NexTech AR: Like A Multistage Rocket NexTech Sheds Legacy Business To Propel Into AR Stratosphere; Maintain Buy-Venture

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Summary

- Underwritten by the Renewable software licenses segment, NEXCF delivered strong FY:22 results.
- The company is walking away from its legacy eCommerce business.
- We maintain our Buy-Venture rating and $1.50 target price.

FY:22 Financial Performance

The Renewable software licenses revenues surged for NexTech AR (OTCQX:NEXCF). Now the main reporting segment of the Company, the Renewable software licenses revenues grew 104% YOY to $2.85 million as the Company completed its exit from its eCommerce Products segment. We estimate that of the $2.85 million this segment reported, about 10% came from Amazon, even though the latter started as a customer in Q3:22. We note that the Company completed the divestment of its legacy business and restated its financial statements to account for the divestment.

Gross margin improved substantially to 51%. The increase (13.2% YOY) was due to a higher contribution from the Renewable software licenses segment and decreased contribution from the Products segment. Going forward, with the divestment of the legacy segment complete, we expect NexTech's margins to further increase.

Total operating expenses were largely in line with our expectations but were substantially lower than 2021 as the benefits of the legacy business divestment materialized. In 2023 and beyond, we expect the Company to benefit significantly from the sales and marketing expense reduction, primarily as a function of the legacy business divestment.

NEXCF expects revenue momentum to continue in Q1:23. The Company continues to see acceleration of 3D model orders, which grew almost 300% in Q4:22. In response to increasing orders, NEXCF has substantially ramped up its 3D model production capacity.

ARWay is Put On The Way. The Company has successfully spun off ARWay as a separately publicly traded company (under the ticker symbol ARWYF and ARWY on the CSE). Management believes that ARWay's next-generation spatial computing platform for the real-world metaverse can drive rapid revenue growth by acquiring new customers that need innovative AR experiences and mapping solutions. The spinout provided a stock dividend of four million shares for all NexTech shareholders on a pro-rata basis, while the Company has retained 13 million of the common shares.

NEXCF is approved to pursue a spinout of its Toggle3D design studio (CSE symbol TGGL, with an expected listing date in the first half of June 2023), SaaS (Software as a Service) platform. Though final tax and legal structuring are awaited, we estimate that current NEXCF shareholders will receive about 50% of Toggle3D (Spinco) shares. Meticulously nurtured by NEXCF, the Toggle-3D platform enables the conversion of CAD (Computer Aided Design) files into 3D/AR models at scale. Modeled as SaaS, Toggle-3D's offerings will enjoy high operating margins. To be marketed as "A Web-Based 3D Design Studio for Anyone," Toggle3D intends to disrupt the CGI (Computer-Generated Imagery) market, which NEXCF estimates to be $160 billion per year (6% CAGR), by its easy, scalable, affordable, and accessible offerings. The next asset that the Company would spin off is its Map D offering (which is a virtual events platform that allows organizers to create, host, and manage live events), and would possibly be sometime in late 2023.

VALUATION

We value NexTech using a revenue multiple analysis methods. All NexTech's direct competitors in the AR space are private companies. Therefore, for the sake of valuation, we have assembled a group of public companies that are either involved in AR or have exposure to Metaverse technology. Most of these companies utilize AR/metaverse technology to serve Internet Retail end markets, but some also serve Conferencing and Electronic Gaming industries. As shown below, the multiples of most of the peer group is depressed partly due to the current interest rate/macroeconomic environment and partly due to revenue headwinds (and difficult comps) these companies are facing from the post-pandemic stimulated revenue surge. Nevertheless, NexTech's case is different as the Company has exited the eCommerce Product based business and entered the service-only and differentiated AR and Metaverse space. We project the Company's revenues to grow by over 300% in 2024. Most of the comparable companies are not experiencing such a surge in top and bottom-line growth. Moreover, the Company has spun off ARWay as a separately publicly traded company, which could be substantially value accretive for NexTech. Therefore, we ascribe NexTech an EV/Revenue multiple of 4.3x (its 2024 revenues), a 100% premium to the 2.08x average for the group of companies, as shown below. Based on a 4.3x EV/Revenue multiple, we value NexTech at $1.50 per share, which represents a 240% appreciation potential to the stock's current price.

Exhibit 1: NEXCF Peer Group Multiples and Price Targets

Company Name	Ticker	Last Price	Market Cap ($MM)	EV/Revenues
HealthWarehouse.com Inc	HEWA.PK	0.17	9.19	2.72
TRxADE Health Inc	MEDS.O	0.35	3.52	0.31
Kidpik Corp	PIK.OQ	0.67	5.15	0.31
Roblox Corp	RBLX.K	34.45	21,029.73	4.48
Wayfair Inc	W	31.64	3,497.36	0.60
ContextLogic Inc	WISH.O	6.49	150.37	0.24
Mercari Inc	4385.T	18.93	3,039.53	1.64
Chegg Inc	CHGG.K	9.08	1,086.22	4.87
DoorDash Inc	DASH.K	61.62	24,159.70	2.03
Snap Inc	SNAP.K	8.31	13,310.70	2.69
Chewy Inc	CHWY.K	31.10	13,278.00	1.29
Zoom Video Communications I	ZM.O	61.19	17,979.85	3.82
Average			8,129.11	2.08
Nextech Ar Solutions Corp	NTAR.CD	0.46	50.14	1.55

Source: Singular Research and Thomson Reuters

As an alternative valuation methodology, we value NexTech using a total addressable market analysis (TAM). According to Markets & Markets Research Pvt Ltd, 1, the Augmented Reality Market was valued at U.S.$23 billion in 2021 and is expected to reach U.S.$88 billion by 2026, witnessing a CAGR of 31%. We project NexTech to be just 0.1% of this market in 2024. However, we project NexTech to grow much faster than the market from 2023 onwards. If we assume the Company attains a modest 0.4% share of the TAM in 2026, its revenues will amount to $366 million. Discounting this figure back to 2024 (2 years), with a 12% WACC, we project that the present value of NexTech's potential 2026 revenue to be $292 million. Discounting this value at 10% to reflect NexTech's challenging odds of realizing this level of revenues provides a projected value for the Company of $241 million. Dividing this figure by our projected outstanding shares at the end of FY:26 yields a per share value today of $1.38 per share. We believe using FY:26 projected year-end outstanding shares is a conservative valuation approach that accounts for the expected growth in outstanding shares.

Exhibit 2: Valuation Using Discounted TAM Analysis (in millions)

2026 TAM (millions)	$	88,400
NexTech's Market Share		0.41%
NexTech's 2026 Revenue	$	366
PV @ 12% Discount Rate	$	292
Projected Value of NexTech at 10% Discount to 3 year PV	$	241
Projected Shares in 2026 (millions)		180
NexTech's Equity Value/Share	$	1.38

Source: Singular Research