

NexTech AR Solutions Corp. (NEXCF)
Rating: Buy

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Earnings Preview: Biz Momentum Seems Clear Following Recent New Contract Announcements; Reit. Buy, \$2.50 PT

Stock Data		10/25/2022		
Price		\$0.83		
Exchange		OTC		
Price Target		\$2.50		
52-Week High		\$1.74		
52-Week Low		\$0.25		
Enterprise Value (M)		\$77		
Market Cap (M)		\$84		
Shares Outstanding (M)		101.3		
3 Month Avg Volume		130,595		
Balance Sheet Metrics				
Cash (M)		\$7.1		
Total Debt (M)		\$0.0		
Total Cash/Share		\$0.07		
EPS (\$) Adjusted				
Full Year - Dec	2021A	2022E	2023E	
1Q	(0.12)	(0.08)A	(0.06)	
2Q	(0.07)	(0.09)A	(0.07)	
3Q	(0.09)	(0.06)	(0.06)	
4Q	(0.11)	(0.05)	(0.04)	
FY	(0.39)	(0.28)	(0.22)	
Revenue (C\$M)				
Full Year - Dec	2021A	2022E	2023E	
1Q	7.7	3.5A	4.0	
2Q	6.1	3.2A	4.4	
3Q	5.7	3.2	5.1	
4Q	6.4	4.0	6.5	
FY	25.9	13.8	20.0	
EBITDA (\$) Adjusted				
Full Year - Dec	2021A	2022E	2023E	
1Q	(4.5)	(6.0)A	(4.1)	
2Q	(6.0)	(5.5)A	(5.5)	
3Q	(8.7)	(5.1)	(4.2)	
4Q	(5.9)	(3.9)	(2.5)	
FY	(27.5)	(20.5)	(16.3)	



3Q22 preliminary operating results highlight increasing demand for 3D modeling. Earlier this month, NexTech AR provided preliminary 3Q22 operating results, including revenue of C\$3.0M, largely consistent with our C\$3.2M estimate. Importantly, momentum in the company's 3D modeling business continue to grow with a 110.0% sequential increase in 3D model production and a 170.0% sequential increase in 3D modeling revenue. In addition, the company announced a C\$700,000 order that is expected to be delivered in 4Q22 and a record C\$6.7M 3D model order to be delivered in calendar year 2023. This single order represents approximately one-third of our current 2023 revenue forecast, and we believe it could potentially increase in scope over the course of the year. As the 3D modeling business continues to scale, investors should begin to see meaningful improvement in gross margin, as modeling margin is approximately 55.0%. Coupled with operating expense reductions, we believe investors should begin to extrapolate a path to profitability. When the company reports full 3Q22 results in November, we believe positive commentary on demand and ongoing cost savings should begin to drive further interest in NEXCF shares. We recommend investors take advantage of this period of business transition to accumulate NEXCF shares at what we view as a meaningful discount and ahead of what we anticipate being a significant improvement in operating results.

Record 3D modeling contract highlights momentum heading into 2023. On October 18, 2022, NexTech AR announced a record purchase order for C\$6.7M, which is expected to be delivered during calendar 2023. While the company did not specifically identify the customer, we suspect this order is related to the company's July 2022 announced supplier agreement with Amazon.com, Inc.'s (AMZN; not rated) Prime Marketplace and believe this relationship has further room to grow as the company begins delivering 3D models next year. Further, the company continues to negotiate 3D modeling contracts with other large enterprise customers, which we believe could be announced over the coming months. This should begin to provide some strong visibility on 2023 revenue, which we are modeling at C\$20.0M. With the e-commerce industry exceeding USD\$5.5T, we believe there is a meaningful opportunity for NexTech AR to continue to grow wallet share within the current customer footprint as well as add new 3D model customers over time.

ARway spinout on track for later this month. The previously announced spinout of ARway received shareholder approval during a meeting on October 12. The company believes the new shares should begin trading on the CSE later this month. 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, expected to be approximately 4.0%. We see several real-world applications for spatial mapping including an announced partnership with music application Encore, in which the ARway platform is used as part of Encore's extended reality engine. This integration allows customers to use of the ARway's SDK to create an interactive experience for Encore's customers including the addition of audio keys and advertising enhancing the customer experience and influencing consumer behavior.

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Valuation attractive given meaningful revenue opportunity and path to profitability. We are valuing NEXCF shares at \$2.50, reflecting a 15.0x EV/revenue multiple on our 2023 revenue estimate of \$20.0M. Our \$2.50 price target represents approximately 200% upside from recent trading levels. A targeted 15.0x EV/revenue multiple represents a premium to other small capitalization technology peers operating within the augmented reality, virtual reality, and metaverse space. We view this as warranted in the near term as the business should begin to ramp quickly given recent partnership announcements and anticipated revenue generation. 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	2020A	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22A	2Q22A	3Q22E	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E
Revenue																	
Product Sales		13,933	6,009	4,431	4,580	4,226	19,245	2,988	2,681	1,603	2,113	9,385	1,195	1,073	641	1,004	3,913
Technology Services		3,418	1,350	1,371	931	1,643	5,296	37	35	760	880	1,712	1,700	1,990	2,350	2,880	8,920
Renewable software licenses		335	367	290	226	510	1,394	459	518	792	968	2,738	1,080	1,295	2,140	2,662	7,176
Gross revenue	4,004	17,686	7,727	6,092	5,738	6,379	25,935	3,484	3,235	3,155	3,961	13,835	3,975	4,357	5,131	6,545	20,008
Cost of revenue	1,656	7,835	4,412	3,799	3,936	3,949	16,096	2,001	1,546	1,609	1,941	7,097	1,948	1,917	2,155	2,618	8,638
Net revenue	2,348	9,851	3,314	2,293	1,801	2,430	9,839	1,483	1,688	1,546	2,020	6,738	2,027	2,440	2,976	3,927	11,370
Gross margin	58.6%	55.7%	42.9%	37.6%	31.4%	38.1%	37.9%	42.6%	52.2%	49.0%	51.0%	48.7%	51.0%	56.0%	58.0%	60.0%	56.8%
Operating expenses:																	
Sales and marketing	2,608	9,609	4,640	4,048	4,359	3,768	16,815	2,617	1,827	1,961	1,696	8,101	2,355	2,101	2,118	1,831	8,406
General and administrative	1,762	5,841	3,748	3,418	3,735	2,980	13,881	3,821	4,503	4,109	3,725	16,158	2,674	4,954	4,437	4,023	16,088
Research and development	721	3,592	1,793	1,331	1,864	1,624	6,612	1,027	880	559	487	2,954	1,130	933	593	531	3,187
Total costs and expenses	5,092	19,042	10,181	8,797	9,958	8,373	37,308	7,465	7,211	6,629	5,908	27,213	6,160	7,988	7,148	6,386	27,681
Operating income	(2,744)	(9,191)	(6,867)	(6,504)	(8,156)	(5,943)	(27,470)	(5,981)	(5,522)	(5,083)	(3,888)	(20,475)	(4,132)	(5,548)	(4,173)	(2,458)	(16,311)
EBITDA	(2,744)	(9,191)	(6,867)	(6,504)	(8,156)	(5,943)	(27,470)	(5,981)	(5,522)	(5,083)	(3,888)	(20,475)	(4,132)	(5,548)	(4,173)	(2,458)	(16,311)
EBITDA margin	-116.9%	-93.3%	-88.9%	-106.8%	-142.2%	-93.2%	-105.9%	-171.7%	-170.7%	-161.1%	-98.2%	-148.0%	-104.0%	-127.3%	-81.3%	-37.6%	-81.5%
Other expense (income)																	
Stock based compensation	391	5,665	2,403	556	(574)	2,646	5,030	579	878	600	400	2,457	600	700	800	800	2,900
Amortization	190	672	380	179	683	808	2,050	728	750	600	600	2,679	750	700	700	700	2,850
Right of use amortization	0	0	(219)	45	65	316	206	63	64	64	64	254	64	64	64	64	255
Gain on digital assets	0	0	28	0	0	(247)	(219)	0	0	0	0	0	0	0	0	0	0
Impairment	69	69	0	0	0	0	0	0	2,702	0	0	2,702	0	0	0	0	0
Loss on contingent consideration	0	0	0	(1,516)	102	(160)	(1,573)	0	0	0	0	0	0	0	0	0	0
Depreciation	22	83	0	32	37	64	133	37	37	40	40	154	40	40	40	40	160
Foreign exchange gain (loss)	10	10	(275)	53	(253)	207	(268)	447	(846)	0	0	(399)	0	0	0	0	0
Total other income	682	6,500	2,317	(650)	60	3,633	5,360	1,854	3,586	1,304	1,104	7,848	1,454	1,504	1,604	1,604	6,165
Income (loss) before income taxes	(3,426)	(15,691)	(9,184)	(5,854)	(8,217)	(9,575)	(32,829)	(7,835)	(9,108)	(6,387)	(4,992)	(28,323)	(5,586)	(7,051)	(5,776)	(4,062)	(22,476)
Income tax provision	0	97	0	0	0	177	177	(7)	(7)	0	0	(14)	0	0	0	0	0
Deferred income tax recovery								139	122								
Net Income	(3,426)	(15,594)	(9,184)	(5,854)	(8,217)	(9,397.9)	(32,652)	(7,703.5)	(9,115.4)	(6,387.0)	(4,991.9)	(28,337)	(5,586.1)	(7,051.5)	(5,776.5)	(4,062.2)	(22,476)
Net Income Margin %																	
Other comprehensive income:																	
Exchange difference on translating foreign operations	0	(253)	(52)	(65)	414	(69)	227	(25)	(25)	(25)	(25)	(99)	(25)	(25)	(25)	(25)	(99)
Comprehensive income (loss)	(3,426)	(15,846)	(9,236)	(5,919)	(7,803)	(9,467)	(32,425)	(7,728)	(9,140)	(6,412)	(5,017)	(28,436)	(5,611)	(7,076)	(5,801)	(4,087)	(22,575)
Basic Earnings Per Share	(\$0.06)	(\$0.23)	(\$0.12)	(\$0.07)	(\$0.09)	(\$0.11)	(\$0.39)	(\$0.08)	(\$0.09)	(\$0.06)	(\$0.05)	(\$0.28)	(\$0.06)	(\$0.07)	(\$0.06)	(\$0.04)	(\$0.22)
Diluted Earnings Per Share	(\$0.06)	(\$0.23)	(\$0.12)	(\$0.07)	(\$0.09)	(\$0.11)	(\$0.39)	(\$0.08)	(\$0.09)	(\$0.06)	(\$0.05)	(\$0.28)	(\$0.06)	(\$0.07)	(\$0.06)	(\$0.04)	(\$0.22)
Average Shares Outstanding (Basic)	58,291	68,657	77,490	82,298	86,125	89,641	83,888	97,551	99,725	100,224	100,725	99,556	101,229	101,735	102,243	102,755	101,990
Average Shares Outstanding (Diluted)	58,291	68,657	77,490	82,298	86,125	89,641	83,888	97,551	99,725	100,224	100,725	99,556	101,229	101,735	102,243	102,755	101,990
Operating Metrics																	
Revenue Growth	n/a	319.6%	145.9%	5.7%	-39.1%	-28.0%	-0.1%	-55.2%	-26.4%	-14.2%	-16.9%	-31.5%	36.7%	44.5%	92.5%	94.4%	68.8%
Price	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83	\$0.83
Market Capitalization (CAD\$000s)	\$48,381	\$62,714	\$64,316	\$68,308	\$71,484	\$74,402	\$74,402	\$80,967	\$82,772	\$83,186	\$83,602	\$83,602	\$84,020	\$84,440	\$84,862	\$85,286	\$85,286
Enterprise Value (CAD\$000s)	\$45,532	\$52,029	\$56,416	\$52,913	\$63,225	\$67,255	\$67,255	\$70,185	\$75,709	\$81,467	\$86,186	\$86,186	\$91,453	\$97,788	\$103,090	\$106,883	\$106,883
Price-to-Earnings	n/a	-3.8x	-2.6x	-1.8x	-1.9x	-2.1x	-2.1x	-2.4x	-2.3x	-2.4x	-2.9x	-2.9x	-3.2x	-3.5x	-3.6x	-3.8x	-3.8x
EV to EBITDA	-16.6x	-4.8x	-3.8x	-2.6x	-2.2x	-2.4x	-2.4x	-2.6x	-3.0x	-3.6x	-4.2x	-4.2x	-4.9x	-5.2x	-5.8x	-6.6x	-6.6x
Shareholders Equity	7,066	22,419	17,399	32,668	25,467	24,262	24,262	26,766	18,811	13,227	9,047	9,047	4,281	-1,943	-6,883	-10,101	-10,101
Net Debt	(2,849)	(10,685)	(7,900)	(15,395)	(8,259)	(7,146)	(7,146)	(10,782)	(7,063)	(1,718)	2,585	2,585	7,433	13,349	18,228	21,597	21,597

Source: Factset as of October 25, 2022 and H.C. Wainwright & Co. estimates.

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Distribution of Ratings Table as of October 25, 2022

Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	577	88.63%	125	21.66%
Neutral	61	9.37%	7	11.48%
Sell	0	0.00%	0	0.00%
Under Review	13	2.00%	3	23.08%

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