



SOUNDVIEW  
RESEARCH

NXT-ID (NXTD \$2.17)

WOCKET WORKING TOWARDS CES

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## Market & Company Update

Investors have come to realize that the “revolutionary” Apple Pay is a continuation of the existing credit/debit card model and payment infrastructure. It adds a layer of security and convenience but the back end is still the same. In other words, we are digitizing the plastic part of the existing payment system rather than doing something profoundly new and different.

There is a simpler and more direct way to digitize your credit cards. Using a digital wallet like the Wocket, the myriad separate plastic cards are replaced with one reprogrammable card that behaves as whatever card the user selects. Not only does this also use the same back end systems in place, but it also works with all the existing front-end systems for credit and debit cards.

Major retailers like Home Depot (NYSE: HD) have launched major investments to upgrade their own infrastructure with security enhancements that will work with **all transactions**. This is key point – retailers need to offer safe, secure and smooth checkout for all customers and payment types, not just Apple Pay.

So for us, this puts solutions like the Wocket in a favorable position with respect to other solutions involving all non-cash transactions. Consumers can keep their existing cards, pay any merchant, and have no worries about security, fraud, battery life or other “technical issues” that bedevil many existing phone-based offerings from QR codes to NFC.

As many failed Kickstarter projects attest – it’s exponentially more difficult to launch a real consumer product at scale than make a slick video showing a magical solution, like “Coin” for example. When you get into the nitty-gritty of different cards and formats needed to support all cards and not just the easy ones, some real technical innovation is needed.

NXT-ID has been hard at work for months, finalizing their Wocket so it’s ready for CES in early January. As they have worked through the design, they have overcome thorny issues ranging from accurately capturing different types of cards to engineering the Wocket card to contain all the needed electronics, yet still remain just a millimeter thick.

We still expect their initial production run to happen during December and for first commercial units to be in use during January. CES will be a coming out party for NXT-ID with mainstream buyers, partners and the broader media outlets. Based on what we know, the feedback should be validating and positive, but we will have a better gauge of that post-event.

NXT-ID has been preparing their production facilities to ramp up to much higher volumes, which should be able to meet initial consumer demand and improve steadily during 2015. A review of our current IV estimate (attached) indicates the planned ramp provides plenty of room for NXT-ID to exceed our expectations, as long as they continue to execute and consumer acceptance and adoption provides the market opportunity.

## Stock Conclusion

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The market has been taking a “wait and see” attitude with respect to the shares since the end of the summer when it became clear that commercial volumes wouldn’t happen until 2015. We won’t try and predict market sentiment on NXTD, but if the company meets current plans for early commercial units by December and has a solid debut at CES, the shares will have put in a bottom.

We plan to share more data points in December as production work continues. Our IV of \$8.18 makes the shares very attractive, albeit with some expectation of success built into the estimate. If the company meets their plans in 2015, it would push our IV estimate up to \$17.42.

It’s also a good time to keep a careful eye out for indiscriminate tax-loss selling during times when volumes are low – it can create some extra volatility. Based on the outlook for next year, we’d be looking to exploit that opportunity should it materialize.

## IV Model

The model below is our “base case” for NXT-ID as we approach product release and revenue ramp. We will be in a position to update this in January when we get views on early usage, sales levels, and the ability of NXT-ID to get additional quantities for more shipments. Early in 2015, we will break down our volume and revenue estimates into quarterly periods so we can compute annual trajectory more accurately. It’s also worth noting that we are using a fairly low multiple of 15x, which would likely expand as the company executes at scale for several quarters.

NXT-ID										9/25/2014	
Intrinsic Valuation											
Dec YE	2012	2013	2014	2015	2016	2017	2018	2019	2020		
Wocket Units (K)			5	40	120	300	600	975	1,500		
Wocket Price			\$149	\$150	\$151	\$152	\$153	\$154	\$154		
Product Revenues		\$0.0	\$1	\$6	\$18	\$46	\$92	\$150	\$231		
Wocket Services		\$0.0	\$0.1	\$0.9	\$1.8	\$4.8	\$10.3	\$18.1	\$28.6		
YoY Change \$		-0.3	0.9	6.0	13.0	30.5	51.7	66.2	91.3		
Total Revenue	\$0.3	\$0.0	\$0.9	\$6.9	\$19.9	\$50.4	\$102.1	\$168.3	\$259.6		
YoY Growth		NA	NA	705.4%	188.8%	152.8%	102.7%	64.8%	54.2%		
COGS %	40.0%	50.0%	40.0%	36.0%	37.0%	37.0%	37.0%	37.0%	37.0%		
COGS \$	\$0.1	\$0.00	\$0.34	\$2.48	\$7.37	\$18.64	\$37.78	\$62.27	\$96.05		
Gross Profit	\$0.2	\$0.0	\$0.5	\$4.4	\$12.6	\$31.7	\$64.3	\$106.0	\$163.5		
Gross Margin	60.0%	NA	60.0%	64.0%	63.0%	63.0%	63.0%	63.0%	63.0%		
SG&A%	120.0%	NA	37.0%	29.0%	25.0%	22.0%	20.0%	18.0%	17.0%		
SG&A\$	\$0.3	\$0.9	\$1.65	\$2.00	\$4.98	\$11.08	\$20.42	\$30.29	\$44.13		
R&D %	30.0%	NA	175.1%	101.4%	80.3%	43.7%	29.2%	22.0%	14.6%		
R&D \$	\$0.1	\$0.5	\$1.5	\$7.0	\$16.0	\$22.0	\$29.9	\$37.0	\$38.0		
Operating Expenses %	150.0%	NA	367.7%	130.4%	105.3%	65.7%	49.2%	40.0%	31.6%		
Operating Expenses \$	\$0.4	\$1.4	\$3.2	\$9.0	\$21.0	\$33.1	\$50.3	\$67.3	\$82.1		
Operating Margin	-90.0%	NA	-307.7%	-66.4%	-42.3%	-2.7%	13.8%	23.0%	31.4%		
Operating Income	-\$0.2	-\$1.40	-\$3	-\$5	-\$8	-\$1	\$14	\$39	\$81		
Taxes	-\$0.1	-\$0.5	-\$0.9	-\$1.6	-\$2.9	-\$0.5	\$4.9	\$13.6	\$28.5		
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%		
Net Income	\$0	-\$0.91	-\$2	-\$3	-\$5	-\$1	\$9	\$25	\$53		
Net Margin	na	na	na	-43.2%	-27.5%	-1.7%	8.9%	15.0%	20.4%		
Market Value Using P/E	-\$2	-\$14	-\$26	-\$45	-\$82	-\$13	\$137	\$378	\$794		
Cash Position	\$0.1	\$7	\$5	\$7	\$1	\$0	\$9	\$35	\$88		
PV of MV 4 Years Out	-\$47	-\$7	\$78	\$216	\$454						
PV of Cash 4 Years Out	\$1	\$0	\$5	\$20	\$50						
PV MV + Cash	-\$46	-\$7	\$84	\$236	\$504						
PV Value Per Share	-\$1.67	-\$0.26	\$2.97	\$8.28	\$17.51						

  

NXTD	Ticker
Nasdaq	Exchange
447%	Rev Growth
\$2.46	Current Price
28	Shares Out
1%	Avg. Dilution
\$68	Cap (M)
\$7	Cash
	Debt
35%	Tax Rate
15	P/E Multiple
15%	Discount Rate
\$8.28	Intrinsic Value
236%	Up/Downside