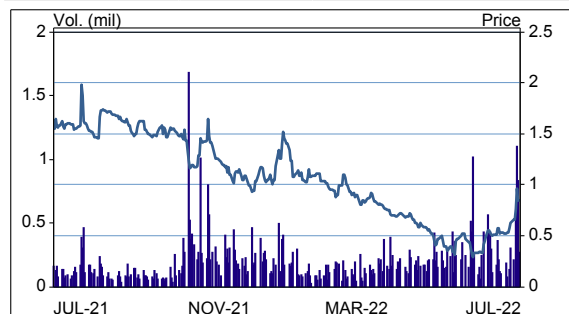


NexTech AR Solutions Corp. (NEXCF)
Rating: Buy

Scott Buck
212-856-5730
sbuck@hcwresearch.com

Strong Momentum in Core 3D Modeling, Potential Corporate Actions Drive Additional Value Creation; Reit. Buy, \$2.50 PT

Stock Data		07/18/2022		
Price		\$0.71		
Exchange		OTC		
Price Target		\$2.50		
52-Week High		\$2.07		
52-Week Low		\$0.25		
Enterprise Value (M)		\$59		
Market Cap (M)		\$70		
Shares Outstanding (M)		99.6		
3 Month Avg Volume		274,046		
Balance Sheet Metrics				
Cash (M)		\$10.8		
Total Debt (M)		\$0.0		
Total Cash/Share		\$0.11		
EPS (\$) Adjusted				
Full Year - Dec	2021A	2022E	2023E	
1Q	(0.12)	(0.08)A	--	
2Q	(0.07)	(0.05)	--	
3Q	(0.09)	(0.05)	--	
4Q	(0.11)	(0.04)	--	
FY	(0.39)	(0.23)	(0.20)	
Revenue (C\$M)				
Full Year - Dec	2021A	2022E	2023E	
1Q	7.7	3.5A	--	
2Q	6.1	5.1	--	
3Q	5.7	5.3	--	
4Q	6.4	6.1	--	
FY	25.9	20.0	30.0	
EBITDA (\$) Adjusted				
Full Year - Dec	2021A	2022E	2023E	
1Q	(4.5)	(6.0)A	--	
2Q	(6.0)	(3.9)	--	
3Q	(8.7)	(3.7)	--	
4Q	(5.9)	(3.1)	--	
FY	(27.5)	(16.8)	(13.9)	



Business progress continues, potential spin outs provide opportunities for value creation. Over the past few weeks NexTech AR has provided business updates that should drive investor optimism, including the announced spin-out of the company's spatial mapping platform, expected in September, and an update on progress within the core 3D modeling business. We believe the spin-out has the potential to unlock significant value for NexTech shareholders as the company will maintain a majority ownership position in the new business. In addition, NEXCF holders will receive a share distribution following a direct listing on the CSE. On 3D modeling, the company continues to add new customers, including Amazon's Prime Marketplace, which we believe should continue to drive meaningful revenue growth. As operating expenses have recently been reduced, we believe investors should begin to see meaningful operating leverage as revenue continues to scale. Finally, the wind-down of its legacy e-commerce business lines result in a pure-play software and technology company, which should warrant a higher valuation multiple. These corporate actions coupled with a comfortable balance sheet position and meaningful growth within the core business provide us confidence in our Buy rating and \$2.50 price target on NEXCF shares.

Announced spin-out of spatial mapping platform potentially unlocks value. Last month the company announced plans to spin out its spatial mapping platform, ARWAY Ltd., into a standalone public company listed on the CSE. Under the terms of the agreement, NexTech would maintain a majority ownership position in ARWAY while NexTech shareholders also receive a share distribution of the new company. We see several real-world applications for spatial mapping including museums, hospitals, conference, trade shows, and sporting venues. By integrating the company's SDK customers can create an interactive experience for their own customers including the addition of audio keys, advertising, and even holograms enhancing the customer experience and influencing consumer behavior. NexTech has indicated it has received significant interest in the mapping product, and we believe new contracts could be announced within the next 60-days. We also believe the standalone high-margin mapping business is likely to warrant a higher trading multiple. Should this initial spin out prove successful, the company has additional assets which may also be suitable for a similarly structured spin-out.

Meaningful progress on core 3D modeling business. On July 12, 2022, the company provided an update on the core 3D modeling business, which included an announced 17 new customers over the past 45 days. In addition, the company's 3D models are now available on Amazon's Prime eCommerce marketplace. We believe the addition of Amazon.com Inc. (AMZN; not rated) provides both additional credibility to the company's 3D modeling software and a significant opportunity to continue to grow this modeling business. The company's 3D modeling software is already available on other e-commerce marketplaces including Shopify, Inc. (SHOP; not rated), BigCommerce, and WooCommerce. The transition to 3D models, from 2D, among ecommerce providers is largely driven by meaningfully higher conversion rates as well as a significantly lower level of product returns as consumers can now try before they buy.

H.C. Wainwright 1868

Valuation attractive given meaningful revenue growth opportunity and path to profitability. We are valuing NEXCF shares at \$2.50, reflecting a 10.0x EV/revenue multiple on our 2023 revenue estimate of \$30.0M. Our \$2.50 price target represents approximately 250% upside from recent trading levels. Our targeted 10.0x EV/EBITDA multiple represents a slight premium to small capitalization technology peer group operating within the augmented reality, virtual reality, and metaverse space. These companies currently trade closer to 8.0x. However, given the accelerating demand for 3D models, we believe this premium is warranted in the near term. As the company delivers meaningful revenue growth, improve gross margin expansion, and achieve consistent profitability we believe new investors should be attracted to NEXCF shares. In addition, we suspect positive news flow, including new contract and partnership announcements to serve as a near term catalyst, ahead of the 2H22 acceleration in higher margin technology revenue.

Risks. (1) Dilution risk should the company raise additional capital given current cash burn; (2) high levels of industry competition; (3) technology risk; (4) M&A and integration risk; (5) partnership risk given partnership agreements; (6) foreign operation risk as the company operates in several jurisdictions with different levels of regulatory oversight; and (7) liquidity risk.

NexTech AR Solutions Corp. Model - NEXCF H.C. Wainwright & Co., LLC (Canadian dollar \$000s); December Year-End																				
Fiscal Year in \$ 000's	2019					2020					2021					2022				2023
	2019E	1Q20A	2Q20A	3Q20A	4Q20A	2020A	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22A	2Q22E	3Q22E	4Q22E	2022E	2023E			
Revenue																				
Product Sales		2,446	3,098	3,810	4,579	13,933	6,009	4,431	4,580	4,226	19,245	2,988	3,987	3,984	4,437	15,397	15,083			
Technology Services		46	187	763	2,421	3,418	1,350	1,371	931	1,643	5,296	37	525	570	660	1,792	7,515			
Renewable software licenses		0	244	90	2	335	367	290	226	510	1,394	459	609	792	968	2,829	7,403			
Gross revenue	4,004	2,492	3,529	4,663	7,002	17,686	7,727	6,092	5,738	6,379	25,935	3,484	5,121	5,347	6,065	20,017	30,002			
Cost of revenue	1,656	1,144	1,359	1,706	3,626	7,835	4,412	3,799	3,936	3,949	16,096	2,001	2,970	2,994	3,275	11,241	15,646			
Net revenue	2,348	1,348	2,170	2,957	3,376	9,851	3,314	2,293	1,801	2,430	9,839	1,483	2,151	2,353	2,790	8,777	14,356			
Gross margin	58.6%	54.1%	61.5%	63.4%	48.2%	55.7%	42.9%	37.6%	31.4%	38.1%	37.9%	42.6%	42.0%	44.0%	46.0%	43.8%	47.8%			
Operating expenses:																				
Sales and marketing	2,608	1,419	1,369	3,146	3,676	9,609	4,640	4,048	4,359	3,768	16,815	2,617	3,137	3,269	3,203	12,226	13,686			
General and administrative	1,762	709	1,808	640	2,684	5,841	3,748	3,418	3,735	2,980	13,881	3,821	2,564	2,241	2,235	10,860	11,933			
Research and development	721	239	265	1,048	2,039	3,592	1,793	1,331	1,864	1,624	6,612	1,027	399	559	487	2,473	2,677			
Total costs and expenses	5,092	2,367	3,442	4,834	8,398	19,042	10,181	8,797	9,958	8,373	37,308	7,465	6,100	6,069	5,925	25,559	28,296			
Operating income	(2,744)	(1,020)	(1,272)	(1,876)	(5,022)	(9,191)	(6,867)	(6,504)	(8,156)	(5,943)	(27,470)	(5,981)	(3,949)	(3,717)	(3,136)	(16,783)	(13,940)			
EBITDA	(2,744)	(1,020)	(1,272)	(1,876)	(5,022)	(9,191)	(6,867)	(6,504)	(8,156)	(5,943)	(27,470)	(5,981)	(3,949)	(3,717)	(3,136)	(16,783)	(13,940)			
EBITDA margin	-116.9%	-75.6%	-58.6%	-63.5%	-148.8%	-93.3%	-88.9%	-106.8%	-142.2%	-93.2%	-105.9%	-171.7%	-77.1%	-69.5%	-51.7%	-83.8%	-46.5%			
Other expense (income)																				
Stock based compensation	391	268	597	2,124	2,676	5,665	2,403	556	(574)	2,646	5,030	579	600	600	400	2,179	2,900			
Amortization	190	88	132	189	262	672	380	179	683	808	2,050	728	600	600	600	2,528	2,850			
Right of use amortization	0	0	0	0	0	0	(219)	45	65	316	206	63	63	63	63	252	252			
Gain on digital assets	0	0	0	0	0	0	28	0	0	(247)	(219)	0	0	0	0	0	0			
Impairment	69	0	0	0	69	69	0	0	0	0	0	0	0	0	0	0	0			
Loss on contingent consideration	0	0	0	0	0	0	0	(1,516)	102	(160)	(1,573)	0	0	0	0	0	0			
Depreciation	22	10	17	25	30	83	0	32	37	64	133	37	40	40	40	157	160			
Foreign exchange gain (loss)	10	2	6	(15)	17	10	(275)	53	(253)	207	(268)	447	0	0	0	447	0			
Total other income	682	368	753	2,324	3,055	6,500	2,317	(650)	60	3,633	5,360	1,854	1,303	1,303	1,103	5,563	6,162			
Income (loss) before income taxes	(3,426)	(1,388)	(2,025)	(4,200)	(8,078)	(15,691)	(9,184)	(5,854)	(8,217)	(9,575)	(32,829)	(7,835)	(5,252)	(5,020)	(4,239)	(22,346)	(20,102)			
Income tax provision	0	24	24	24	24	97	0	0	0	177	177	(7)	0	0	0	(7)	0			
Deferred income tax recovery												139								
Net Income	(3,426)	(1,363)	(2,001)	(4,176)	(8,053)	(15,594)	(9,184)	(5,854)	(8,217)	(9,397.9)	(32,652)	(7,703.5)	(5,251.9)	(5,019.8)	(4,238.7)	(22,353)	(20,102)			
Net Income Margin %																				
Other comprehensive income:																				
Exchange difference on translating foreign operations	0	488	(309)	(195)	(237)	(253)	(52)	(65)	414	(69)	227	(25)	(25)	(25)	(25)	(99)	(99)			
Comprehensive income (loss)	(3,426)	(875)	(2,310)	(4,371)	(8,290)	(15,846)	(9,236)	(5,919)	(7,803)	(9,467)	(32,425)	(7,728)	(5,277)	(5,045)	(4,263)	(22,452)	(20,201)			
Basic Earnings Per Share	(\$0.06)	(\$0.01)	(\$0.04)	(\$0.06)	(\$0.11)	(\$0.23)	(\$0.12)	(\$0.07)	(\$0.09)	(\$0.11)	(\$0.39)	(\$0.08)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.23)	(\$0.20)			
Diluted Earnings Per Share	(\$0.06)	(\$0.01)	(\$0.04)	(\$0.06)	(\$0.11)	(\$0.23)	(\$0.12)	(\$0.07)	(\$0.09)	(\$0.11)	(\$0.39)	(\$0.08)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.23)	(\$0.20)			
Average Shares Outstanding (Basic)	58,291	61,379	65,713	71,979	75,558	68,657	77,490	82,298	86,125	89,641	83,888	97,551	97,741	98,230	98,721	98,060	99,961			
Average Shares Outstanding (Diluted)	58,291	61,379	65,713	71,979	75,558	68,657	77,490	82,298	86,125	89,641	83,888	97,551	97,741	98,230	98,721	98,060	99,961			
Operating Metrics																				
Revenue Growth	n/a	n/a	n/a	n/a	n/a	319.6%	145.9%	5.7%	-39.1%	-28.0%	-0.1%	-55.2%	-6.2%	30.6%	14.8%	-10.8%	63.6%			
Price	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71	\$0.71			
Market Capitalization (CAD\$000s)	\$41,386	\$43,579	\$46,656	\$51,105	\$53,647	\$53,647	\$55,018	\$58,432	\$61,149	\$63,645	\$63,645	\$69,261	\$69,396	\$69,743	\$70,092	\$70,092	\$71,504			
Enterprise Value (CAD\$000s)	\$38,537	\$41,269	\$40,374	\$34,717	\$42,962	\$42,962	\$47,118	\$43,037	\$52,890	\$56,499	\$56,499	\$58,479	\$62,608	\$67,138	\$70,888	\$70,888	\$88,799			
Price-to-Earnings	n/a	n/a	n/a	n/a	-3.9x	-3.2x	-2.2x	-1.5x	-1.6x	-1.8x	-1.8x	-2.0x	-2.2x	-2.5x	-3.1x	-3.1x	-3.5x			
EV to EBITDA	-14.0x	-2.9x	-3.6x	-4.2x	-3.9x	-3.9x	-3.1x	-2.1x	-1.8x	-2.1x	-2.1x	-2.2x	-2.6x	-3.4x	-4.2x	-4.2x	-6.4x			
Shareholders Equity	7,066	7,593	12,050	23,947	22,419	22,419	17,399	32,668	25,467	24,262	24,262	26,766	22,316	18,106	14,686	14,686	-2,061			
Net Debt	(2,849)	(2,310)	(6,282)	(16,388)	(10,685)	(10,685)	(7,900)	(15,395)	(8,259)	(7,146)	(7,146)	(10,782)	(6,788)	(2,605)	796	796	17,295			

Source: Factset as of July 18, 2022 and H.C. Wainwright & Co. estimates.

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Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table as of July 15, 2022

Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	558	87.87%	148	26.52%
Neutral	59	9.29%	13	22.03%
Sell	2	0.31%	0	0.00%
Under Review	16	2.52%	1	6.25%

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