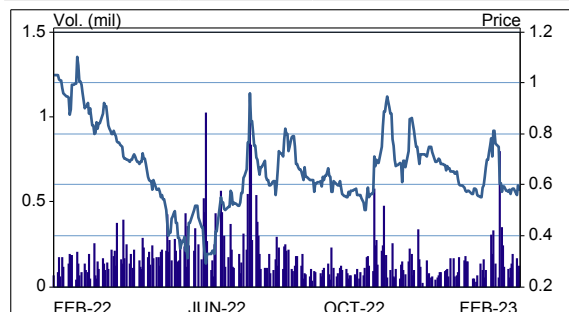


NexTech AR Solutions Corp. (NEXCF)
Rating: Buy

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Business Momentum Highlighted by Substantial New 3D Modeling Contract, Expect More to Come; Reit. Buy, \$2.50 PT

| Stock Data | | 02/09/2023 | | |
|------------------------|--------|------------|--------|---------|
| Price | | | | \$0.62 |
| Exchange | | | | OTC |
| Price Target | | | | \$2.50 |
| 52-Week High | | | | \$1.13 |
| 52-Week Low | | | | \$0.25 |
| Enterprise Value (M) | | | | \$58 |
| Market Cap (M) | | | | \$63 |
| Shares Outstanding (M) | | | | 102.6 |
| 3 Month Avg Volume | | | | 135,467 |
| 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) | |



Announced modeling contract increases our confidence in company's ability to meet, or exceed, lofty expectations. On February 9, Nextech AR Solutions Corp. announced a new modeling contract with a top 10 e-commerce retailer in the United States. The contract calls for more than 10,000 3D models to be delivered in 2023 and has significant expansion opportunities that could be realized beginning in 2H23. We believe this contract could be worth more than \$1.0M of revenue in 2023 and increase in subsequent years. In addition, the company expects to announce additional new enterprise contracts from major retailers during 1Q23, suggesting positive business momentum should continue near term. The global e-commerce ecosystem is valued at \$5.5T, suggesting a near infinite pool in which NexTech can continue to sell 3D models. With this new contract and previously announced work for Amazon.com (AMZN; not rated), we believe the company's 3D modeling products have reached a level of adoption and credibility that should make additional sales easier, and shorten the sales cycle. As NexTech exits its legacy e-commerce business, we believe investors should get a better look at the high margin 3D modeling business on a standalone basis, despite lower total revenue in the near term. At 60%-plus margins, we believe revenue growth and recent operating expense reductions should result in significant operating leverage and potentially positive adj. EBITDA and cash flow as early as 2H23. We recommend investors take advantage of this period of business transition to accumulate NEXCF shares at what we view as a meaningful discount ahead of improving operating results.

No change to estimates, price target remains \$2.50. We are not making any changes to our forward estimates. We continue to model 2023 revenue of C\$15.0M, up from C\$10.3M in 2022. Importantly, all 2023 revenue is being derived from higher margin modeling and technology services rather than legacy e-commerce product sales. We are currently modeling 60% gross margin for 2023, which we believe may prove to be conservative as the 3D modeling business continues to scale and the company improves efficiencies. As scale benefits improve, we believe the company should be headed generating annual positive adj. EBITDA and positive cash flow as early as 2024. We believe investors are likely to respond favorably to improving financial results, driving NEXCF shares towards our \$2.50 price target.

Valuation attractive given meaningful revenue growth and improving visibility on profitability. We are valuing NEXCF shares at \$2.50. Our price target reflects the current \$12.0M value on Nextech's ownership position in publicly traded ARWayF Corp (ARWYF; not rated) as well as an approximately 20.0x EV/revenue multiple on our 2023 revenue estimate of \$15.0M. Our \$2.50 price target represents approximately 300.0% upside from recent trading levels. 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.

H.C. Wainwright 1868

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 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 | \$0.62 |
| Market Capitalization (CAD\$000s) | \$36,140 | \$46,846 | \$48,044 | \$51,025 | \$53,398 | \$55,577 | \$55,577 | \$60,482 | \$61,830 | \$61,158 | \$61,463 | \$61,463 | \$61,771 | \$62,080 | \$62,390 | \$62,702 | \$62,702 |
| Enterprise Value (CAD\$000s) | \$33,291 | \$36,161 | \$40,144 | \$35,630 | \$45,139 | \$48,431 | \$48,431 | \$49,700 | \$54,766 | \$55,879 | \$61,070 | \$61,070 | \$66,976 | \$72,543 | \$76,244 | \$79,991 | \$79,991 |
| Price-to-Earnings | n/a | -2.8x | -1.9x | -1.3x | -1.4x | -1.6x | -1.6x | -1.8x | -1.7x | -1.9x | -2.2x | -2.2x | -2.4x | -2.7x | -2.7x | -3.0x | -3.0x |
| EV to EBITDA | -12.1x | -3.3x | -2.7x | -1.8x | -1.6x | -1.8x | -1.8x | -1.9x | -2.1x | -2.6x | -3.0x | -3.0x | -3.4x | -3.8x | -4.4x | -5.4x | -5.4x |
| Shareholders Equity | 7,066 | 22,419 | 17,399 | 32,668 | 25,467 | 24,262 | 24,262 | 26,766 | 18,811 | 16,524 | 11,213 | 11,213 | 5,659 | 137 | -3,225 | -6,330 | -6,330 |
| Net Debt | (2,849) | (10,685) | (7,900) | (15,395) | (8,259) | (7,146) | (7,146) | (10,782) | (7,063) | (5,279) | (393) | (393) | 5,205 | 10,464 | 13,854 | 17,289 | 17,289 |

Source: Factset as of February 9, 2023 and H.C. Wainwright & Co. estimates.

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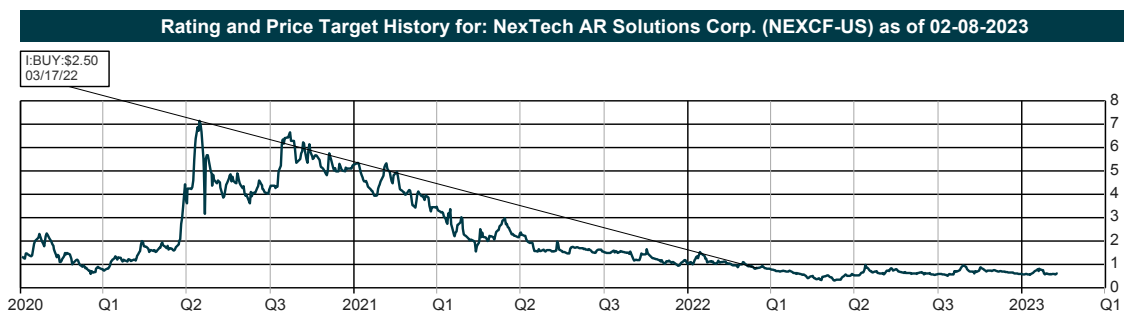
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Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

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| Distribution of Ratings Table as of February 8, 2023 | | | | |
|--|-------|---------|---------------------------|---------|
| Ratings | Count | Percent | IB Service/Past 12 Months | |
| | | | Count | Percent |
| Buy | 582 | 86.74% | 131 | 22.51% |
| Neutral | 71 | 10.58% | 11 | 15.49% |
| Sell | 0 | 0.00% | 0 | 0.00% |
| Under Review | 18 | 2.68% | 4 | 22.22% |

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