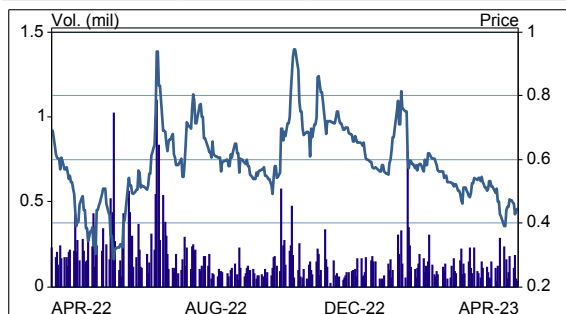


NexTech AR Solutions Corp. (NEXCF)
Rating: Buy

 Scott Buck
 212-856-5730
sbuck@hcwresearch.com
2022 Results Highlight 3D Modeling Momentum, Toggle3D Spinout Should Unlock Additional Value; Reit. Buy, \$2.50 PT

Stock Data		04/20/2023		
Price		\$0.44		
Exchange		OTC		
Price Target		\$2.50		
52-Week High		\$1.02		
52-Week Low		\$0.24		
Enterprise Value (M)		\$40		
Market Cap (M)		\$45		
Shares Outstanding (M)		102.6		
3 Month Avg Volume		135,004		
Balance Sheet Metrics				
Cash (M)		\$5.3		
Total Debt (M)		\$0.0		
Total Cash/Share		\$0.05		
EPS (\$) Adjusted				
Full Year - Dec	2021A	2022E	2023E	
1Q	(0.12)	(0.08)A	(0.06)	
2Q	(0.07)	(0.09)A	(0.06)	
3Q	(0.09)	(0.04)A	(0.04)	
4Q	(0.11)	(0.06)	(0.04)	
FY	(0.39)	(0.29)	(0.21)	
Revenue (C\$M)				
Full Year - Dec	2021A	2022E	2023E	
1Q	7.7	3.5A	1.5	
2Q	6.1	3.2A	2.7	
3Q	5.7	3.0A	5.0	
4Q	6.4	1.5	5.8	
FY	25.9	10.3	15.0	
EBITDA (\$) Adjusted				
Full Year - Dec	2021A	2022E	2023E	
1Q	(4.5)	(6.0)A	(4.9)	
2Q	(6.0)	(5.5)A	(4.8)	
3Q	(8.7)	(4.1)A	(2.6)	
4Q	(5.9)	(5.0)	(2.3)	
FY	(27.5)	(21.6)	(14.7)	



Expect 3D model revenue to scale meaningfully on new and existing customer contracts. After the market close on April 20, 2023, NexTech3D.ai announced 4Q22 and full year 2022 unaudited operating results. Fourth quarter revenue exceeded our expectations, driven by continued demand for the company's 3D modeling products. This momentum has seemingly continued through 1Q23 and should result in accelerating revenue growth through the remainder of 2023. Growth is being driven by recently announced large enterprise contracts, including Amazon.com, Inc. (AMZN; not rated) and Target Corporation (TGT; not rated). With the e-commerce industry exceeding C\$5.0T, we believe there is a significant opportunity for NexTech3D.ai to grow wallet share within the current customer footprint as well as add new enterprise 3D model customers over time. As the 3D modeling business continues to scale, investors should see gross margins move towards 90.0%, potentially as early as 4Q23. Coupled with recent operating expense reductions, investors may begin to extrapolate a path to profitability and cash generation in the near term. Further, we believe the spinout of Toggle3D, expected in June 2023, could also unlock value for NexTech shareholders. As results are unaudited, we are not making changes to our model at this time. Audited results should be filed next week. We recommend investors take advantage of this period of business transition to accumulate NEXCF shares at a meaningful discount and ahead of accelerating revenue growth during 2023.

Operating results. The company reported 2022 revenue of C\$11.5M, above our C\$10.3M estimate. Higher than expected revenue was the result of better than expected sales from the legacy ecommerce business as well as higher than modeled technology service revenue. Technology service revenue was C\$3.2M for 2022. Importantly, gross margin for technology services, the company's growth driver going forward, was 51.0% above 28.0% in 2021. As the business scales, we believe gross margins can reach as high as 90.0%, potentially as early as 4Q23. Operating expenses totaled C\$22.3M, down sequentially from C\$26.7M in 2021. We attribute the decline to ongoing cost discipline as well as the October 2022 spinout of Arway Corp. The company ended the quarter with approximately C\$3.8M of available cash and a C\$12.0M position in Arway Corp. shares.

Toggle3D spinout on track, should unlock additional value for NexTech shareholders. On April 6, 2023, the company announced an arrangement agreement setting out the terms to which Nextech will complete the spinout of wholly owned subsidiary Toggle3D. Toggle3D is an AR enhanced web application enabling designers, artists, and marketing professionals, to customize and publish high-quality 3D models and experiences without any technical or 3D design knowledge required. As of early April 2023, Toggle3D had more than 1,300 users. Under the terms of the agreement, NexTech will retain an aggregate of 16.0M shares while 4.0M shares will be distributed directly to NexTech shareholders. This is a similar structure to NexTech's spinout of Arway Corp. (ARWY-CA; not rated) last year. We believe this spinout should unlock value to NexTech shareholders, which may not be getting any credit for the Toggle3D business. The spinout is to be completed within the next 60 days.



Valuation attractive given meaningful revenue growth opportunity and path to profitability. We are valuing NEXCF shares at \$2.50, reflecting a 20.0x EV/revenue multiple on our current 2023 revenue estimate of \$15.0M. Our \$2.50 price target represents approximately 450.0% upside from recent trading levels. A targeted 20.0x 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 2023 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	3Q22A	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	2,092	415	7,225	0	0	0	0	0
Technology Services		3,418	1,350	1,371	931	1,643	5,296	37	35	46	55	173	72	105	145	245	567
Renewable software licenses		335	367	290	226	510	1,394	459	518	875	1,011	2,863	1,447	2,589	4,813	5,560	14,409
Gross revenue	4,004	17,686	7,727	6,092	5,738	6,379	25,935	3,484	3,235	3,012	1,481	10,261	1,519	2,694	4,958	5,805	14,976
Cost of revenue	1,656	7,835	4,412	3,799	3,936	3,949	16,096	2,001	1,546	1,668	833	6,049	669	1,132	1,983	2,206	5,989
Net revenue	2,348	9,851	3,314	2,293	1,801	2,430	9,839	1,483	1,688	1,344	648	4,212	851	1,563	2,975	3,599	8,987
Gross margin	58.6%	55.7%	42.9%	37.6%	31.4%	38.1%	37.9%	42.6%	52.2%	44.6%	43.8%	41.1%	56.0%	58.0%	60.0%	62.0%	60.0%
Operating expenses:																	
Sales and marketing	2,608	9,609	4,640	4,048	4,359	3,768	16,815	2,617	1,827	1,703	1,696	7,842	1,963	1,644	1,618	1,730	6,954
General and administrative	1,762	5,841	3,748	3,418	3,735	2,980	13,881	3,821	4,503	2,592	2,831	13,747	2,674	3,828	2,722	2,973	12,197
Research and development	721	3,592	1,793	1,331	1,864	1,624	6,612	1,027	880	1,157	1,137	4,202	1,130	933	1,227	1,239	4,529
Total costs and expenses	5,092	19,042	10,181	8,797	9,958	8,373	37,308	7,465	7,211	5,452	5,664	25,792	5,767	6,405	5,566	5,942	23,680
Operating income	(2,744)	(9,191)	(6,867)	(6,504)	(8,156)	(5,943)	(27,470)	(5,981)	(5,522)	(4,108)	(5,016)	(21,579)	(4,916)	(4,842)	(2,592)	(2,343)	(14,693)
EBITDA	(2,744)	(9,191)	(6,867)	(6,504)	(8,156)	(5,943)	(27,470)	(5,981)	(5,522)	(4,108)	(5,016)	(21,579)	(4,916)	(4,842)	(2,592)	(2,343)	(14,693)
EBITDA margin	-116.9%	-93.3%	-88.9%	-106.8%	-142.2%	-93.2%	-105.9%	-171.7%	-170.7%	-136.4%	-338.7%	-210.3%	-323.6%	-179.7%	-52.3%	-40.4%	-98.1%
Other expense (income)																	
Stock based compensation	391	5,665	2,403	556	(574)	2,646	5,030	579	878	311	400	2,168	600	700	800	800	2,900
Amortization	190	672	380	179	683	808	2,050	728	750	597	600	2,676	750	700	700	700	2,850
Right of use amortization	0	0	(219)	45	65	316	206	63	64	78	78	282	78	78	78	78	310
Gain on digital assets	0	0	28	0	0	(247)	(219)	0	0	(91)	0	(91)	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	37	40	151	40	40	40	40	160
Foreign exchange gain (loss)	10	10	(275)	53	(253)	207	(268)	447	(846)	(567)	0	(966)	0	0	0	0	0
Total other income	682	6,500	2,317	(650)	60	3,633	5,360	1,854	3,586	366	1,118	6,923	1,468	1,518	1,618	1,618	6,220
Income (loss) before income taxes	(3,426)	(15,691)	(9,184)	(5,854)	(8,217)	(9,575)	(32,829)	(7,835)	(9,108)	(4,474)	(6,133)	(28,503)	(6,384)	(6,360)	(4,209)	(3,960)	(20,914)
Income tax provision	0	97	0	0	0	177	177	(7)	(7)	(7)	0	(21)	0	0	0	0	0
Deferred income tax recovery								139	122	127							
Net Income	(3,426)	(15,594)	(9,184)	(5,854)	(8,217)	(9,397.9)	(32,652)	(7,703.5)	(9,115.4)	(4,354.7)	(6,133.5)	(28,524)	(6,383.8)	(6,360.0)	(4,209.4)	(3,960.2)	(20,914)
Net Income Margin %																	
Other comprehensive income:																	
Exchange difference on translating foreign operations	0	(253)	(52)	(65)	414	(69)	227	(25)	(25)	(183)	(183)	(416)	(183)	(183)	(183)	(183)	(734)
Comprehensive income (loss)	(3,426)	(15,846)	(9,236)	(5,919)	(7,803)	(9,467)	(32,425)	(7,728)	(9,140)	(4,538)	(6,317)	(28,940)	(6,567)	(6,544)	(4,393)	(4,144)	(21,647)
Basic Earnings Per Share	(\$0.06)	(\$0.23)	(\$0.12)	(\$0.07)	(\$0.09)	(\$0.11)	(\$0.39)	(\$0.08)	(\$0.09)	(\$0.04)	(\$0.06)	(\$0.29)	(\$0.06)	(\$0.06)	(\$0.04)	(\$0.04)	(\$0.21)
Diluted Earnings Per Share	(\$0.06)	(\$0.23)	(\$0.12)	(\$0.07)	(\$0.09)	(\$0.11)	(\$0.39)	(\$0.08)	(\$0.09)	(\$0.04)	(\$0.06)	(\$0.29)	(\$0.06)	(\$0.06)	(\$0.04)	(\$0.04)	(\$0.21)
Average Shares Outstanding (Basic)	58,291	68,657	77,490	82,298	86,125	89,641	83,888	97,551	99,725	98,641	99,134	98,763	99,630	100,128	100,629	101,132	100,380
Average Shares Outstanding (Diluted)	58,291	68,657	77,490	82,298	86,125	89,641	83,888	97,551	99,725	98,641	99,134	98,763	99,630	100,128	100,629	101,132	100,380
Operating Metrics																	
Revenue Growth	n/a	319.6%	145.9%	5.7%	-39.1%	-28.0%	-0.1%	-55.2%	-26.4%	-25.4%	-73.3%	-57.2%	-42.6%	-7.4%	121.3%	455.4%	113.3%
Price	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44	\$0.44
Market Capitalization (CAD\$000s)	\$25,648	\$33,246	\$34,095	\$36,211	\$37,895	\$39,442	\$39,442	\$42,922	\$43,879	\$43,402	\$43,619	\$43,619	\$43,837	\$44,056	\$44,277	\$44,498	\$44,498
Enterprise Value (CAD\$000s)	\$22,799	\$22,561	\$26,195	\$20,816	\$29,636	\$32,296	\$32,296	\$32,141	\$36,816	\$38,124	\$39,842	\$39,842	\$44,815	\$50,255	\$53,841	\$57,723	\$57,723
Price-to-Earnings	n/a	-2.0x	-1.4x	-0.9x	-1.0x	-1.1x	-1.1x	-1.3x	-1.2x	-1.4x	-1.6x	-1.6x	-1.7x	-1.9x	-1.9x	-2.1x	-2.1x
EV to EBITDA	-8.3x	-2.1x	-1.7x	-1.0x	-1.0x	-1.2x	-1.2x	-1.2x	-1.4x	-1.8x	-1.9x	-1.9x	-2.3x	-2.7x	-3.1x	-3.9x	-3.9x
Shareholders Equity	7,066	22,419	17,399	32,668	25,467	24,262	24,262	26,766	18,811	16,524	13,209	13,209	7,658	2,139	-1,221	-4,323	-4,323
Net Debt	(2,849)	(10,685)	(7,900)	(15,395)	(8,259)	(7,146)	(7,146)	(10,782)	(7,063)	(5,279)	(3,777)	(3,777)	978	6,199	9,565	13,225	13,225

Source: Factset as of April 20, 2023 and H.C. Wainwright & Co. estimates.

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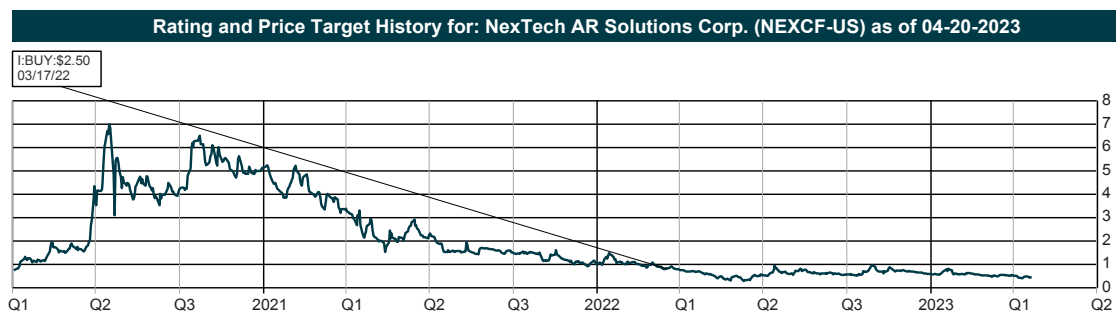
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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	560	87.91%	130	23.21%
Neutral	63	9.89%	11	17.46%
Sell	0	0.00%	0	0.00%
Under Review	14	2.20%	3	21.43%

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