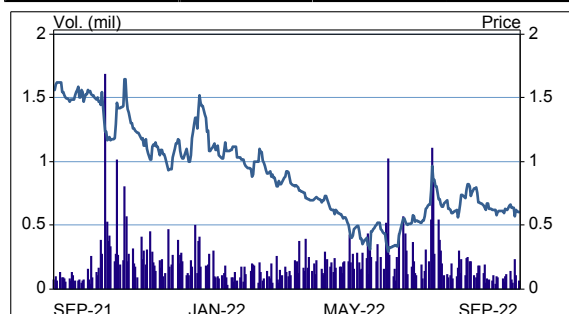


**NexTech AR Solutions Corp. (NEXCF)**  
Rating: Buy

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

**Large Enterprise Product Order Announced, Demand for 3D Models Driving Meaningful Revenue Ramp; Maintain Buy, \$2.50 PT**

Stock Data		09/20/2022		
Price				\$0.60
Exchange				OTC
Price Target				\$2.50
52-Week High				\$1.74
52-Week Low				\$0.25
Enterprise Value (M)				\$54
Market Cap (M)				\$61
Shares Outstanding (M)				101.3
3 Month Avg Volume				202,860
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)	



**Company well positioned to benefit from increasing demand for 3D models.** Before the market open on September 20, NexTech AR Solutions Corp. announced a large purchase order to supply 7,500 3D models for an enterprise customer. The company has already delivered approximately 50% of this order with the remaining half to be delivered during 4Q22. Based on our pricing assumptions, we believe these 7,500 models could be worth as much as \$500.0K of revenue and perhaps more importantly should serve as a powerful marketing tool as NexTech looks to sign additional large enterprise customers as well as increase wallet share in the current customer footprint. Also, in the most recent release, NexTech indicated it is in negotiations with other large enterprise customers with deal sizes potentially larger than this most recent announcement. We believe the ramp in new business should begin to show in 3Q22 results, however, the most significant revenue growth is likely to come beginning in 2023. Given the scalability of the model, we believe investors should expect significant operating leverage, especially as the company exits its lower margin retail business, potentially driving positive adj. EBITDA as early as 2H23. We recommend investors take advantage of recent weakness in NEXCF shares ahead of these improving financial performance.

**Benefits of 3D modeling for ecommerce clear, should drive multi-year demand.** While still somewhat in its infancy, the use of 3D models for ecommerce has shown meaningful benefits to both consumers and retailers. While not appropriate for every item sold online, the number of potential use cases is significant. Consumers can “test” a piece of furniture or art in their home, look at a potential purse before purchasing, or even place a watch on their wrist, without visiting a brick and mortar store. According to Shopify, Inc. (SHOP, not rated) 3D augmented reality product models have proven to generate a 94.0% increase in conversions and have resulted in a 40.0% reduction in costly returns. On some products, conversion rates have increased by as much as 250.0%. As a result, the market for 3D models is expected to grow to \$7.6B by 2025, representing a CAGR of 15.0% from 2020 levels. As demand for 3D and augmented reality products for ecommerce continues to grow, we believe NexTech is well positioned to be a key beneficiary of these favorable secular trends.

**ARway spinout remains on track for later this year.** In June, 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, expected to be approximately 4.0%. The spin is expected to be completed by late October as the company has received conditional listing approval from the Canadian Securities Exchange. 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.

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 15.0x EV/revenue multiple on our 2023 revenue estimate of \$20.0M. Our \$2.50 price target represents approximately 315.0% 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 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	3Q22E	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E
<b>Revenue</b>																	
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%
<b>Operating expenses:</b>																	
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)
<b>EBITDA</b>	<b>(2,744)</b>	<b>(9,191)</b>	<b>(6,867)</b>	<b>(6,504)</b>	<b>(8,156)</b>	<b>(5,943)</b>	<b>(27,470)</b>	<b>(5,981)</b>	<b>(5,522)</b>	<b>(5,083)</b>	<b>(3,888)</b>	<b>(20,475)</b>	<b>(4,132)</b>	<b>(5,548)</b>	<b>(4,173)</b>	<b>(2,458)</b>	<b>(16,311)</b>
<b>EBITDA margin</b>	<b>-116.9%</b>	<b>-93.3%</b>	<b>-88.9%</b>	<b>-106.8%</b>	<b>-142.2%</b>	<b>-93.2%</b>	<b>-105.9%</b>	<b>-171.7%</b>	<b>-170.7%</b>	<b>-161.1%</b>	<b>-98.2%</b>	<b>-148.0%</b>	<b>-104.0%</b>	<b>-127.3%</b>	<b>-81.3%</b>	<b>-37.6%</b>	<b>-81.5%</b>
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)
<b>Basic Earnings Per Share</b>	<b>(\$0.06)</b>	<b>(\$0.23)</b>	<b>(\$0.12)</b>	<b>(\$0.07)</b>	<b>(\$0.09)</b>	<b>(\$0.11)</b>	<b>(\$0.39)</b>	<b>(\$0.08)</b>	<b>(\$0.09)</b>	<b>(\$0.06)</b>	<b>(\$0.05)</b>	<b>(\$0.28)</b>	<b>(\$0.06)</b>	<b>(\$0.07)</b>	<b>(\$0.06)</b>	<b>(\$0.04)</b>	<b>(\$0.22)</b>
<b>Diluted Earnings Per Share</b>	<b>(\$0.06)</b>	<b>(\$0.23)</b>	<b>(\$0.12)</b>	<b>(\$0.07)</b>	<b>(\$0.09)</b>	<b>(\$0.11)</b>	<b>(\$0.39)</b>	<b>(\$0.08)</b>	<b>(\$0.09)</b>	<b>(\$0.06)</b>	<b>(\$0.05)</b>	<b>(\$0.28)</b>	<b>(\$0.06)</b>	<b>(\$0.07)</b>	<b>(\$0.06)</b>	<b>(\$0.04)</b>	<b>(\$0.22)</b>
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
<b>Operating Metrics</b>																	
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	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
Market Capitalization (CAD\$000s)	\$34,975	\$45,335	\$46,494	\$49,379	\$51,675	\$53,784	\$53,784	\$58,531	\$59,835	\$60,134	\$60,435	\$60,435	\$60,737	\$61,041	\$61,346	\$61,653	\$61,653
Enterprise Value (CAD\$000s)	\$32,125	\$34,650	\$38,594	\$33,984	\$43,416	\$46,638	\$46,638	\$47,749	\$52,772	\$58,416	\$63,020	\$63,020	\$68,170	\$74,389	\$79,574	\$83,250	\$83,250
Price-to-Earnings	n/a	-2.7x	-1.8x	-1.3x	-1.4x	-1.5x	-1.5x	-1.7x	-1.6x	-1.8x	-2.1x	-2.1x	-2.3x	-2.5x	-2.6x	-2.7x	-2.7x
EV to EBITDA	-11.7x	-3.2x	-2.6x	-1.7x	-1.5x	-1.7x	-1.7x	-1.8x	-2.1x	-2.6x	-3.1x	-3.1x	-3.7x	-4.0x	-4.5x	-5.1x	-5.1x
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 September 20, 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 September 19, 2022**

Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	578	87.98%	136	23.53%
Neutral	65	9.89%	7	10.77%
Sell	1	0.15%	0	0.00%
Under Review	13	1.98%	2	15.38%

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The Firm does not make a market in NexTech AR Solutions Corp. as of the date of this research report.

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