

Voyager Digital Ltd. (OTCQB: VYGR.CN / OTCQB:VYGVF)

BUY - Growth

Security Description



Voyager Digital Ltd. is a digital asset broker for retail and institutional investors. The platform offers zero-commission trading and interest-bearing accounts for digital assets. It connects to a network of exchanges and market makers for higher liquidity through 'smart order routing.' The company makes revenue from bid-ask spreads and interest income.

Investment Thesis

- Digital assets are in demand from retail and institutional investors. The fact Voyager earns over 10% interest on the inventory is evidence itself. It shares the proceeds from interest with clients. Voyager's liquidity advantage offers a strong, touted client platform.
- Voyager's lending program and long-term objectives mimic operations of a commercial bank and/or traditional broker. The 'bulge brackets' will figure out the digital asset industry; however, traditional commercial banks – less sophisticated and often more conservative – must engage in M&A to onboard digital asset business. We offer Bank of America's acquisition and integration of Merrill Lynch as one of many examples.
- Based on Coinbase's imminent 2021 IPO and expected valuation, Voyager is substantially undervalued.

Catalysts

- User adoption
- User monetization
- Extension of margin to clients in 2021.
- Extension of equity trading services in 2021.
- Small business client growth in, and beyond, 2021.
- International expansion into Canada and Europe in 2021.
- Extension of debit and credit accounts/cards to clients in 2021.
- Coinbase listing likely to be priced at more than twice the Voyager valuation.
- Management plans to uplist onto the TSX venture in 2021 and seeks to uplist onto a senior exchange within a year.
- Voyager is available in any U.S. state except for New York, where a special license is required; Voyager has applied and seeks to obtain the license within months.

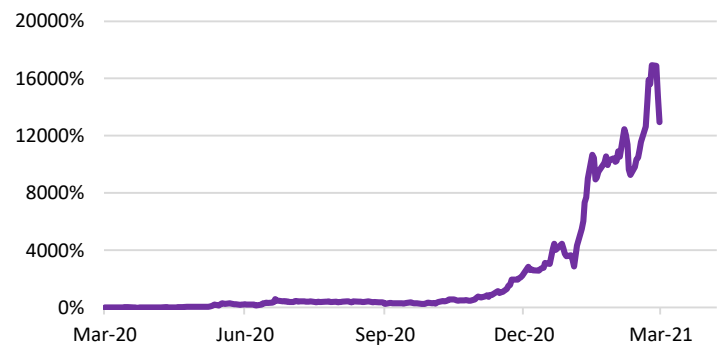
Buy Rating

- We value shares based on 15x sales applied to our next twelve-month estimate.
- Coinbase is expected to trade from 60 – 100x 2020 sales. Voyager, still on the OTCQB, is valued at only 11.3x the run rate of sales today.

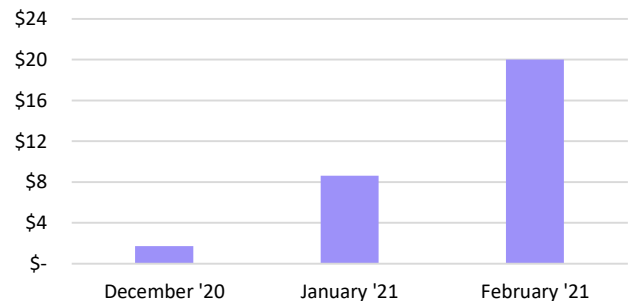
Current Price (VYGVF, 3/24/2021)	\$18.90
Run Rate of Revenue (millions)	\$240
Market Capitalization	\$2,700
Current Run Rate Multiple	11.3x
NTM Estimated Sales	\$500
15x NTM Sales	\$7,506
Price Target	\$61.94
Upside	228%
Month-over-Month Growth	133%

Unprecedented Growth

Equity Return



Voyager Digital Revenue by Month



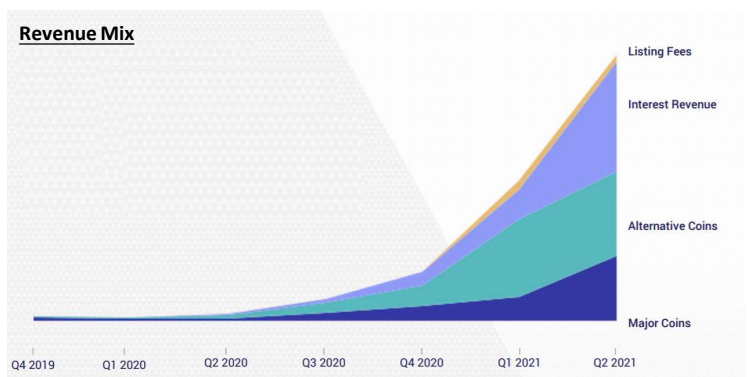
	Dec. 2020	Jan. 2021	Feb. 2021
Revenue (Millions)	\$ 1.70	\$ 8.60	\$ 20.00
Net Deposits (Millions)	\$ 28.00	\$ 170.00	\$ 400.00
AUM (Millions)	\$ 230.00	\$ 750.00	\$ 1,700.00
Trades Per Day	\$ 6,500	\$ 30,000	\$ 70,000
New Funded Accounts	\$ 6,000	\$ 65,000	\$ 70,000
New Verified Users	\$ 36,000	\$ 250,000	\$ 190,000
Principal Value Traded (Millions)	\$ 150	\$ 840	\$ 1,600
AUM Turnover	0.65	1.12	0.94
Revenue as % of AUM	0.7%	1.1%	1.2%
Revenue as % of Value Traded	1.13%	1.02%	1.25%
Average Trade Value in Dollars (Millions)	\$ 769.23	\$ 933.33	\$ 761.90
New Funded Accounts as % of New Accounts	17%	26%	37%
Month-over-Month Growth		406%	133%

How Voyager Works

Users download the Voyager app to their phone or access the desktop platform from a computer; the onboarding process takes minutes. After connecting to an external bank account, users can invest in digital currencies that bear interest. Voyager makes money on the bid-ask spread on transactions as well as interest from its lending program.

- The supporting infrastructure of digital assets provides – through a broker like Voyager – 24/7 liquidity and trading.
- Voyager offers users the major coins and a host of alternative coins. It offers over 50 digital assets and continues to grow its catalogue.
- Users can select from over 50 digital assets, which is an industry leading catalogue.
- Voyager uses ‘smart order routing’ by routing orders to a network of exchanges and market makers to bring enhanced liquidity to the platform. Voyager gives clients price improvement on better-than-quoted transactions.
- Voyager generates revenue from (1) the bid-ask spread in trades and (2) interest fees on assets lent to financial institutions
- Voyager lends user assets to Galaxy Digital, BitGo, and Jump Capital, who are creditworthy, industry leading partners.
- Voyager shares interest income with the users on 20 of the 50+ digital assets offered. Voyager generally pays up to 6.50% on digital assets (recently hiked from as much as 6.25%) and 9.00% on the digital asset USDC.
- Voyager has augmented adoption of the platform with loyalty rewards, discounts, and incentives. Voyager has its own digital asset, the Voyager Token, on which it pays interest of 5%.
- Voyager offers digital asset security USDC, which mimics a money market equivalent pegged to the dollar and fixed at \$1 per unit. The USDC asset pays interest, incentivizing investors to earn yield on a dollar-equivalent, 24/7 liquid security.
 - Earning interest on USDC is a key digital asset market driver. The application of a liquid dollar-equivalent will be key for Voyager (for example, when Voyager introduces equity trading, transactions can be made using digital dollar-equivalent USDC).
- Voyager attracts the following customers:
 - Digital currency investors (those who want to invest in major assets like Bitcoin and Ethereum)
 - Alternative digital currency investors (those who want to invest in ‘altcoins’ such as ‘Dogecoin.’ Voyager is touted for their product offering and selection.
 - Cost conscious retail and institutional investors.
 - Yield ‘seekers’ who want to earn interest on digital assets, especially USDC (9% interest on Voyager).
- Voyager engages in paid advertising, content marketing, newsletter/content (distributed through partners’ grapevines), social media marketing, influencers/sponsorships, and promotions to drive user adoption.
- In December 2020, Voyager generated \$1.7 million in revenue, exceeded \$230 million AUM, managed 6.5 thousand trades per day, added 36 thousand users and 6 thousand funded user accounts, and exceeded \$150 million in principal value traded.
- In January 2021, Voyager generated \$8.6 million in revenue, exceeded \$750 million AUM, managed 30 thousand trades per day, added 250 thousand users and 65 thousand funded user accounts, and exceeded \$840 million in principal value traded.
- In February 2021, Voyager generated \$20 million in revenue, exceeded \$1.7 billion AUM, managed 70 thousand trades per day, added 190 thousand new users and 70 thousand funded user accounts, and exceeded \$1.6 billion in principal value traded.
- The average account size of a Voyager client is approximately \$10 thousand.
- Voyager gross margins are between 80 – 85%.

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New Products and Catalysts

- Voyager plans to administer debit and credit cards.
- Voyager plans to allow digital peer-to-peer payments, similar to a CashApp's capability.
- Voyager has a growing small business population of users. The process to onboard a business client is more stringent; the platform averages 1-2 new clients per week and currently has less than 50 total. These businesses seek Voyager for corporate treasury purposes and provide opportunity in the future. Steve Ehrlich, CEO, has not laid out a plan for business clients but is actively seeking to grow the population. This is a significant opportunity in digital asset banking. Similar to commercial banking clients, we believe a small business population can be further tapped into for revenue and business when the young digital asset market matures.
- Voyager will expand to Canada and Europe next. In Canada, Voyager is registered as a broker-dealer and the expansion will come within months. They will next target expansion into Europe in the second half of 2021. International expansion is a catalyst for the company but not all geographies are suited for Voyager. Voyager's average account size is \$10 thousand dollars; not all economies provide a viable client pool.
- Voyager seeks to expand product offering into equities. The key to our thesis is the commercial banking and brokerage function. With the back-end services, Voyager will allow clients to buy and sell digital assets for equities. The platform will manage the functions of (1) execute sales of digital asset to raise cash and (2) execute purchase of equity/other asset using cash, and vice versa.

Comparables

We analyze a basket of high P/S ratio and high growth comparables; we believe our target of 15x the next twelve-month sales is a conservative approach.

(all figures in millions, 3/24/2021)	Market Cap	Annualized Revenue	Gross Margin	YoY Revenue Growth	Sales Multiple
TSLA	\$ 604,970	\$ 42,960	19%	46%	14.1x
SHOP	\$ 136,840	\$ 3,911	52%	94%	35.x
ZM	\$ 92,510	\$ 3,530	70%	369%	26.2x
SNAP	\$ 76,180	\$ 3,645	58%	62%	20.9x
SNOW	\$ 59,050	\$ 762	56%	117%	77.5x
TWLO	\$ 55,660	\$ 2,192	51%	65%	25.4x
CRWD	\$ 40,660	\$ 1,060	75%	74%	38.4x
PLTR	\$ 39,870	\$ 1,288	78%	40%	30.9x
MTCH	\$ 37,180	\$ 2,606	73%	17%	14.3x
DOCU	\$ 37,020	\$ 1,724	77%	57%	21.5x
TTD	\$ 31,650	\$ 1,280	84%	48%	24.7x
RNG	\$ 27,890	\$ 1,338	73%	32%	20.8x
U	\$ 25,760	\$ 881	76%	39%	29.2x
ETSY	\$ 25,110	\$ 2,469	76%	129%	10.2x
MDB	\$ 17,090	\$ 684	70%	38%	25.x
FVRR	\$ 7,270	\$ 224	83%	89%	32.5x
Average					27.9x

- Note: outside of digital assets and liabilities held on the balance sheet, there is no debt on the business besides a lease and PPP notes. The company then has over \$270 million in current assets.

Average Multiple	
>75% Gross Margin	27.1x
>50% YoY Growth	31.9x

Disclosure

The analysis provided is based on financial information and speculation of future performance in statements associated with this company. All outside sources are perceived to be credible, and the analyst does not take fault for any changes in numerical or informational accuracy that may result. This report is for informational purposes only and is the opinion of the writer. This report has no regard for the specific investment needs or objectives of readers. Investors are encouraged to conduct their own research and come to their own conclusions before making the decision to invest in a company. Sources used in the making of this report are considered accurate.

Arham Khan is a shareholder of Voyager Digital