



SOUNDVIEW  
RESEARCH

NXT-ID (NXTD \$3.87)

THE WOCKET ARRIVES

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## Company Update

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After months of hard work and anticipation, the Wocket has shipped. This event addresses the first chorus of skeptics who have insisted that “the Wocket will never ship.” Even within the limits of an “early access device,” our initial testing has gone very well in outlets ranging from CVS to Whole Foods to Panera using Visa (in both debit and credit mode) as well as American Express cards.

So, the most interesting real-world interaction occurred in a CVS where the “hand card to cashier” message popped up. I had prefaced my swipe with the comment that I was using “a new ultra secure credit card” and when I handed it over she responded, “oh, is this one of those cards where you can store all your cards on?” To which I replied, “yes, indeed” and she simply said, “cool” and handed it back.

Even after a few days of use, I was comfortable enough with the Wocket to head out for an evening without my wallet – just a few dollars in cash and my license. Having misplaced my wallet a week or two ago, I can also say that the anxiety level from misplacing your Wocket is much, much lower. I wouldn’t want to lose my Wocket, but would feel none of that fear and panic that comes from losing my wallet with “everything in there.” In fact, by having all the plastic cards safely at home, I wouldn’t actually lose anything or need to change out all my cards to new account numbers. Getting a new Wocket and reloading the cards would be minor job, but far less than cancelling accounts, refuting fraudulent charges and having new cards issued.

Anecdotes are not rigorous market research, but the awareness level of the technology was a surprise and comfort level with the thing itself was reassuring. NXT-ID is using the input from early access users while preparing for their first production run to begin to fill pre-orders beginning in late April. The next production milestone is to deliver between 5,000 and 10,000 units in June.

The progress over the last two months certainly makes us feel comfortable with our 40,000 unit estimate for 2015 in terms of production capability. The demand side of the equation continues to be encouraging. NXT-ID hasn’t spent anything on marketing yet. However, Coin has used more of a “marketing first” strategy and has documented “over 20,000 orders in the first six hours” of their campaign. Taken together the NXT-ID production goals and pre-existing market demand would justify an increase in our unit but we are holding off until final production units are rolling off the assembly line.

## Market Update

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There’s no question that mobile payments and digital wallets are hot right now. Samsung acquired LoopPay to better compete with Apple, and companies like Coin, Stratos and Plasc are all working hard to ship products in 2015 as well.

They all have pros and cons, but the main reasons why the Wocket represents a true “secure digital wallet” for us is that it is fully operational without a network connection, smartphone or computer. The last thing I’d want to do is

put all my cards in digital format on the internet – least of all, using an application or service from a startup. The Wocket also addresses the myriad cards that are not for payments.

In a world that has a very uneven distribution of technology adoption, it's important to realize that no matter how advanced all the digital stuff is, the Wocket collapses it all down to what looks, feels and works like a regular credit card. No need for special readers or software. Because there's no raised lettering, you can't use it with those ancient machines that actually rubbed your card against carbon paper to make an "imprint," but for anything else – it just works.

Retailers have continued to pursue new offerings like the Wocket for inclusion in their store offerings. NXT-ID will have enough expanded production later this year to be able to handle a number of these channels and ultimately be able to service even the largest ones in 2016. We expect to see some smaller niche catalog retailers jump into this market first, with the larger physical chains wanting to have the product on their shelves for the 2015 holiday season.

## Stock Conclusion

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So after suffering from a prolonged "wait and see" attitude, the stock has recently moved up sharply in response to the initial shipments. Our own experience with the device so far would reinforce the view that 2015 will be a good year for the Wocket and NXTD shareholders.

The two major risks remaining are 1) the ability to ramp up production to thousands of units at first and then tens of thousands per month and 2) mainstream consumer reactions and adoption.



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