



Research report (Anno)

Advanced Blockchain AG



Update on the separate financial statements 2023

-

**Significant upside potential at group level
on the portfolio valuation**

Fair value: EUR 17.64

Rating: BUY

IMPORTANT NOTICE:

Please note the disclaimer/risk warning

and the disclosure of potential conflicts of interest in accordance with Section 85 WpHG and Art. 20 MAR from page 11

Note in accordance with MiFID II regulation for "minor non-monetary benefit" research: This research fulfills the requirements for classification as a "minor non-monetary benefit". Further information on this can be found in the disclosure under "I. Research under MiFID II"

Date and time of completion of the report: 17.07.2024 (10:00)

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Validity of the price target: until max. 31.12.2025

Advanced Blockchain AG^{*5a, 11}

Fair value: € 17.64

Rating: BUY

Current price: €4.00

04.07.24 / Xetra / 10:23

Currency: EUR

Master data:

ISIN: DE000A0M93V6

WKN: A0M93V

Symbol (DUS): BWQ

Number of shares³: 3.70

Market cap³: 14.81

³in million / in EUR million

Accounting:

HGB (at individual and group level)

Financial year: 31.12.

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Company profile

Industry: technology, crypto

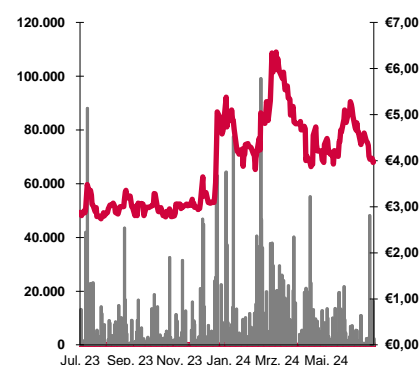
Focus: blockchain technology, DeFi, Web 3.0

Employees: 16 as at 31.12.2023

Foundation: 2017

Company headquarters: Berlin

Management: Simon Telian (CEO)



Advanced Blockchain AG is the first publicly traded company in the German market specializing in blockchain technology. The company went public on the Düsseldorf Stock Exchange in January 2017, when Bitcoin was trading at around €3,200. The company is led by Simon Telian, a successful serial technology entrepreneur. Since March 2022, Advanced Blockchain AG has been listed in the Scale segment of the Deutsche Börse. Advanced Blockchain AG specializes in promoting, developing, and investing in disruptive technologies. The company places a strong emphasis on token technologies, including token investments and incubation. One of the key focuses of Advanced Blockchain AG is the venture capital market, particularly in the area of decentralized infrastructures. This includes industries such as the Economy of Things (EoT), which explores the integration of decentralized technologies across various sectors. Additionally, the company is active in the area of decentralized finance (DeFi), a critical component of Web3, the next generation of the World Wide Web. By concentrating on these areas, Advanced Blockchain AG leads in promoting innovations, supporting start-ups, and contributing to the growth of the decentralized ecosystem. The company's focus on fostering disruptive technologies positions it as a driving force within the blockchain industry.

Financial calendar

11.2024: Eigenkapitalforum

10.2024: Half-year report 2024

08.2024: Annual General Meeting

**Latest research from GBC:

Date: Publication / Target price in EUR / Rating

19.04.2024: RS / 17.64 / BUY

11.12.2023: RS / 11.00 / BUY

13.11.2023: RS / 11.00 / BUY

23.08.2023: RS / 11.00 / BUY

** The research reports listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany

* Catalog of potential conflicts of interest on page 12

EXECUTIVE SUMMARY

- Advanced Blockchain AG has so far only published their individual financial statements for the 2023 fiscal year. Therefore, the currently available figures are only of limited significance. The consolidated financial statements, which will provide more comprehensive information on the company's development, are expected to be published in the coming weeks. The consolidated financial statements will contain detailed information about the financial situation and performance of the subsidiaries, thus providing a clearer picture of the entire corporate group.
- The company (individual entity) nearly doubled its revenue in the 2023 fiscal year, increasing from €0.06 million in 2022 to €0.11 million. Despite this growth, the absolute revenue level remains low. The operating investment business is outsourced to Incredulous Labs Limited, so the majority of revenue and profitability lies with the Incredulous Labs sub-group.
- The earnings development shows a deterioration of EBITDA from -€0.5 million in 2022 to -€0.72 million in 2023. This deterioration is due to significantly lower other operating income, despite cost reductions. Other operating income drastically fell from €0.65 million to €0.08 million, while personnel costs were significantly reduced to €0.11 million (previous year: €0.33 million) due to staff reductions. Additionally, write-downs on current assets of €0.19 million were made due to lack of recoverability, whereas no such write-downs were made in the previous year. This resulted in a net loss of €0.88 million (previous year: €0.51 million).
- This led to a decrease in equity from €10.75 million to €9.56 million. The total assets decreased from €15.68 million to €13.71 million, due to the increased balance sheet loss and the reduction of provisions and liabilities. Despite the decrease in equity, we believe the company remains well-positioned. Receivables from affiliated companies amounting to €11.31 million are considered nearly cash-equivalent. These mainly consist of loans to Incredulous Labs Ltd., whose portfolio should significantly exceed the loan value upon liquidation.
- The group's focus for the 2024 fiscal year is on sustainable growth, diversification of revenue sources, and increased activities in Switzerland and the United Arab Emirates. The group also plans to expand its team and implement cross-chain initiatives to leverage network effects.
- **The revaluation of the top ten investments by AVS-Valuation GmbH shows a significant increase in the portfolio value by 45% to €57.5 million. The estimated total value of the portfolio as of December 31, 2023, is around €105 million, which corresponds to a net asset value (NAV) of approximately €103 million. The current market capitalization of Advanced Blockchain AG is around €15.18 million, which represents a significant undervaluation compared to the fair value. Considering the significantly improved market situation in the crypto markets, we are gradually reducing our original "crypto winter" discount to 35%. This leads to a fair value per share of €17.64. Given the considerable upside potential, we assign a "BUY" rating.**

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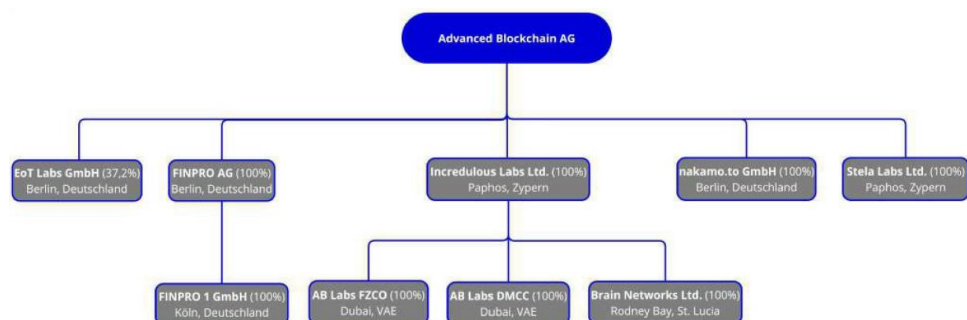
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THE COMPANY

Shareholder structure

The shareholder structure consists of almost 100% free float.

Corporate structure



Source: Advanced Blockchain AG

Advanced Blockchain Group

Advanced Blockchain AG is the first publicly traded company in the German market specializing in blockchain technology. The company went public on the Düsseldorf Stock Exchange in January 2017, when Bitcoin was trading at around €3,200.

The Advanced Blockchain group specializes in promoting, developing, and investing in disruptive technologies. The group places a strong emphasis on token technologies, including token investments and incubation. One of the main areas of focus for Advanced Blockchain is the venture capital market, particularly in the area of decentralized infrastructures. This includes industries such as the Economy of Things (EoT), which explores the integration of decentralized technologies across various sectors. Additionally, the company is active in the area of decentralized finance (DeFi), a critical component of Web3.0, the next generation of the World Wide Web. By concentrating on these areas, Advanced Blockchain leads in promoting innovations, supporting start-ups, and contributing to the growth of the decentralized ecosystem. The company's focus on fostering disruptive technologies positions it as a driving force within the blockchain industry.

Due to the changing market environment and the interim crypto winter, Advanced Blockchain has adjusted its strategy. Previously, the company's focus was on developing innovative technologies through ventures and attracting partners or customers for potential spin-offs. As the investment environment has evolved, the company had to change its approach. Advanced Blockchain now follows an adjusted strategy: new projects are only launched if funding or at least project costs are secured in advance. This adjustment demonstrates a prudent and financially disciplined approach that minimizes risk in uncertain financing conditions.

MARKET AND MARKET DEVELOPMENT

At the end of the second quarter of 2024, the total value of all cryptocurrencies worldwide amounted to USD 2.3 trillion, representing a decline of 14.5% compared to the previous quarter. This decline indicates that the market is stabilizing again after a previous rise. At the same time, the daily trading volume increased by 223% to reach USD 79.4 billion, indicating increased activity and volatility in the market. The CMC Crypto Fear and Greed Index stands at 49, indicating neutral market sentiment.

Bitcoin remains the most important part of the crypto market with a 53% share, suggesting that there is currently no "altcoin season" (a period in which cryptocurrencies other than Bitcoin gain strongly in value). Despite the general decline, Bitcoin still represents a significant part of the overall market value.

Historically, Bitcoin often leads market movements in the early stages of a bull market, which is reflected in its current dominance. The supply of stablecoins (a type of cryptocurrency pegged to stable assets such as the US dollar) has increased by 19.8% since the beginning of 2024, indicating that more money is flowing into the crypto market. During the 2021 bull market, less Bitcoin was traded on exchanges as investors held it long-term in secure wallets. This behavior is being observed again, indicating that investors are betting on rising prices.

In contrast to previous market cycles, Bitcoin peaked at USD 73,000 before the halving in March 2024, mainly due to the influence of institutional investors investing in spot Bitcoin ETFs (exchange-traded funds). The current market development is also primarily driven by institutional investors, who have invested over USD 17.1 billion, of which USD 16.7 billion is in Bitcoin. Individual retail investors are not yet strongly represented in the market.

There is a shift in investor preferences and sector dynamics. Memecoins are the most popular category in the crypto space for the first time, with a 23% share of page views on CoinMarketCap. The Solana ecosystem has received more attention than the Ethereum ecosystem, mainly due to its performance in the memecoin sector. It is also important to note the developments in the crypto space beyond the mainstream of Bitcoin, as Advanced Blockchain has a much broader portfolio spectrum. In our opinion, Advanced Blockchain offers investors a unique opportunity to invest in early-stage projects, most of which are not yet available to the general public. One example of this is *peaq*, an incubation of Advanced Blockchain. In May 2024, *peaq* successfully raised USD 20 million as part of a public token launch on the CoinList platform. The transaction was based on a valuation of USD 333 million.

BUSINESS DEVELOPMENT

Income statement (in € million)	FY 2022	FY 2023
Revenue	0.06	0.11
EBITDA	-0.50	-0.72
EBITDA margin	-799.4%	-683.4%
EBIT	-0.52	-0.93
EBIT margin	-832.6%	-884.5%
Net result	-0.51	-0.88
EPS in €	-0.13	-0.24

Sources: Advanced Blockchain AG, GBC AG

The company has so far only published their individual financial statements for the 2023 fiscal year. Therefore, the currently available figures are only partially informative. The consolidated financial statements, which will reflect a more comprehensive development of the company, are expected to be published in the coming weeks. The consolidated financial statements will contain detailed information about the financial situation and performance of the subsidiaries, thus providing a clearer picture of the entire corporate group.

Revenue development 2023

According to the available data from the individual financial statements, revenue in the 2023 fiscal year nearly doubled compared to 2022, increasing from €0.06 million to €0.11 million. However, the absolute revenue level remains very low. The revenue was generated from consulting services. The operational investment business is outsourced to Incredible Labs Limited, Paphos, Cyprus, so the majority of revenue and group profitability lies with the Incredible Labs sub-group.

Earnings development 2023

EBITDA decreased from -€0.5 million in 2022 to -€0.72 million in 2023. One reason for this was the lack of sales in the parent company. According to management, successful disposals were made in the subsidiary, which are only visible at the group level. The deterioration in earnings is due to significantly lower other operating income, despite cost reductions.

Other operating income drastically decreased from €0.65 million in the previous year to €0.08 million in the current fiscal year. In the previous year, this income was mainly achieved through differences in Kraken accounts and the sale of shares in Action Press AG. Personnel costs significantly decreased due to staff reductions for cost optimization and now amount to €0.11 million (previous year: €0.33 million). As part of the cost-saving program, other operating expenses also slightly decreased from €0.89 million (FY 2022) to €0.79 million (FY 2023). Depreciation on intangible assets and property, plant, and equipment remained at around €0.02 million, the same level as the previous year. Additionally, write-downs on current assets amounted to €0.19 million in the current fiscal year, while none were incurred in the previous year. These write-downs on current assets reflect impairments of (token) projects, which are valued at the lower fair value as of the balance sheet date.

Overall, the net loss for the 2023 fiscal year amounted to €0.88 million (previous year: €0.51 million). It is worth noting that the company has successfully reduced costs. Although there is little positive to glean from the operating loss, this development must be viewed at the holding level to make an informed statement.

Balance sheet and financial situation as at 31.12.2023

in € million	FY 2022	FY 2023
Equity	10.75	9.56
Equity ratio (in %)	68.5%	69.7%
Operating facilities	0.04	0.03
Working capital	-0.13	-0.28

Sources: *Advanced Blockchain AG, GBC AG*

The company's separate financial statements show a reduction in equity to €9.56 million as of December 31, 2023 (December 31, 2022: €10.75 million). The decrease in equity is primarily due to the net loss for 2023. In addition, the acquisition of treasury shares reduced the capital reserve by €0.22 million in the 2023 financial year. Due to the decrease in liabilities to affiliated companies to €0.02 million (December 31, 2022: €1.1 million), the equity ratio improved to 69.7% (December 31, 2022: 68.5%). The company's total assets decreased from €15.68 million (December 31, 2022) to €13.71 million (December 31, 2023), mainly due to the increased accumulated deficit and the reduction in provisions and liabilities.

Despite the decline in equity, we believe that the company is still well-positioned. In our opinion, the extensive receivables from affiliated companies amounting to €11.31 million (December 31, 2022: €13.37 million) are in our opinion almost cash-like. The majority of these receivables consist of loans to Incredulous Labs Ltd., whose portfolio should significantly exceed the value of these loans in the event of liquidation in the short to medium term.

Due to the lack of a published cash flow statement, we are unable to carry out a comprehensive liquidity analysis.

VALUATION (GROUP)

Advanced Blockchain has developed a comprehensive strategy to ensure sustainable growth, promote innovation, and optimize corporate structures. This strategy focuses on several core areas and initiatives.

Advanced Blockchain continues to identify and invest in significant blockchain ecosystem projects. The goal is to support these projects and work closely with them to ensure success and progress, regardless of market conditions. For the 2024 fiscal year, the focus is on sustainable growth, diversification, and securing revenue streams. This includes planned personnel expansion and increased activities in Switzerland and the United Arab Emirates.

Advanced Blockchain operates as a venture builder, leveraging synergies from three main pillars: smart capital investments, proactive venture building and incubation, and holistic research and development. These approaches aim to promote the development and scaling of blockchain technologies. A continuous focus is on optimizing payment and other financial flows. Proceeds from the sale of equity positions and the token portfolio are reinvested to further foster growth.

A particular emphasis is on investments in decentralized infrastructures and finance (DeFi), which enable Web3. This strategy involves identifying inefficiencies and investing in promising technology solutions. The company actively manages its assets to optimize returns and minimize risks. This includes making informed investment decisions and conducting comprehensive due diligence to carefully evaluate potential opportunities.

Advanced Blockchain focuses on efficient management of its diverse portfolio. This includes strategic planning, resource allocation, and ensuring effective communication and collaboration between various units. Through continuous investments and the incubation of promising protocols and technologies, Advanced Blockchain aims to promote and accelerate the growth and adoption of the blockchain ecosystem worldwide. The goal is to ensure success and progress largely independent of market conditions and to increase annual results compared to the previous year.

To maintain its leading position as a blockchain incubator and Web3 investor, Advanced Blockchain AG plans to expand its team of global experts and intends to make two to three new investments. The company also plans to implement cross-chain initiatives in various blockchain areas to leverage success and network effects.

As of December 31, 2023, the Frankfurt valuation company AVS-Valuation GmbH re-evaluated the portfolio of Advanced Blockchain's current top ten holdings. This revaluation shows a significant increase in the portfolio value by 45% compared to the initial valuation in May 2023, with the total value of the top ten holdings now at €57.5 million.

The valuation by AVS-Valuation GmbH takes into account both equity investments in the holdings and the current and future opportunities for token monetization. This comprehensive valuation methodology underscores Advanced Blockchain's ability to identify and successfully develop valuable growth areas early on. The significant increase in portfolio value confirms the company's strategic expertise and innovative potential. We had already published a corresponding adjustment to the valuation in April 2024.

Portfolio (in € million)	31.05.2023	31.12.2023
Top ten holdings	45	57,5
Remaining portfolio	45	47,5
Holding costs	-2	-2
NAV	88	103

Source: GBC AG

The current undervaluation of Advanced Blockchain becomes particularly evident when considering the top ten positions in the portfolio and the overall market capitalization. According to the valuation report by AVS-Valuation GmbH, these top positions represent a fair value of at least €57.5 million. In comparison, the current market capitalization of Advanced Blockchain is approximately €15.18 million (Xetra, July 4, 2024, 11:23 AM).

We estimate the total value of the portfolio, including updated valuations, to be around €105 million. Holding costs are estimated at approximately €2 million. This results in an estimated enterprise value based on the net asset value (NAV) of about €103 million, equivalent to a value of €27.14 per share.

In light of the significantly improved market situation in the crypto markets, we are gradually reducing our original "crypto winter" discount to 35%. This leads to a fair value per share of €17.64. Given the considerable upside potential, we assign a "BUY" rating.

Peer group analysis

Due to limited disclosed financial information and the uniqueness of the business model, there are currently no comparable publicly-traded competitors. At this time, we are therefore unable to conduct a valuation based on comparable companies.

FORECAST MODEL (GROUP)

According to the provisions of §21 (1c) AGB of the Deutsche Börse AG for the open market at the Frankfurt Stock Exchange, an updated forecast model is required for a research update. However, our analysts have determined that such a forecast model is not suitable for investment companies like Advanced Blockchain AG, which operates in the crypto sector.

Since we use the GBC NAV valuation approach to evaluate the company, we do not consider it appropriate to use a forecast model for revenue and earnings metrics. Instead, we focus on estimating the value of the investments.

We believe that a forecast model for investment companies like Advanced Blockchain AG does not provide meaningful and useful insights for investors. Potential revenues and results in this sector are highly volatile, and we believe that the valuation of the investment company should primarily be based on the valuation of its investments and projects.

To meet the legal requirements of §21 (1c) AGB, we have included this forecast in the research report. However, we emphasize that the forecast model should only be considered supplementary.

Group income statement (in € million)	FY 2021	FY 2022	FY 2023e*	FY 2024e*
Revenue	17.86	14.73	5.2	1.3
EBITDA	6.65	2.77	3.3	1.0
EBIT	6.53	1.69	2.2	0.0
Net result	5.32	1.76	0.5	0.0

Source: GBC AG

***The consolidated financial statements are not yet available, so the figures are currently inaccurate. Additionally, the business model is extremely volatile, making short-term forecasts difficult to make and subject to significant deviation. However, we plan to clarify our outlook with the consolidated financial statements and publish a research update.**

We would like to reiterate and emphasize that the above forecasts should be considered highly volatile and unreliable. This is due to the inherent volatility of Advanced Blockchain as an investment company operating in a young and highly volatile market environment, namely the crypto sector. Therefore, we believe that relying solely on the above forecasts for the valuation of the company would not be sensible or appropriate. This could lead to a misvaluation of the company.

Instead, we recommend focusing on the valuation of the investments held by Advanced Blockchain AG and their potential value. This approach is more suitable and aligns with the unique characteristics of the company and the industry in which it operates.

APPENDIX

I.

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GBC AG is currently represented by its board members Manuel Hölzle (chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:

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Matthias Greiffenberger, M.Sc., M.A., Financial Analyst

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