



H.C. WAINWRIGHT & CO Initiating Coverage On NexTech AR Solutions Corp. (NEXCF) With a Buy Rating

Accelerating Revenue Growth and Path to Profitability Make for an Attractive Metaverse Play; Initiating at Buy; \$2.50 PT

NEW YORK, USA, March 18, 2022 /EINPresswire.com/ -- NexTech AR Solutions Corp. (NEXCF)



Technology stack built to scale, a meaningful differentiator versus peers."

Scott Buck

Rating: Buy

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

Initiating Coverage
Technology

Accelerating Revenue Growth and Path to Profitability
Make for an Attractive Metaverse Play; Initiating at Buy;

\$2.50 PT

[Download the FULL report HERE](#)

Transitioning business model positions company for shift in the digital ecosystem. We are initiating coverage of NexTech AR Solutions Corp. with a Buy rating and a 12-month price target of \$2.50 per share. Headquartered in Toronto, Canada, the company is positioning itself to become a leading provider of 3D models and augmented reality solutions to the e-commerce industry. The shift from legacy retail and virtual event hosting, which represents almost 80.0% of revenue today, to software and technology solutions should drive meaningful revenue growth, margin expansion, and a re-rating of NEXCF shares, consistent with other small capitalization software companies. As scale begins to improve in 2023 and beyond, we expect revenue growth and margin expansion to drive significant operating leverage and a path to quarterly profitability as early as 2023. As the company demonstrates its ability to execute on this profitable growth strategy, we believe NEXCF shares should begin to move towards, our \$2.50 price target.

Technology stack built to scale, a meaningful differentiator versus peers. Through a combination of in-house development and acquisitions, the company has developed a high-quality 3D modeling product, driven by artificial intelligence at a USD\$6 to USD\$10 price point, compared to as much as USD\$250 for some peers. This should accelerate customer growth, scaling the business quickly. Using 2D photographs, or CAD files, NexTech customers can create 3D models

on their desktops or even mobile devices and integrate those 3D models onto their online merchant websites. The near immediacy of model creation and a meaningfully lower price point versus peers make the products attractive for retailers of all sizes. Further, the company has created several complementary products using augmented reality which further enhance the consumer experience creating value for the merchant. This includes animations, holograms, exploded views, and utilization within a 3D virtual experience. The interconnection across the technology stack allows customers to create unique user experiences driving customer education, product sales, and reduce costly returns.

New e-commerce partnerships expected to meaningfully accelerate revenue growth into 2023. In January 2022, the company launched its 3D modeling product within e-commerce platform Shopify's merchant application. This allows 1.7M Shopify merchants to access 3D modeling and AR capabilities with a single click. A similar partnership was launched with SHOPLINE, Asia's largest smart commerce platform in February 2022. In total, we believe there are approximately 16.0M e-commerce stores worldwide representing as many as 400.0M SKUs that would benefit from 3D modeling. The company believes between 3D models and enhancing technologies the total addressable market more than USD\$100.0B annually. We believe these distribution partnerships should serve as a meaningful driver of revenue growth as the benefits of 3D modeling, including higher sales conversion rates and lower rates of product return, should be viewed attractively by merchants of all sizes. At the current price point, USD\$10 per model, per month, even smaller merchants should recognize a meaningful ROI on the addition of 3D modeling and AR capabilities. Further, direct integration with e-commerce platforms should serve as barrier to entry for potential competition. As more retailers opt-in, we expect NexTech revenue to accelerate meaningfully beginning in 2H22 and continue into 2023.

Business transition from online retail sales and virtual event hosting to software and solutions provider drives revenue growth and visibility. Today, almost 80.0% of NexTech revenue is derived from retail product sales through its legacy e-commerce business lines. However, as the business transitions away from selling retail products to providing higher margin software and managed services to the e-commerce industry, we expect both meaningful revenue growth, 17.6% in 2022 and 31.6% in 2023, and higher quality revenue. Rather than the reliance on lower margin product sales, the company should now expect improved visibility as a significant portion of customers are expected to be on a monthly subscription model with set pricing and 12-month contract duration. By year-end 2023, we believe the company could produce models on more than 500,000 products at a price point of USD\$10 per product per month. This could generate annual run-rate revenue of more than C\$60.0M. As revenue quality improves, and the business can demonstrate its ability to increase the number of products modeled we expect investors to become more constructive on NEXCF shares.

Cost reductions drive operating leverage and clear path to profitability. In recent months, the company has begun an aggressive reduction in operating costs as the business transitions away from retail sales and virtual event hosting to its 3D modeling and AR solutions. As a result, the

company believes it is on a path to achieve operating cost levels of approximately C\$1.0M per month, or an annual run-rate of C\$12.0M. This compares to C\$37.9M of operating costs expected in 2021. We are currently modeling 2022 operating expense of C\$14.6M, slightly above management's current target. Investors should begin to see the impact of reduced costs as early as 4Q21 results, which should be released later this month. This, in our view, should help investors recognize the operating leverage in the new business model and begin to extrapolate a path towards positive EBITDA, which we believe may occur as early as 2023. As operating costs decline and revenue accelerates we believe the path to profitability becomes more clear. This should begin to attract investors to NEXCF shares.

Download the FULL report [HERE](#)

Potential NASDAQ uplisting in 2022 could serve as meaningful catalyst. In recent months, the company has taken the steps necessary to complete an uplisting to the NASDAQ market in 2022. This includes a change in auditor from a local provider to Marcum, LLP, a more recognized name. When this change was finalized in 2021, the company indicated the decision was largely driven by the desire to uplist. We believe an uplisting to a primary exchange is likely to serve as a positive catalyst for NEXCF shares, which currently trade at a meaningful discount to augmented reality, virtual reality, and metaverse peers despite what we believe is a compelling investment story. With double-digit revenue growth, expanding margins and a path towards consistent profitability as early as 2023, we believe the investment thesis should resonate with institutional investors who may currently be unable to invest in OTC securities. With improved liquidity and investor exposure, we expect NEXCF shares to re-rate and trade at more consistent valuations with listed peers.

Valuation attractive given meaningful revenue growth opportunity and path to profitability. We are valuing NEXCF shares at \$2.50, reflecting an 7.0x EV/revenue multiple on our 2023 revenue estimate of \$40.0M. Our \$2.50 price target represents approximately 200% upside from recent trading levels. Our targeted 7.0x EV/EBITDA multiple represents the low- end of the small capitalization technology peer group operating within the augmented reality, virtual reality, and metaverse space. These companies currently trade between 7.0x and 8.0x. 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 2H22 acceleration in higher margin technology revenue.

Scott Buck- Analyst
H.C. Wainwright
+1 212-856-5730
sbuck@hcwresearch.com

EIN Presswire's priority is source transparency. We do not allow opaque clients, and our editors try to be careful about weeding out false and misleading content. As a user, if you see something we have missed, please do bring it to our attention. Your help is welcome. EIN Presswire, Everyone's Internet News Presswire™, tries to define some of the boundaries that are reasonable in today's world. Please see our Editorial Guidelines for more information.

© 1995-2022 IPD Group, Inc. All Right Reserved.