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Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

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NexTech AR Solutions (OTCQB: NEXCF)

Jolokia Adds to Q2 Revenue Growth

Based on an average EV to estimated 2020 EV/sales multiple of 22.1xs, we believe NexTech stock could be worth $7.34 per share by 2021 if it can achieve our forecasts.

Current Price (08/28/20)	US$4.45
Valuation	**US$7.34**

OUTLOOK

NexTech AR is a technology start-up and a unique public company pure play investment in Augmented Reality. It does not produce hardware, but rather uses AR to improve eCommerce results for customers as well as its company-owned sites. Its newly acquired Inferno platform allows remote learning, virtual trade shows, and high-end conferencing features integrated with augment reality and is garnering great interest. As one of the first movers in a multi-billion dollar market growing at almost 300% per year, NexTech should be able to grow rapidly as this nascent market explodes.

SUMMARY DATA

52-Week High	**$7.14**
52-Week Low	**$0.44**
One-Year Return (%)	**799**
Beta	**4.3**
Average Daily Volume (sh)	**295,126**
Shares Outstanding (mil)	**73.0**
Market Capitalization ($mil)	**325**
Short Interest Ratio (days)	**1.0**
Institutional Ownership (%)	**0.0**
Insider Ownership (%)	**13.7**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2020 Estimate	**N/M**
P/E using 2021 Estimate	**N/M**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small Growth**
Industry	**IT Services**

ZACKS ESTIMATES

Revenue
(in millions of CAN$)

	Q1 (Mar)	Q2 (June)	Q3 (Sept)	Q4 (Dec)	Year (Dec)
2018	0.0 A	0.0 A	0.0 A	0.9 A	0.9 A
2019	0.9 A	0.9 A	N/A	N/A	6.0 E
2020	2.5 A	3.5 A	5.0 E	7.1 E	18.2 E
2021					31.0 E

EPS
(GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sept)	Q4 (Dec)	Year (Dec)
2018	N/A	N/A	N/A	N/A	N/A
2019	-$0.03 A	-$0.02 A	N/A	N/A	N/A
2020	-$0.02 A	-$0.04 A	-$0.01 E	$0.01 E	-$0.05 E
2021					$0.03 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

Q2 Revenues Grow 133% as Jolokia Adds $345,000 to the Quarter

NexTech announced Q2 revenues of $3.5 million, up 133% over last year and 40.5% sequentially. $345,425 of that growth came from the acquisition of Jolokia on April 30, 2020 (or two months of sales.) Those Jolokia sales contributed $110,520 in profit. This was 9.8% of total sales. Many deals NexTech signed in the quarter are for events that occur in future quarters so activity in Q2 may show up in Q3 or even later. Contracts are not be booked as revenues until the customer has completed the event or trade show for which the deal was signed. Given this, for the first time the company has start reporting bookings and backlog giving investors an indication of future revenues. In Q2 bookings were $3.6 million and backlog was $100,082. On the earnings call management said it believes it could reach $5 million in total sales in Q3 2020.

Gross margins were 61.5% of revenues or $2.2 million compared to 41.0% and $371,821 a year ago and 54.1% or $1.3 million in Q1 2020.

Operating expenses were $4.2 million including a small $72,000 one-time charge for the acquisition of Jolokia. The biggest increase was in G&A as staffing ramped and Jolokia costs were added. The operating loss and net loss were both $2.0 million compared to $924,000 a year ago and $1.4 million in Q1 2020.

Primary shares outstanding were 65.7 million for the period, up 22%, but now stand at 73.0 million after the most recent capital raise.

Balance Sheet Update

NexTech ended the June quarter with $6.4 million in cash, working capital of $5.6 million, and no debt or convertible debentures. On August 20, 2020, NexTech closed a deal selling units consisting of one share of stock with a warrant for one half of one share of stock. This offering was for **2,035,000 units** at a price of CN$6.50 per unit for gross proceeds of $13.2 million, yielding $12.3 million in net proceeds. These warrants are exercisable at CN$8.00 for a period of 24 months, subject to an accelerated expiry if the volume-weighted average price of the stock exceeds $11.00 for 15 consecutive trading days. The cash is to be used for general corporate purposes. There is also a 15% green shoe for the underwriters to sell. As of August 25, 2020 the company had 72,963,957 primary shares outstanding.

KEY POINTS

- NexTech AR is a small, B2B startup based in Toronto that was formed to provide services for, and invest in, businesses using Augmented Reality (AR) and hologram technologies. These technologies are used to improve sales and profits for eCommerce sites, and other verticals such as entertainment and education. This technology converts two-dimensional images of real objects and people into three dimensions using scanners and software. Using AR is a proven way to boost sales and reduce returns in eCommerce, and provides an engaging, economic way to provide information in the education and training space.

- Augmented Reality (AR) is just beginning to make its way into mainstream use and the market is exploding. NexTech AR is the only public pure play we know of that is providing services to allow companies to use AR in marketing and advertising their goods. At a small price to vendors per

month per SKU, adoption of just a tiny percent of the trillions of products sold worldwide will create a massive revenue stream for NexTech AR.

- The company is currently has four sources of revenue:
  - Its newest and most popular offering comes from its April acquisition of Jolokia. It provided the Inferno AR platform that allows remote meetings integrated with augmented reality with more security and features than available from mainstream video conferencing platforms, but will work with them seamlessly. It has garnered huge interest and by increased sales and marketing efforts is growing rapidly.
  - A SaaS offering to businesses that places AR renderings created by NexTech AR, or by the customer themselves, for use on their shopping websites and mobile apps, or in ad campaigns. ECommerce customers are charged a monthly fee based on the number of SKUs.
  - A new AR ad network to allow customers to place their AR content in advertisements with one stop shopping.
  - An eCommerce business that is driven by the use of AR and holograms in its marketing. This business still generates most of the revenues for the company and its main web site sells vacuum cleaners and accessories. It recently has started to expand the number of brands it carries. It uses these web sites primarily for in house testing, and cash flow generation but we could see the company ultimately reselling them or spinning them off later at higher valuations.
- With a nascent market projected to increase by 289% per year over the next five years, NexTech as a unique public pure play that could deserve a higher valuation. It currently trades at an enterprise value of US $311 million or 23.0xs projected 2020 calendar sales of US$13.5 million or 13.8xs estimated 2021 sales US$22.5 million.

OVERVIEW

The NexTechAR Platform

NexTech offers a web-enabled augmented reality (AR) platform with Artificial Intelligence (AI) and analytics to a variety of vertical market industries via a SaaS model. It integrates with Shopify, Magento, and Wordpress, and offers eCommerce sites a universal 3D shopping solution. With just a few lines of embed code, the company's patent-pending platform offers the most technologically advanced 3D AR/AI technology anywhere. The company believes it has created the AR industry's first end-to-end affordable, intelligent, frictionless, scalable platform. NexTech provides the **only platform that works with both IOS and Android**. It also provides a complete solution which can include image capture to turn objects into 3D, customer self publishing, hosting, and provides the ability to add AR images through the addition of a single line of JavaScript.

The InfernoAR Platform

This platform, acquired in the April purchase of Jolokia, is used to integrate augmented reality capabilities into video conferencing. The platform works with almost all the major conferencing services and with 3D capabilities is ideally suited to replace in person meetings that require visuals such as product introductions, trade shows, and certain learning environments.

VALUATION

As a start-up, NexTech is difficult to value given its unique position as a public company with no others doing what it does. If we look to value it as an eCommerce business, there are few companies out there with the growth NexTech AR is showing. The eCommerce business is profitable and cash flow positive and helps NexTech keep down the need to raise cash. NexTech is also valuable as an acquisition candidate given its first mover position. Third, we expect that given its business model, it should be profitable in the next few quarters and could be highly profitable next year versus the other companies we are using as comps.

We have taken a group of companies involved in augmented reality as well as companies that provide conferencing like Jolokai. At current valuations we get an average of 22.1 times EV/2020 Sales. So using US$23.6 million for 2021 estimated sales, and a 22.1 multiple, by next year NexTech could be worth an enterprise value as high as US$522 million or a market value of $536 million. Dividing by the current share count of 73 million, this would be a market value of US$7.34 per share or CN$9.65 per share.

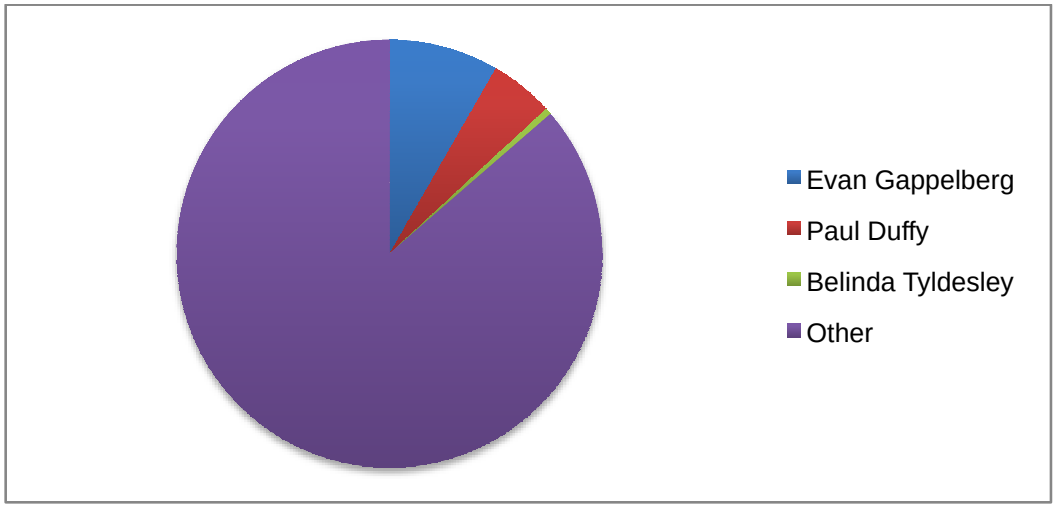
Company	Ticker	Calendar Revenue 2021E	Calendar Revenue 2020E	LTM	EBIDTA Margin	Enterprise Value / Sales 2021E	2020E	LTM	Included in Average?	Enterprise Value
Slack	WORK	1,140	871	697	-81%	15.2	19.9	24.9	y	17,338
Snap	SNAP	3,010	2,190	1,920	-47%	10.6	14.6	16.6	y	31,880
WiMi Hologram Cloud	WIMI	83	61	46	43%	5.8	7.9	10.5	y	482
Zoom	ZM	2,280	1,810	829	8%	36.6	46.1	100.6	y	83,420
Average						17.1	22.1	38.2		26,655

Source data: Yahoo Finance

RISKS

- NexTech is a start-up with limited operating history. There is no assurance its will evolve into a sustainable going concern.
- The company is operating at a loss and may continue to need to raise capital until it reaches cash flow break even which could result in dilution of current shareholders.
- To date, NexTech has depended heavily on funding from senior management.
- AR usage is just beginning to be used by early adopters and it is hard to predict how fast or even if AR will be put into use by mainstream eCommerce sites. The company's business with AR customers is still very small and has yet to garner meaningful traction.
- This industry will attract many larger companies with much greater resources who could compete with NexTech in the future.
- The company has just launched new product lines, which make take more resources and time than expected and may not be successful.
- With the return to normal business operations, the need for InfernoAR's remote capabilities may wane.

OWNERSHIP



Source: SEDAR Filings

PROJECTED CALENDAR YEAR INCOME STATEMENT

In Canadian Dollars	Q1 Mar 31, 2019	Q2 June 30, 2019	Q3 Sept 30, 2019E	Q4 Dec 31, 2019E	Q1 Mar 31, 2020	Q2 June 30, 2020	Q3 Sept 30, 2020E	Q4 Dec 31, 2020E	2019E	2020E	2021E
Net Revenue	**$901,111**	**$905,915**	**NA**	**NA**	**$2,491,985**	**$3,529,029**	**$4,987,150**	**$7,145,000**	**$6,000,000**	**$18,153,164**	**$31,011,087**
Yr-to-Yr Growth	NA	NA	NA	NA	177%	290%	NA	NA	NM	202.6%	70.8%
Cost of goods	534,094	534,094	NA	NA	1,144,136	1,359,294	1,550,000	1,700,000	2,800,000	5,753,430	8,227,405
Gross margin	367,017	371,821	NA	NA	1,347,849	2,169,735	3,437,150	5,445,000	3,200,000	12,399,734	23,258,315
Percent of revenues	40.7%	41.0%	NA	NA	54.1%	61.5%	68.9%	76.2%	53.3%	68.3%	75.0%
Sales and marketing	696,952	558,743	NA	NA	1,499,315	1,547,995	1,870,911	1,950,000	NA	6,868,221	10,302,332
General and administrative	382,054	462,116	NA	NA	763,082	1,927,105	2,000,000	2,100,000	NA	6,790,187	8,400,000
R&D	583,909	164,867	NA	NA	373,331	563,671	450,000	500,000	NA	1,887,002	2,100,000
Amortization	31,476	31,476	NA	NA	88,253	132,458	132,458	132,458	NA	485,627	529,832
Depreciation	16,093	8,249	NA	NA	9,849	17,434	17,434	17,434	NA	62,151	69,736
Foreign exchange loss (gain)	(42,981)	70,334	NA	NA	1,694	6,283	-	-	NA	7,977	-
Total operating expenses	1,667,503	1,295,785	NA	NA	2,735,524	4,194,946	4,470,803	4,699,892	NA	16,101,165	21,401,900
Operating income	(1,300,486)	(923,964)	NA	NA	(1,387,675)	(2,025,211)	(1,033,653)	745,108	NA	(3,701,431)	1,856,415
Operating margin	-144.3%	-102.0%	NA	NA	-55.7%	-57.4%	-20.7%	10.4%	NA	-20.4%	6.0%
Financing expense	9,993	-	NA	NA	-	-	-	-	NA	-	-
Income before income taxes	(1,290,493)	(923,964)	NA	NA	(1,387,675)	(2,025,211)	(1,033,653)	745,108	NA	(3,701,431)	1,856,415
Income taxes	(1)	-	NA	NA	24,239	24,239	24,239	24,239	NA	96,956	55,692
Tax rate	0.0%	0%	NA	NA	-1.7%	-1.2%	-2.3%	3.3%	NA	-2.6%	3.0%
Net income	(1,290,494)	(923,964)	NA	NA	(1,363,436)	(2,000,972)	(1,009,414)	769,347	NA	(3,604,475)	1,912,108
Exchange differences on translating foreign operations	(3,625)	-	NA	NA	488,316	(308,552)	-	-	-	-	-
Total comprehensive loss	(1,294,118)	(923,964)	NA	NA	(875,120)	(2,309,524)	(1,033,653)	745,108	NA	(3,701,431)	1,856,415
			NA	NA							
Earnings per share	**$ (0.03)**	**$ (0.02)**	NA	NA	**$ (0.02)**	**$ (0.04)**	**$ (0.01)**	**$ 0.01**	NA	**$ (0.05)**	**$ 0.03**
Non-GAAP earnings per share	$ (0.03)	(0.01)	NA	NA	$ (0.02)	$ (0.02)	$ (0.00)	$ 0.01	NA	$ (0.05)	$ 0.03
Shares outstanding	51,030,728	53,790,361	NA	NA	61,378,508	65,713,035	72,963,957	73,981,457	NA	68,509,239	73,981,457
Yr-to-Yr Growth	NA	NA	NA	NA	20%	22%	NA	NA	NA	NA	8%
All in shares	67,230,728	NA	NA	NA	65,108,000	75,353,656	78,936,829	79,445,579	NA	74,711,016	79,445,579

Source: SEDAR Filings and Zacks Small Cap Research

HISTORICAL FISCAL YEAR INCOME STATEMENT

In Canadian Dollars	Q1 Aug 31, 2018	Q2 Nov 30, 2018	Q3 Feb 28, 2019	Q4 May 31, 2019	Q1 Aug 31, 2019	Jan 12, 2018- May 31, 2018	FY 2019R
E-commerce	$0	$0	$508,000	$1,371,530	$1,510,191	-	$1,879,530
A/R and other	22,544	43,132	23,185	33,974	3,005	24,947	122,835
Net Revenue	**$22,544**	**$43,132**	**$531,185**	**$1,405,504**	**$1,513,196**	**$24,947**	**$2,002,365**
Yr-to-Yr Growth	NA	NA	NA	5534%	6612%	NM	NM
Cost of goods	12,738	-	322,435	690,605	818,338	10,621	1,025,778
Gross margin	9,806	43,132	208,750	714,899	694,858	14,326	976,587
Percent of revenues	43.5%	100.0%	39.3%	50.9%	45.9%	57.4%	48.8%
Accretion expense	10,991	7,655	-	2,405	27,232	12,348	21,051
Admin fees and office costs	86,950	113,121	144,283	345,998	323,046	51,273	690,352
Advertising and marketing	-	-	-	259,676	179,546	-	259,676
Amortization	24,377	28,382	23,069	48,511	102,247	13,889	124,339
Business development	2,398	21,120	-	-	-	-	23,518
Consulting fees	239,156	273,457	293,669	774,558	595,077	220,055	1,580,840
Depreciation	-	-	-	27,944	-	548	27,944
Foreign exchange (gain) loss	(3,545)	(32,332)	(44,436)	(29,101)	10,760	(25,536)	(109,414)
Impairment of intangible assets	-	-	194,444	-	-	-	194,444
Investor relations	17,097	59,140	306,971	164,651	118,537	52,093	547,859
Management fees	104,085	88,770	103,322	56,255	136,388	50,930	352,432
Payroll and benefits	-	-	-	160,236	186,374	-	160,236
Professional fees	81,700	36,835	65,512	141,498	60,692	54,392	325,545
Sales and marketing	-	-	-	452,443	30,094	-	452,443
Share-based payments	-	96,390	370,549	283,943	184,938	370,125	750,882
Transfer agent & regulatory fees	-	18,203	17,798	24,299	1,950	-	60,300
Travel	45,621	47,174	61,895	42,970	62,388	40,275	197,660
Other expense					4,810	-	21,051
Total operating expenses	608,830	757,915	1,537,076	2,756,286	2,024,079	840,392	5,660,107
Operating income	(599,024)	(714,783)	(1,328,326)	(2,041,387)	(1,329,221)	(826,066)	(4,683,520)
Operating margin	-2657.1%	-1657.2%	-250.1%	-145.2%	-87.8%	-3311%	-234%
Deferred income tax recovery	-	-	-	15,971	9,993	-	15,971
NET INCOME	(599,024)	(714,783)	(1,328,326)	(2,025,416)	(1,319,228)	(826,066)	(4,667,549)
Currency translation adjustment	0	573	33,467	(26,353)	(3,625)	-	7,687
Total other income	0	573	33,467	(26,353)	(3,625)	-	7,687
Comprehensive Income	(599,024)	(715,356)	(1,361,793)	(2,015,034)	(1,322,853)	(826,066)	(4,659,862)
Net loss per share	**$ (0.02)**	**$ (0.02)**	**$ (0.03)**	**$ (0.04)**	**$ (0.02)**	**$ (0.04)**	**$ (0.11)**
Non-GAAP loss per share	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.03)	$ (0.02)	$ (0.02)	$ (0.08)
Shares outstanding	37,537,872	39,139,213	47,336,099	53,750,000	55,581,781	22,081,328	44,443,149
Yr-to-Yr Growth	NA	NA	514%	199%	48%	NA	101%
Fully diluted shares	53,737,872	55,339,213	67,736,099	55,250,000	58,571,781	NA	45,943,149
Adjusted EBITDA	(574,647)	(590,011)	(740,264)	(1,680,989)	(1,042,036)	(441,504)	(3,642,330)

Source: SEDAR Filings

BALANCE SHEET

Canadian Dollars	June 30, 2020	Mar 31, 2020	Qtr-Qtr % Change	Dec 31, 2019	Six Month % Change
Assets:					
Cash and cash equivalents	**$ 6,282,197**	**$ 2,309,656**	172%	**$ 2,849,344**	120%
Accounts receivable	264,104	620,896	-57%	403,651	-35%
Prepaid expenses	195,990	219,725	-11%	200,650	-2%
Inventory	1,681,465	1,598,394	5%	1,353,584	24%
Total current assets	8,423,756	4,748,671	77%	4,807,229	75%
Equipment	242,303	137,486	76%	146,555	65%
Intangible assets	2,250,734	3,927,448	-43%	3,683,079	-39%
Goodwill	3,997,440	0	NM	0	NM
Total Assets	14,914,233	8,813,605	69%	8,636,863	73%
Current Liabilities:					
AP & accrued liabilities	1,748,473	1,050,408	66%	1,243,528	41%
Other payables	0	97,771	-100%	230,174	-100%
Contingent consideration	1,067,181	0	NM	0	NM
Total current liabilities	2,815,654	1,148,179	145%	1,473,702	91%
Deferred income tax liability	48,478	72,717	-33%	96,956	-50%
Total Liabilities	2,864,132	1,220,896	135%	1,570,658	82%
Stockholders' Equity					
Common Stock	23,562,376	16,551,989	42%	15,210,041	55%
Convertible debentures	0	835,830	-100%	1,025,595	-100%
Reserves	2,565,234	2,163,919	19%	1,407,330	82%
Deficit	(14,077,509)	(11,959,029)	18%	(10,576,761)	33%
Total Stockholders' Equity	12,050,101	7,592,709	59%	7,066,205	71%
Total Liabilities and Stockholders' Equity	14,914,233	8,813,605	69%	8,636,863	73%
Current ratios	3.0	4.1	-28%	3.3	-8%
Quick ratio	2.4	2.7	-13%	2.3	2%
Cash as % of assets	42%	26%	61%	33%	28%
Working Capital	5,608,102	3,600,492	56%	3,333,527	68%
Convertible Debt	0	835,830	-100%	1,025,595	-100%
Debt/Total Assets	0%	9%	-100%	12%	-100%

Source: SEDAR Filings

CASH FLOW

	3 Months Ending Mar 31, 2019	3 Months Ending June 30, 2019	3 Months Ending Aug 31, 2019	7 Months Ending Dec 31, 2019	3 Months Ending Mar 31, 2020	3 Months Ending June 30, 2020
Net Income	$ (1,300,486)	$ (923,964)	$ (1,319,228)	$ (5,297,134)	$ (1,363,436)	$ (2,000,972)
Adjustments to reconcile net loss to net cash used in operating activities:						
Amortization	31,476	31,476	102,247	190,018	88,253	132,458
Accretion expense	0	0	27,232	7,194	0	0
Consulting fees	0	0	0	0	0	0
Deferred income tax recovery	0	0	(9,993)	(96,479)	(24,239)	(24,239)
Depreciation	16,093	8,249	0	21,720	9,849	17,434
Interest expense	0	0	10,449	0	0	0
Shares issues to settle related party liabilities	0	0			38,239	0
Share based payments	361,851	161,851	184,938	391,148	650,946	861,958
Options and warrants exercised shares out		0	0	0	0	(183,737)
Shares for services	60,000	0	0	62,999	0	0
Write-off of intangible asset	0	0	0	2,207,750	0	0
Currency translation adjustment	0	0	(6,890)	0	0	0
Changes in assets and liabilities:						
Receivables	(213,475)	(262,168)	99,288	17,623	(217,245)	356,792
Prepaid expenses	(409,887)	(237,958)	(61,837)	(22,798)	(19,075)	23,735
Inventory	(267,849)	(399,609)	(180,059)	(773,727)	(244,810)	(83,071)
Accounts payable and accrued liabilities	(169,480)	(709,979)	(33,100)	496,912	(325,523)	673,907
Other payables		0				(97,771)
Net Cash Used In Operating Activities	(1,891,757)	(2,332,102)	(1,186,953)	(2,794,774)	(1,407,041)	(323,506)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Cash acquired on a business combination	128,670	0	0	0	0	0
Purchase of equipment	(12,125)	0	0	(18,639)	0	0
Purchase of intangibles	0	0	0	0	0	0
Acquisition of Infinite Pet Life	0	0	0	(434,005)	0	0
Acquisition of HootView	(85,664)	0	0	0	0	0
Net Cash Used In Investing Activities	30,881	0	0	(452,644)	0	0
CASH FLOWS FROM FINANCING ACTIVITIES:						
Convertible debenture	0	0	985,500	985,500	0	0
Proceeds from the issue of shares	0	339,600	1,740,377	4,601,638	0	3,009,047
Proceeds from options and warrants	2,605,750	0	0	267,400	712,439	1,404,022
Lease payments	0	0	(13,292)	0	0	0
Business acquisition installment payments	0	0	(450,861)	0	0	0
Net Cash Provided By Financing Activities	2,605,750	339,600	2,261,724	5,854,538	712,439	4,413,069
Foreign exchange	95,739	(266,280)	0	(87,454)	154,914	(117,022)
Net Increase in Cash	840,613	(2,258,782)	1,074,771	2,519,666	(539,688)	3,972,541
Cash - Beginning of Period	1,646,858	2,487,471	329,678	329,678	2,849,344	2,309,656
Cash - End of Period	2,487,471	228,689	1,404,449	2,849,344	2,309,656	6,282,197
Operating cash flow	(831,066)	(722,388)	(1,011,245)	(2,512,784)	(600,388)	(1,197,098)
Free cash flow	(800,185)	(722,388)	(1,462,106)	(2,965,428)	(600,388)	(1,197,098)

Source: SEDAR Filings

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

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