

NexTech AR Solutions Corp. (NEXCF)
Rating: Buy

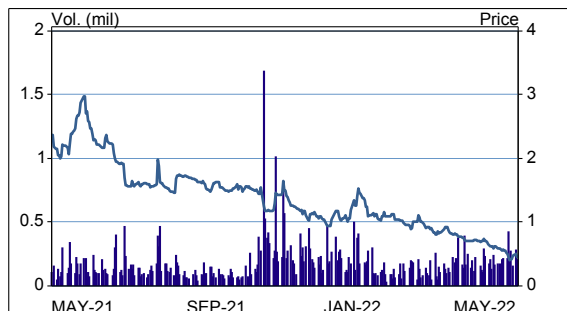
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**1Q22 Revenue Short on Slowing Legacy Biz, ARR Growth Highlights
Demand for New 3D Modeling Services; Reit. Buy, \$2.50 PT**

Stock Data		05/18/2022		
Price				\$0.39
Exchange				OTC
Price Target				\$2.50
52-Week High				\$3.00
52-Week Low				\$0.39
Enterprise Value (M)				\$28
Market Cap (M)				\$39
Shares Outstanding (M)				99.6
3 Month Avg Volume				172,202
Short Interest (M)				NA
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)	

Revenue miss but understanding given ongoing business transition. After the market close on May 16, NexTech AR Solutions Corp. reported 1Q22 operating results that included revenue of C\$3.5M, down sequentially from C\$6.4M and below our C\$5.5M estimate. The sequential decline was driven by legacy business lines. However, we put less emphasis on revenue today, as the business model is shifting away from legacy e-commerce product sales and events to higher margin higher visibility 3D model solutions and software licensing. This transition is highlighted by a 62.0% sequential increase in annual recurring revenue, with momentum continuing into 2Q22. As of the earnings report, the company had grown ARR to C\$1.6M with a target of growing ARR to a \$12.0M annual run rate by year-end. The company indicated that during the first half of 2Q22, the company has surpassed 1Q22 in terms of signed new contract value. These metrics suggest momentum is moving in the right direction as demand for 3D models continue to accelerate. We expect near term results to remain somewhat choppy as the business continues to transition. However, by year-end 2022 visibility should be meaningfully improved with sight line in place for 2023. We recommend investors take advantage of this period of business transition to accumulate NEXCF shares ahead of what we anticipate being a significant improvement in operating results.

Operating results. The company reported 1Q22 revenue of C\$3.5M, below our C\$5.5M estimate. The miss to our number was largely driven by a combination of lower product sales and technology service revenue. Legacy product sales have been meaningfully impacted by the ongoing supply chain crisis which has made sourcing some product extremely difficult. More importantly, given the transition in the business, ARR increased 62.0% from 4Q21 levels, highlighting the elevated levels of demand for the company's 3D modeling solutions. Operating expenses totaled \$7.5M during the quarter, down from \$8.4M sequentially, reflecting a significant reduction in headcount from year ago levels. We estimate an Adj. EBITDA loss of C\$6.0M which compared to our \$4.3M loss estimate and compares to a loss of \$6.9M the year prior. The company ended the quarter with approximately C \$10.8M of available cash.

Lowering estimates, PT unchanged at \$2.50. We are making some meaningful reductions in our revenue forecast for both 2022 and 2023 reflecting more challenging conditions within the legacy product sales business and lower demand for virtual events. As indicated previously, we believe investors are more focused on the growth verticals including 3D model solutions and software licensing which we expect to drive future revenue. We are now modeling 2022 revenue of C\$20.0M, down from C\$30.4M. Our 2023 revenue forecast is reduced to C\$30.0M from C\$40.0M previously. While much of the lower revenue should be offset by further cost reductions, we do expect adj. EBITDA to be somewhat lower than our previous forecasts. We are currently modeling EBITDA losses of C\$16.9M in 2022 and C\$13.9M in 2023. Should revenue growth, or gross margin expansion exceed our current expectation, we believe the company could be positioned to start delivering quarterly positive EBITDA as early as late 2023. As this path to profitability becomes clearer, we expect NEXCF shares to draw significant new interest from investors. Our price target remains \$2.50.



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 500% upside from recent trading levels. We recognize the meaningful move lower on macro uncertainties, however, believe an equally violent move higher is likely as the company begins to deliver against its strategic initiatives. Our targeted 10.0x EV/EBITDA multiple is towards the higher end of the small capitalization technology peer group operating within the augmented reality, virtual reality, and metaverse space. These companies currently trade between 4.0x and 12.0x. As the company begins to demonstrate its ability to drive 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	0	0	0	0	0			
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	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39			
Market Capitalization (CAD\$000s)	\$22,733	\$23,938	\$25,628	\$28,072	\$29,468	\$29,468	\$30,221	\$32,096	\$33,589	\$34,960	\$34,960	\$38,045	\$38,119	\$38,310	\$38,501	\$38,501	\$39,277			
Enterprise Value (CAD\$000s)	\$19,884	\$21,628	\$19,346	\$11,684	\$18,783	\$18,783	\$22,321	\$16,701	\$25,330	\$27,814	\$27,814	\$27,263	\$31,331	\$35,705	\$39,297	\$39,297	\$56,572			
Price-to-Earnings	n/a	n/a	n/a	n/a	-2.1x	-1.8x	-1.2x	-0.8x	-0.9x	-1.0x	-1.0x	-1.1x	-1.2x	-1.3x	-1.7x	-1.7x	-1.9x			
EV to EBITDA	-7.2x	-1.5x	-1.7x	-1.4x	-1.7x	-1.7x	-1.5x	-0.8x	-0.9x	-1.0x	-1.0x	-1.0x	-1.3x	-1.8x	-2.3x	-2.3x	-4.1x			
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 May 182, 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 May 17, 2022

Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	566	87.62%	160	28.27%
Neutral	58	8.98%	15	25.86%
Sell	2	0.31%	0	0.00%
Under Review	20	3.10%	3	15.00%

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