyre (\$M)		\$20.2	
VALUATION			
NAV/Share		\$3.82	
P/NAV		0.62x	
FYE: DEC 31	F2021A	F2022E	F2023E
Revenue (\$M)	\$1.5	\$4.1	\$4.3
Adj. EBITDA (\$M)	-\$0.2	\$0.8	\$1.3
DISCLOSURE CODE:		2, 6	
<i>(Please refer to applicable disclosures on the back page)</i>			
Source: M Partners, Bloomberg, Company Documents			



Ether Capital Corporation is focused on becoming the central business and investment hub for the Ethereum ecosystem. Its portfolio includes Ether which is the native Ethereum crypto-asset and is the commodity-like fuel used to access the Ethereum network and broadcast transactions; MakerDao which is a decentralized credit platform built on Ethereum in which collateral is leveraged to produce a stable coin; and Wyre which is a cryptocurrency exchange and technology platform that is focused on building compliant fiat-to-crypto on and off ramps.

Ether Capital reported Q2/22 financial results this morning that were in line with our estimates. Ether Capital posted \$1.1M in revenue in Q2, in line with our estimate of \$1.1M. The revenue was made up of \$393K from consulting and \$689K from staking/securities income, compared to our estimates of \$500K and \$600K respectively. Adjusted EBITDA came in at \$162K, below our expectation of \$500K due to the increased salaries and benefits for the new employees. ETHC ended the quarter with 23,610 Ether, 20,512 Staked Ether, 460 Ether rewards, and \$3.8M in cash. We continue to believe ETHC is heavily undervalued relative to its mark-to-market holdings, private investment in Wyre, and earnings power.

On July 8th, management confirmed that they are confident in ETHC's revenue and liquid assets, despite the pullback in the broad crypto market. Management expects to remain profitable for the foreseeable future, a feat that not many public crypto companies can attest to. ETHC also announced that it plans to delay the staking of the final 10,000 ETH until the Ethereum Merge which is expected to take place this fall. Ether Capital plans to continue generating yield and will use the rewards to build out new businesses.

ETHC confirmed that gross staking yields are now 4.65%, compared to the 5% we were expecting. After updating our model for the lower crypto prices and yields, we are expecting \$1.3M in staking revenue in H2/22 and \$3.1M in 2023 (full year of 30K ETH staked). As for ETHC's consulting operations, the BTCC ETF now has \$790M in AUM and ETHH ETF now has \$330M in AUM, which will generate ETHC consulting revenue of \$1.1M in 2023.

Management remains bullish on Ethereum's transition to Proof of Stake and believes the merge will result in a rebound in ETH prices. We would like to remind readers that the introduction of EIP-1559 and the merge of the proof-of-stake system with the Ethereum mainnet brings the potential for much larger staking yields (>15%) based on transaction fee rewards being returned to ETH stakers (rather than miners). We believe Ether Capital is the best public instrument to play the Ethereum merge, given its mark-to-market holdings and exposure to staking.

During the quarter, Ether Capital announced that its portfolio company Wyre has entered into an agreement to be acquired by Bolt Financial for \$1.5B. Ether Capital invested US\$1.5M in Wyre in December 2018. Approximately 89% of the consideration is expected to be paid in Bolt common shares over four years and the remaining 11% will be paid in cash over two years. ETHC believes there are materials risks to the valuation of Bolt's common shares due to the decline in technology firm multiples over the last six months. News sources have reported that Bolt was recently valued at \$5.5B vs. \$11B in January; as such, we are lowering our Wyre valuation by approximately half.

ETHC currently trades at a 27% discount to its liquid holdings alone (\$3.23/share). Given the various upcoming opportunities for ETHC to begin generating value beyond its NAV and generate positive free cash flow, we believe the stock should trade at a premium. **We are maintaining our BUY rating and revising our target price to \$4.00/share (previously \$5.50/share) due to the lower crypto prices and Bolt valuation.**

Ether Capital Holdings				
Asset	Coins	Price	Total	Per Share
~ETHUSD	44,122	US\$1911.96	\$107,530,101	\$3.12
Cash			\$3,844,499	\$0.11
Wyre			\$20,156,250	\$0.58
NAV			\$131,530,850	\$3.82

Figure 1: NAV Analysis

Valuation (2023E)	
BTCC AUM (\$M)	\$790
ETHH AUM (\$M)	\$330
Consulting Fee (% of AUM)	0.10%
Consulting Revenue (\$M)	\$1.1
Staking Revenue (\$M)	\$3.1
2023E Revenue (\$M)	\$4.3
Operating Expenses (\$M)	\$3.0
2023E EBITDA (\$M)	\$1.3
Multiple	9.0x
Incremental Value (\$M)	\$11.4
Incremental Value Per Share	\$0.30
NAV + Incremental Value (Rounded)	\$4.00

Figure 2: Valuation Analysis

(C\$ Millions)											
Income Statement:	1Q21A	2Q21A	3Q21A	4Q21A	FY21	1Q22A	2Q22A	3Q22E	4Q22E	FY22E	FY23E
Consulting Revenue	0.1	0.3	0.4	0.6	1.4	0.4	0.4	0.3	0.3	1.4	1.1
Staking Revenue	0.0	0.0	0.0	0.1	0.1	0.8	0.7	0.5	0.8	2.7	3.1
Total Revenue	0.1	0.3	0.4	0.7	1.5	1.2	1.1	0.8	1.1	4.1	4.3
Operating Expenses	0.3	0.5	0.4	0.5	1.7	0.6	0.9	0.9	0.9	3.3	3.0
Adj. EBITDA	-0.2	-0.1	0.0	0.2	-0.2	0.6	0.2	-0.1	0.2	0.8	1.3

Figure 3: Projected Income Statement

Disclosure Code: 2, 6

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19