

INITIATING COVERAGE

Equity | Technology/ Fintech

Blackboxstocks Inc. (NASDAQ:BLBX; Target Price: \$13.60)

Blackboxstocks Inc operates in the fintech sector which is one of the fastest growing sectors with one of the highest valuation premiums. Blackboxstocks looks to combine fintech with a SaaS model and has tremendous growth in subscriptions over the past few quarters. The company should get a significant valuation premium as market participants should place value on the strong future revenue foreseeability of the business. Its unique hybrid platform for the online trading community has immense potential and can be described as having a "Bloomberg meets Twitch" model.

INVESTMENT THESIS

This is our first report on Blackboxstocks and we look to provide a detailed account of the various drivers that will be responsible for the company's growth in the coming years. After its recent public issue to the tune of 2.4 million shares at a price of \$5 per share, Blackboxstocks got itself uplisted to the NASDAQ. In a typical post-listing selloff, its stock price is around the \$3 mark and is extremely undervalued. After the recent \$12 million fundraise, the management has sufficient capital to accelerate its user growth and expand its platform tie-ups. The company's back-to-back strong quarterly results prove that it has a long way to go and it appears to be only a matter of time before the market recognizes its true potential resulting in value unlocking. Overall, we are extremely bullish about Blackboxstocks and we believe that the company is an excellent, undervalued fintech investment. Baptista Research looks to evaluate the different factors that could influence Blackboxstocks' price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology to determine a suitable price for the company's stock.

COMPANY OVERVIEW

Blackboxstocks, Inc. is a fintech player running its own social media hybrid platform that provides real-time proprietary analytics and news for traders. The company primarily caters to options traders and has users of all skill levels ranging from beginners to experienced trading veterans. Blackboxstocks' predictive technology that uses artificial intelligence in order to detect market instability and unusual market activity that may result in a rapid modification in the price of a stock or option is referred to as a 'black box'. Blackboxstocks's system continuously scans various indices such as the NASDAQ, CBOE, New York Stock Exchange, and so on with its predictive technology, analyzing over 8,000 stocks and over 1,000,000 options agreements multiple times each second. It is worth highlighting that the company has built and operated its complete platform and user growth through public market fundraising without the support of any venture capitalist or private equity setup. The company has its headquarters in Dallas, Texas.

Key Report Highlights

Industry View:	Attractive
Stock Rating:	Buy
Price Target:	\$13.60
Current Price:	\$2.35
52-Week-Range:	\$1.10 - \$33.00

Annual Income Statement	2021E	2022E	2023E
Revenues	6.10	14.50	28.70
Cost of Goods Sold	1.98	4.19	7.18
Gross Income (excl. D&A)	4.12	10.31	21.53
EBITDA	0.12	6.31	17.53
EBIT (incl. extraordinary exp)	-0.88	5.81	17.03
Net Income	-0.35	6.34	17.56
Cash from Operations	-0.25	4.24	13.18
Free Cash Flows	-0.32	4.17	13.11

Growth & Margins	2021E	2022E	2023E
Sales Growth	81.0%	137.7%	136.5%
EBITDA Margin	1.9%	43.5%	61.1%
EBIT Margin	-14.5%	40.1%	59.3%
Net Profit Margin	-5.8%	43.7%	61.2%

Valuation Ratios	Current	2022E	2023E
EV/ Sales	5.3	10.0	9.7
EV/ EBITDA	275.9	23.0	15.8
EV/ EBIT	NA	25.0	16.3
Price/Earnings	NA	23.5	16.8

KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

1.	SOLID PRODUCT WITH POSSIBLE EXTENSION TO TRADING PLATFORMS
2.	TREMENDOUS GROWTH OF SUBSCRIBER BASE
3.	STRONG MACROECONOMIC ENVIRONMENT
4.	EXPERIENCED MANAGEMENT TEAM
5.	RECENT FINANCIAL PERFORMANCE

Solid Product With Possible Extension To Trading Platforms

- Blackboxstocks is not a trading platform per se but more of a complementary service that operates in tandem with other trading platforms.
- Its trading platform integration is such that the platform users can make use of its fully interactive social media platform and exchange information and ideas rapidly and efficiently using a shared network through text as well as audio-visual media.
- Blackboxstocks offers a live audio/ video feature that allows its users to create and broadcast trading videos on their personal channels in order to share trade strategies and market insights with the Blackbox community.



Source: Blackboxstocks Website

- The above snapshot of the user interface of the platform shows how detailed it is. Another key point that sets Blackboxstocks apart is the fact that it provides various analytics related to dark pools i.e., private, non-transparent exchanges for trading securities that are not accessible by the investing public.
- As of today, Blackboxstocks has an integration with TradeStation, an extremely popular trading platform with more than 140,000 users that is the next Robinhood in the making.
- Partnerships with other such trading platforms can become a major growth engine for the company in the years to come.
- Blackboxstocks' trading community and knowledge sharing ecosystem has a combination of a high-quality AI-based algorithm coupled with excellent content to help traders educate themselves and indulge in better trading practices.
- The company monetizes these offerings using a software-as-a-service (SaaS) model with a subscription fee structure of \$99.97 per month or \$959 annually.
- The company's subscribers have access to the company's stock and options scanning platform that uses predictive AI, scanning markets in real-time while sending alerts and other analytical data based on the individual user requirements.
- Apart from having access to its predictive technology to help identify prospective trades, subscribers also benefit from a variety of tutorials.
- The management has its own base of highly experienced traders on the company's payroll who post high-quality audiovisual content on the platform and engage with the trading community while simultaneously mentoring new and inexperienced traders.
- These trading veterans have helped build a large volume of content to mentor the new crop and teach them various concepts in options trading, technical analysis, and other aspects of investor education.

- Most of the traders on its platform are options traders focused on directional trade and these features are particularly relevant for them.
- Investors viewing these videos and self-training through Blackboxstocks are not only able to trade in options but also in other derivatives and financial instruments.
- Blackboxstocks' pricing is very transparent with no hidden charges. Subscribers have access to all of the company's platform features, video tutorials, and community interactions.
- The management is not ever resorting to restricting and cross-selling other offerings on the platform which is a good customer-oriented practice

Tremendous Growth Of Subscriber Base

- BlackBoxStocks has managed to acquire subscribers in 42 countries over the past 5 years. The company witnessed a phenomenal 422% growth in user base from 2019 to date in order to the 6,000 active paid subscriber milestone as per their recent press release.
- As many as 37% of these subscribers have an annual plan which indicates that the company's product is solid and the expected churn is low. The management expects the subscriber base to go up to 20,000 by 2022.
- The current subscriber base is currently generating an annual revenue run-rate of close to \$6 million already.
- One of the reasons why we are optimistic about the platform strength growing is the fact that Blackboxstocks looks to uplift the whole trading experience from being a solitary activity to a community experience.
- Its platform essentially caters to day traders and swing traders who operate alone and would welcome such a service. These traders often resort to generalistic social media and other communication systems like Twitter and Telegram.
- With Blackboxstocks' interface, especially its its screen sharing and broadcasting features, the company has created a dedicated global platform for these professionals with a team environment where they can interact and exchange ideas.
- Its dashboard and overall experience are highly interactive by nature through text as well as audiovisual means. This, coupled with its AI and its dark pool analytics, significantly distinguishes it from other stock market related web services like Seeking Alpha or Tradingview.
- Despite having such a feature-rich platform that is growing in subscribers, Blackboxstocks is continuing to innovate and add more and more features in order to attract more users.
- Apart from intregations with other trading platforms, the management is also persevering to develop and capitalize on the Blackboxstocks brand.

- They have gone on to add a gear section that includes a variety of company apparel, beverage containers, and other merchandise. One move that could end up being particularly disruptive for them could be the entry into the cryptocurrency domain.
- It is only a matter of time before the company integrates crypto analytics into its offering and also starts collaborations with crypto traders.
- With all these new features and fresh funds to fuel new user additions, a bullish investment thesis for the company is appearing more and more solid.

Strong Macroeconomic Environment

- As per the research provided by Fortune Business Insights, the global online trading platform market size was approximately \$8.28 billion in 2020 and is rising rapidly after a particularly positive impact of COVID-19 which has been surprising.
- The trading platform market expanded by 3.7% in 2020 alone as per Fortune Business Insights and is expected to grow to \$12.16 billion in 2028 at a CAGR of 5.1% during this period.
- One would argue that Blackboxstocks cannot be strictly classified as a trading platform but the research specifically covers the company as one of the key incumbents in the industry.
- The positive impact of the Covid-19 on the addressable market for Blackboxstocks can be explained in the sense that many young Americans have been seeking a lasting form of self-employment.
- More and more day traders are looking to make a living off the financial markets and this creates the need for a parallel fintech ecosystem like Blackboxstocks that helps educate and mentor this new crop of traders while training them to generate and execute trade ideas.
- Interestingly, there are over 100 million self-directed investors in the U.S. today who could definitely benefit from the content and community interactions on Blackboxstocks' interface.

Experienced Management Team

LEADERSHIP TEAM

 <p>Gust Kepler CEO Co-Founder</p> <p>Read More</p>	 <p>Eric Pharis Co-Founder Director of Operations</p> <p>Read More</p>	 <p>David Kyle Co-Founder</p> <p>Read More</p>	 <p>Robert Winspear Chief Financial Officer</p> <p>Read More</p>
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Source: Company Presentation

- Blackboxstocks is run by a highly experienced management team that is spearheaded by CEO Gust Kepler. Mr. Kepler is a serial entrepreneur and has a history of starting successful ventures.
- Before Blackboxstocks, he worked as the President of G2 International, a consultancy firm with expertise in investment banking. Kepler had founded G2 International in 2002 with the objective of taking private companies public and providing advice with regard to capitalization, strategic planning, and investor relations.
- Before his stint with G2, Mr. Kepler founded Parallax Entertainment, an independent record label, online promotional vehicle and e-commerce solution for musicians in 1996.
- Eric Pharis, the company's co-founder and Director of Operations is the quantitative finance veteran with over 20 years in the industry and also having worked on multiple startups in the field.
- He had co-founded Karma Blackbox LLC, looking to develop algorithms for high frequency trading and worked automated trading operations on exchanges in London, Tokyo, and the commodities markets.
- He has also co-founded QuantBrasil – a fully quantitative, computer driven hedge fund in Brazil. Mr. Pharis is in charge of developing and implementing the relevant tools and features for the market analytics on the Blackboxstocks platform.

- David Kyle, the third co-founder of the company was Mr. Pharis' co-founder in both, the Karma Blackbox LLC and QuantBrasil and is another trading veteran in charge of software engineering, database management, tick feed processing and all aspects of system development.
- The company's CTO, Brandon Smith, is another industry veteran with prior entrepreneurial experience running his own consultancy firm, Cyfeon Solutions, catering to high-profile financial clients such as Schwab, HSBC, and Cowen.
- Robert Winspear is the company's CFO and has vast experience in the investment management space, serving on the board of multiple fund management companies. Overall, it is safe to say that the reins of Blackboxstocks are in safe hands.

Recent Financial Performance & Expectations

- Blackboxstocks had a record November 2021 in terms of subscriber growth, revenues, as well as cash flows. The company reported a top-line of \$1.47 million for the third quarter of 2021 and the management is already expecting the fourth quarter revenues to be around the \$1.56 million mark, a staggering 50% growth as compared to 2020.
- What is even more exciting about Blackboxstocks' recent announcement is the fact that it generated \$800,000, or 67%, of the \$1.2 million of November's cash receipts from the sale of annual subscriptions.
- This has pushed the overall ratio of annual subscriptions from 32% to 37% of the overall user base and is an excellent indicator of the fact that more and more traders are getting used to Blackboxstocks' offering and are wanting it for the long term.
- It is worth highlighting that the company had nearly a 70% gross margin in the last quarter and had generated a gross profit of \$1 million as it reached the 6,000 active user milestone.
- Its indirect expenses were hardly \$1.38 million and it has an excellent yield per dollar spent on advertising implying that it should break even soon.
- From a valuation standpoint, Blackboxstocks does not have much of direct competition. In terms of its closest peers we can evaluate are trading platforms like Robinhood and financial content providers like Morningstar.
- After the explosive democratization of trading, platforms like Robinhood have seen their stock price going through the roof. The company is one of the most expensive fintech stocks today in terms of valuation multiples despite burning millions of dollars in cash each year.
- However, this is clearly not the case with Blackboxstocks as we have seen above. As a fintech SaaS player with a gross margin as high as 70% and a fast-growing subscriber base, a company like Blackboxstocks could easily be valued at an enterprise-value-to-revenue multiple of more than 10x whereas it is currently trading below the 8x mark.
- This is well below the revenue multiple of loss-making peers like Robinhood (nearly 10x) and even Morningstar for that matter which operates more in the equity research space (8.4x).

- There is excellent scope for multiples expansion for Blackboxstocks given the robust growth rate and the expected profitability.

HISTORICAL FINANCIAL STATEMENTS & PROJECTIONS

Particulars	30-09-2020	31-12-2020	31-03-2021	30-06-2021
Revenues	1.10	1.04	1.49	1.46
<i>% growth</i>		-5.5%	43.3%	-2.0%
Cost of Goods Sold	0.29	0.50	0.40	0.41
<i>% of revenue</i>	26.4%	48.1%	26.8%	28.1%
Gross Income (excl. D&A)	0.81	0.54	1.09	1.05
<i>% of revenue</i>	73.6%	51.9%	73.2%	71.9%
EBITDA	0.10	-0.30	0.15	-0.11
<i>% of revenue</i>	9.1%	-28.8%	10.1%	-7.5%
Depreciation & Amortization	0.01	0.01	0.00	0.01
<i>% of Fixed Assets</i>	12.5%	14.3%	0.0%	2.1%
Extraordinary Expenses	0.00	0.00	0.00	0.00
EBIT (incl. extraordinary exp)	0.09	-0.31	0.15	-0.12
<i>% of revenue</i>	8.2%	-29.8%	10.1%	-8.2%
Pretax Income	-0.07	-0.52	0.01	-0.24
<i>% of revenue</i>	-6.4%	-50.0%	0.7%	-16.4%
Income Tax	0.00	0.00	0.00	0.00
<i>% rate</i>	0.0%	0.0%	0.0%	0.0%
Net Income	-0.07	-0.52	0.01	-0.24
<i>% of revenue</i>	-6.4%	-50.0%	0.7%	-16.4%

- Let us start off with analyzing the most recent and historical quarterly data reported by the company.
- Blackboxstocks Inc has reported a top-line of \$1.46 million in its recent quarterly result which is a -2.01% depreciation over the previous quarter. The company reported a positive gross margin of 71.92% for the quarter ended 30-06-2021.
- Its EBITDA for the quarter was \$-0.11 million and the EBITDA margin was -7.53%. This was a -17.60% margin contraction at the EBITDA level which is definitely a negative outcome.
- Blackboxstocks Inc's operating income (EBIT) was reported at \$-0.12 million and a margin of -8.22%.
- This EBIT margin dropped by 18.29% in this quarter. The company's pre-tax margin for the quarter was -16.44%.
- Blackboxstocks Inc reported a net income of \$-0.24 million which resulted in a diluted earnings per share (EPS) of \$-0.01.
- The company's net margin was -16.44%. Blackboxstocks Inc burnt \$-0.03 million in terms of operating cash flows for the 6 months period ended 30-06-2021.
- The company was able to convert about -17.81% of its revenues into operating cash flows in the recent quarter. This quarter's EBITDA-to-operating cash flow conversion ratio is 236.36% Overall, Blackboxstocks Inc delivered a negative free cash flow of \$0.08 million for the past 6 months.

Particulars	2017	2018	2019	2020
Revenues	0.91	0.69	1.06	3.37
<i>% growth</i>		-24.2%	53.6%	217.9%
Cost of Goods Sold	0.54	0.65	0.70	1.20
<i>% of revenue</i>	59.3%	94.2%	66.0%	35.6%
Gross Income (excl. D&A)	0.37	0.04	0.36	2.17
<i>% of revenue</i>	40.7%	5.8%	34.0%	64.4%
EBITDA	-1.24	-1.09	-1.00	0.12
<i>% of revenue</i>	-136.3%	-158.0%	-94.3%	3.5%
Depreciation & Amortization	0.02	0.02	0.01	0.53
<i>% of Fixed Assets</i>	50.0%	40.0%	7.7%	753.6%
Extraordinary Expenses	0.00	0.00	0.00	0.00
EBIT (incl. extraordinary exp)	-1.26	-1.11	-1.01	-0.41
<i>% of revenue</i>	-138.5%	-160.9%	-95.3%	-12.2%

Pretax Income	-1.26	-1.15	-2.98	-0.35
<i>% of revenue</i>	<i>-138.5%</i>	<i>-166.7%</i>	<i>-281.1%</i>	<i>-10.4%</i>
Income Tax	0.00	0.00	0.00	0.00
<i>% rate</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Net Income	-1.26	-1.15	-2.98	-0.35
<i>% of revenue</i>	<i>-138.5%</i>	<i>-166.7%</i>	<i>-281.1%</i>	<i>-10.4%</i>

- When we analyze the company's annualized historical income statement, we see that the top-line was \$3.37 million for the previous financial year ending in 2020.
- The revenue growth was 217.92% in 2020 as compared to around 53.62% in 2019.
- Blackboxstocks Inc's cost of goods sold has decreased from 66.04% to 35.61% as a percentage of the top-line resulting in a rise in the gross margins.
- The company's overall annual EBITDA margin of 3.49% is higher than the reported quarterly EBITDA margin for the most recent quarter.
- Non-cash expenses in the form of depreciation and amortization have gone up as compared to the result in 2019. In terms of the bottom-line, Blackboxstocks Inc reported an operating income (EBIT) of \$-0.41 million and a net income of \$-0.35 million resulting in an EPS of \$-0.04.
- The good news for investors holding the stock is that its net margin had increased from -281.13% in 2019 to -10.39% in 2020.

Particulars	2017	2018	2019	2020
Assets				
Net Intangible Fixed Assets	0.01	0.02	0.00	0.00
Net Tangible Fixed Assets	0.03	0.03	0.13	0.07
Total Fixed Assets	0.04	0.05	0.13	0.07
<i>% of revenue</i>	<i>4.4%</i>	<i>7.2%</i>	<i>12.3%</i>	<i>2.1%</i>
LT Investments	0.00	0.00	0.13	0.08
Inventories	0.00	0.00	0.00	0.02
<i>% of revenue</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.6%</i>

Accounts Receivable	0.01	0.00	0.01	0.02
<i>% of revenue</i>	1.1%	0.0%	0.9%	0.6%
Cash and ST Investments	0.01	0.03	0.02	0.97
<i>% of revenue</i>	1.1%	4.3%	1.9%	28.8%
Other Current Assets	0.24	0.14	0.12	0.00
Total Current Assets	0.25	0.18	0.03	1.01
Other Assets	0.00	0.00	0.00	0.00
Total Assets	0.29	0.23	0.29	1.16
Liabilities & Shareholder's Equity				
Equity & Minorities	-0.17	-1.15	-3.34	-1.76
LT Debt	0.00	0.00	0.00	0.89
Other LT Liabilities	0.00	0.00	0.07	0.03
Total LT Liabilities	0.00	0.00	0.07	0.92
ST Debt	0.00	0.39	1.04	0.40
Accounts Payable	0.37	0.53	0.63	0.35
<i>% of COGS</i>	40.7%	76.8%	59.4%	10.4%
Other ST Liabilities	0.08	0.44	1.88	1.25
Total Current Liabilities	0.45	1.36	3.55	2.00
Total Liabilities	0.45	1.36	3.62	2.92
Total Liabilities & Shareholder's Equity	0.29	0.23	0.29	1.16

- Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 12.26% to 2.08%.
- Its receivables of \$0.02 million are about 0.59% of the top-line. Blackboxstocks Inc has close to \$0.97 million in terms of liquidity i.e., cash and short-term investments.
- On the other hand, its payables for 2020 account for around 10.39% of the cost of goods sold. The company's long term debt is around -0.5x times its equity.

Other Metrics	2017	2018	2019	2020
Total Cash Dividends Paid	0.00	0.00	0.00	0.00
<i>% growth</i>		NA	NA	NA
Total Common Shares Outstanding	8	8	8	8
<i>% change</i>		0.1%	3.0%	6.3%
Dividend Per Share	0.00	0.00	0.00	0.00
<i>% change</i>		NA	NA	NA

Operating Ratios	2017	2018	2019	2020
Receivables Turnover	91.0	NA	106.0	168.5
Days Receivable	4.0	NA	3.4	2.2
Inventory Turnover	NA	NA	NA	60.0
Inventory Days	NA	NA	NA	6.1
Payables Turnover	1.5	1.2	1.1	3.4
Days Payable	250.1	297.6	328.5	106.5
Fixed Asset Turnover	22.8	13.8	8.2	48.1
Total Asset Turnover	3.1	3.0	3.7	2.9

Other Performance Ratios	2017	2018	2019	2020
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Return on Assets	-434.5%	-500.0%	-1027.6%	-30.2%
Return on Equity	741.2%	100.0%	89.2%	19.9%

- The company does not pay any dividend. Blackboxstocks Inc's total common shares outstanding have increased in 2020 by 6.32% implying a share issuance.
- The receivables turnover helps quantify a company's effectiveness in collecting the money owed by clients and demonstrates how well it uses and manages the credit it extends to customers.
- As per the days receivable, the company takes an average period of 2.2 days to collect money from its clients which appears to be reasonable.
- The inventory turnover shows the number of times a given company has sold and replaced inventory during the year and is an indicator of how many days of working capital is blocked in inventory.
- As per the inventory days ratio, Blackboxstocks Inc holds an average inventory of 6.1 days which appears to be reasonable.
- The accounts payable turnover is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. It shows how many days of credit a company gets from its suppliers.
- As per the days payable, the company takes an average period of 106.5 days to pay off its creditors which appears to be reasonable.
- The fixed asset turnover ratio measures how well a company generates sales from its tangible as well as intangible fixed assets. The higher the ratio, the greater the company's efficiency to its assets to generate revenues.
- Blackboxstocks Inc's fixed assets turnover ratio of 48.1 has increased in 2020 indicating that the company is generating greater revenues from its fixed assets.
- The total asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The higher the asset turnover ratio, the more efficient a company is, with respect to using its assets to generate revenues.
- Blackboxstocks Inc's total assets turnover has decreased to 2.91 in 2020. In the above chart, we see the evolution of the company's return on equity and its return on assets.
- Return on assets is an excellent indicator of how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.
- On the other hand, the return on equity of a company measures the value creation of the management and profitability in relation to stockholders' equity. The company's overall Return on Assets is -30.17%.
- Blackboxstocks Inc's Return on Equity is 19.89%. The company's Return on Equity is higher than its Return on Assets and this is because it uses debt to maximize shareholder returns.

Particulars	2018	2019	2020	2021E	2022E	2023E
Revenues	0.69	1.06	3.37	6.10	14.50	28.70
% growth		53.6%	217.9%	81.0%	137.7%	136.5%
Cost of Goods Sold	0.65	0.70	1.20	1.98	4.19	7.18
% of revenue	94.2%	66.0%	35.6%	32.5%	28.9%	25.0%
Gross Income (excl. D&A)	0.04	0.36	2.17	4.12	10.31	21.53
% of revenue	5.8%	34.0%	64.4%	67.5%	71.1%	75.0%
EBITDA	-1.24	-1.09	-1.00	0.12	6.31	17.53
% of revenue	-179.7%	-102.8%	-29.7%	1.9%	43.5%	43.1%
Depreciation & Amortization	0.02	0.02	0.01	1.00	0.50	0.50
EBIT	-1.11	-1.01	-0.41	-0.88	5.81	17.03
% of revenue	-160.9%	-95.3%	-12.2%	-14.5%	40.1%	59.3%
EBT (GAAP)	-1.15	-2.98	-0.35	-0.35	6.34	17.56
% of revenue	-166.7%	-281.1%	-10.4%	-5.8%	43.7%	61.2%
Net Income (GAAP)	-1.15	-2.98	-0.35	-0.35	6.34	17.56
% of revenue	-166.7%	-281.1%	-10.4%	-5.8%	43.7%	43.3%
Earnings Per Share (GAAP)	-0.15	-0.38	-0.04	-0.03	0.58	1.50

Particulars	2018	2019	2020	2021E	2022E	2023E
Net Income (GAAP)	-1.15	-2.98	-0.35	-0.35	6.34	17.56
+ Depreciation & Amortization	0.02	0.02	0.01	1.00	0.50	0.50
+/- Working Capital, Deferred Taxes & Other Adjustments	0.66	2.25	0.48	-0.90	-2.60	-4.88
Cash Flow from Operations	-0.47	-0.71	0.14	-0.25	4.24	13.18
% of EBITDA	37.9%	65.1%	-14.0%	-212.8%	67.2%	75.2%
Net Capex	-0.03	0.00	0.00	-0.07	-0.07	-0.07
% of revenues	4.3%	0.0%	0.0%	1.1%	0.5%	0.5%
Other Investment Cash Flow items	0.00	0.00	0.01	0.01	0.01	0.01
Cash Flow after Investments	-0.03	0.00	0.01	-0.06	-0.06	-0.06

Free Cash Flow	-0.50	-0.71	0.14	-0.32	4.17	13.11
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Growth & Margins	2018	2019	2020	2021E	2022E	2023E
Sales Growth		53.6%	217.9%	81.0%	137.7%	136.5%
EBITDA Margin	-179.7%	-102.8%	-29.7%	1.9%	43.5%	43.1%
EBIT Margin	-160.9%	-95.3%	-12.2%	-14.5%	40.1%	59.3%
Net Profit Margin	-166.7%	-281.1%	-10.4%	-5.8%	43.7%	43.3%

Leverage Ratios	2018	2019	2020	2021E	2022E	2023E
Net Debt	0	1	0	1	-4	-17
Net Debt/ Equity	-0.3	-0.3	-0.2			
Net Debt/ EBITDA	-0.3	-0.9	-0.3	5.4	NA	NA

- Now let us move on to Baptista Research's forecasts for Blackboxstocks Inc's income statement and cash flows.
- We forecast a top-line growth of 81.0% for 2021, around 137.7% for 2022, and about 136.5% for 2023.
- This growth is expected to translate into an EBITDA of \$0.1175 million in 2021 with a margin of 1.93%
- Blackboxstocks Inc's EBIT margin is expected to be -14.47% in 2021, about 40.07% in 2022, and 59.32% in 2023.
- Our estimate for the company's Net Income (GAAP) is \$-0.3525 million implying a net margin of -5.78% and resulting in an earnings per share of \$-0.03.
- We expect the growth to follow a similar trend in 2022 and 2023. In terms of the cash flows, we expect Blackboxstocks Inc to generate around \$-0.25 million in operating cash flows in 2021.
- This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of -212.77%
- Blackboxstocks Inc is expected to invest a higher amount in capex and other investing activities in 2021.
- Overall, the company is expected to generate free cash flows to the tune of \$-0.32 million in 2021. Blackboxstocks Inc's Net Debt is expected to increase in 2021 and is expected to follow a similar trend over the coming years.
- The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- Blackboxstocks Inc's Net Debt-to-EBITDA ratio is expected to be 5.36 in 2021 which indicates that the company is over-leveraged.

DISCOUNTED CASH FLOW (DCF) VALUATION

Key DCF Assumptions

WACC	4.9%
CoD	25.0%
CoE	4.7%
Market Rate	6.0%
Risk Free Rate	1.6%
Beta	0.51
Perpetual Growth Rate (g)	7.1%
Terminal Value	18
Tax Rate	0.0%

- For the purpose of carrying out the discounted cash flow valuation of Blackboxstocks Inc, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years. The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 1.60%.
- The company's stock is less volatile than the market as a whole and has a beta of 0.5 which we shall use without leveraging the same as we are going for the enterprise value approach.
- This is used in order to arrive at the cost of equity (CoE) of 4.7% which appears reasonable for a company like Blackboxstocks Inc. Based on the company's long-term debt and interest payments, the cost of debt is 25.0%.
- After incorporating the CoE and the CoD and average tax rate of 0.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 4.9%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 9.7 to our forecasted revenues of 2023.

EV and Market Cap	Current	2021E	2022E	2023E
Price (\$)	2.4	3.1	13.6	25.2

Outstanding Number of shares (million)	10	10	11	12
Total Market Cap (billion)	0.02	0.03	0.15	0.29
Net Debt	0	1	-4	-17
Enterprise Value (billion)	0.02	0.03	0.15	0.28

- After applying the discount rate (WACC) of 4.9%, we arrive at a price target of \$3.1 for 2021.
- Our target price at the end of 2022 is \$13.6 and for 2023 is \$25.2 which implies a total appreciation of nearly 973.0% in the coming 3 years in the stock price.
- During this phase, we see the EV/ EBITDA to be in the range of 15.83 and 275.89
- The EV/ EBIT will be in the range of 16.30 to 25.00 over the coming 3 years.

Valuation Ratios	Current	2021E	2022E	2023E
EV/ Sales	7.3	5.3	10.0	9.7
EV/ EBITDA	NA	275.9	23.0	15.8
EV/ EBIT	NA	NA	25.0	16.3
Price/Earnings	NA	NA	23.5	16.8

KEY RISKS

- It is important to highlight the key risks associated with an investment in Blackboxstocks as well as the inherent risks associated with the financial projections and price forecasts presented in this report.
- The online trading and investor education content industry that Blackboxstocks is operating in is competitive, and in case the management unable to gather sufficient subscribers to break even soon, it will negatively impact their business and operations.
- One of the biggest risks that the company is facing currently is the ongoing impact of COVID-19 around the world, because of which the stock markets in general could be affected. Blackboxstocks' research and operations could be affected materially given the rapidly spreading Omicron variant.
- To accommodate growth and compete effectively, the company will need working capital to have adequate funds to carry out subscriber additions and increase, train, motivate and manage its work force.
- The management may be unable to successfully implement and execute their business strategies, operating plans and growth initiatives. In case the management fails to manage their growth and organizational change effectively, it may harm their business and the results of operations.
- If the company fails to attract subscribers or partner with other trading platforms such as TradeStation, at the relevant pace in the coming years, they may not remain competitive. Because of this, their revenue and results of operations may suffer.
- Blackboxstocks has a certain level of dependence on third-party trading platforms such as TradeStation for the growth and scale up of the company. Therefore, any change in contractual relationships or disruption of service provided by these third-party service providers may adversely affect them and subject them to liability.
- Proper utilization and protection of their intellectual property and non-infringement of third parties' intellectual property within the U.S. and other countries where Blackboxstocks plans to expand are vital for their business to succeed.
- There could be a possible dilution and loss of value of their equity shares because the company might require regular infusion of funds through equity issuances for funding their losses until they break even.
- If the management fails to raise additional capital, they may need to reduce, defer, curtail or cease their operations, including the product design, development, and marketing.
- Blackboxstocks's ability to continue as a going concern is contingent upon the ability to raise additional capital through the sale of securities and incurrence of debt. Additionally, the future capital requirements of the company depend on many factors including the rate of revenue growth, selling price of the platform subscription and research and development efforts which raise substantial doubt about the company's ability to continue as a going concern.

- The ability of Blackboxstocks to continue as a going concern is dependent on its ability to raise additional capital through the sale of securities and the incurrence of debt. Furthermore, the company's future capital requirements are dependent on various factors, including the rate of revenue growth, product selling prices, and R&D efforts, raising serious doubts about the company's ability to endure as a going concern.
- It is worth highlighting that the extent to which Covid-19 impacts the financial results of the company is highly uncertain and could significantly disrupt the operations including sales, manufacturing and supply chain-related activities. It could also result in social, economic, and labor instability in the countries where the customers and suppliers operate.
- With respect to our price projection, we would like to clarify that the valuation of Blackboxstocks in this report is specific to the date of the analysis i.e. 25-01-2022.
- Another one of the biggest risks to Blackboxstocks's model is the fact that the company's top-line growth is assumed to be consistently growing by a certain rate in the model. There is a possibility that this assumption might not hold true if the COVID-19 situation persists for too long. With respect to our price projection, we would like to clarify that the valuation of Blackboxstocks in this report is specific to the date of the analysis i.e. 25th January 2022.
- We must emphasize that the projected valuation and the share price of Blackboxstocks are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts. There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

ANALYST RATINGS

- Buy: Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.
- Outperform: Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.
- Sell: Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.
- Underperform: Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.
- Hold: Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

ANALYST INDUSTRY VIEWS

- Attractive: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
- In-Line: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
- Cautious: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
- Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI EM Latin America Index; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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