



## April 2018 Update

2017 was a busy year for Nxt-ID. Revenues tripled to \$23.3M from \$7.3M in 2016. It took some expensive financing to get it all done but now the company is in a much better position and has cleaned up the balance sheet considerably. The last component is a refinancing of their revolving debt which we believe will come soon (as per recent management guidance.) This final step will dramatically reduce their interest payments.

(For investors new to the NXTD story we recommend you read the recent SEC 10K form - the first sections are well-written and the most current detailed overview of the business. Here's a [link to the PDF of the NXTD 10K](#).<sup>1</sup>)

We expect they will build on their success in 2018 - primarily in expanding the FitPay business and extending their LogicMark franchise more deeply into the healthcare industry.

But investors should be reminded that the company is rooted in authentication and payments technology which allows them to continue to innovate around new devices and payment devices. The advent of blockchain technologies and crypto currencies has opened up an even broader range of business development opportunities. In 2018 we expect Nxt-ID to debut a new next-generation general purpose payment device.

## LogicMark

LogicMark has been a steady growing business, making consistent quarterly revenue progress. In 2018 we expect more of the same backed by a broad range of updated products and expanded distribution and more direct-to-consumer offerings that don't require monthly service fees.

LogicMark is also working on expanding their role in the healthcare industry from personal emergency response (PERS) units into solutions for patient monitoring and chronic care.

For example, hospitals want to discharge patients as soon as possible (often too soon) but face penalties and unreimbursed expenses if that patient has to return to the hospital with a relapse. By discharging

### 2018 Prospective Highlights

- + Continued growth of core LogicMark business with some new healthcare market expansion.
- + Fit Pay growth with existing customers like Garmin and new clients who will be launching devices in 2018.
- + We expect to see a new next-generation payment device launched in 2018 with pre-sold customers and available to the general market.
- + The "flip" will ship and be the first "crypto" product in what could end up being a portfolio of products as the space evolves.
- + Improvements in the balance sheet will continue with the final tranche of high cost debt refinanced in Q2.
- + We made minor tweaks to our Intrinsic Value model (IV) which stands at \$10.12/share.

<sup>1</sup> [http://s3.amazonaws.com/PUBLISHED/NXTD\\_2017\\_10K.pdf](http://s3.amazonaws.com/PUBLISHED/NXTD_2017_10K.pdf)

patients with improved monitoring technology, the hospital can reduce the frequency and severity of relapses and in many cases avoid re-admission.

At this point we are only modeling continued expansion of the PERS business so we'll be watching how the company develops their healthcare market opportunity. The area is ripe, but we know that hospitals and care-providers can be very deliberate in their adoption of new technologies and are often hampered by regulations and prior investments in large legacy systems.

There are some positive trends in healthcare that make us cautiously optimistic. First of all, the pressure on the already-creaking system is unrelenting. An aging population is only making current inefficiencies harder to endure. On the technology side we have seen real growth in modern methods like Telehealth. One example is the success of Teledoc (NYSE: TDOC) which now has 23 million paying members and grew revenue last year 89% to \$233M. The company expects to do \$355M in revenue in 2018.

## Fit Pay

More Fit Pay enabled devices will be rolling out in 2018. Existing customer Garmin is adding "Garmin Pay" deeper into their product portfolio and it should be available across more of their lineup by the end of the year.

We also expect to see shipments of more innovative wearable devices like the Token Ring LINK. We believe there is significant consumer demand for some kind of "digital cash" option outside of the smartphone. So far nothing has fit the bill and seen significant adoption but a raft of new devices may change this.

Fit Pay has their own offering, the Flip, which is scheduled to begin shipping towards the end of Q2. We think about Flip as kind of an "EZPass" for your daily life. Small purchases should be easy and anonymous.

The Flip offering is about recurring account fees but they will be small in magnitude. In 2018 this is still more about "design wins" which translate into long-term recurring revenue streams in the form of small activation and account fees.

We expect some significant new customers for Fit Pay in 2018, possibly as early as Q2. These will also reinforce the positioning Fit Pay as a platform and a strategic asset. Any device-maker outside of Apple and Google that wants to do payments would consider Fit Pay to be a key piece of proven infrastructure.

## General Authentication and Payment

Two years ago Nxt-ID shipped the Wocket which was the first working digital wallet on the market and it worked. However it wasn't perfect and the industry shift to EMV cards blunted the potential for a "1.0 product" like the Wocket.

Last year Nxt-ID shipped tens of thousands of a much-improved device that was developed for a single customer, World Ventures. We view the World Ventures Flye card as a "1.5 product" and it is a huge advance in terms of form-factor and acceptance. But in this fast-evolving industry the credit card companies have made it clear they much prefer non-credit-card form factors and "contactless" payment technologies.

In 2018 we expect Nxt-ID to debut another, more advanced device, let's call it "2.0" and it will have at least one initial customer to provide initial volume and testing. However this device will be general purpose and be open for use by multiple organizations, customers and use cases. It provides a platform for the company to add functionality (like health features or medical information) and go after different vertical markets like education and/or crypto currency applications.

In case you haven't noticed **payments have become more time-consuming and less secure at most retail checkouts**. Thanks to the EMV chip there is a longer lag between presentation and purchase. And most merchants don't even look at your card, let alone verify the name and check ID.

We've seen some movement on simplification - at least a "no signature required" for purchases under a certain amount. But these are typically set and controlled by the merchant, so practices vary widely.

Consumers want speed and simplicity with security. Apple is trying to cater to this with their "pay with your face" campaign which only works with ApplePay. Nxt-ID has a history in both authentication and payments – they have plenty of raw material is there for them to address this opportunity.

We expect devices to ship and revenues to be booked in 2018. However, the number and magnitude we be clearer in the second half.

## Valuation and Stock Conclusion

We've adjusted our IV model slightly, mostly to take into account changes in debt and shares outstanding. The first part of 2018 will include debt refinancing, more design wins and continued execution in the LogicMark business. The second half of the year will be where we see material growth in revenues on a YoY basis.

NXT-ID

4/15/18

### Intrinsic Valuation

Dec YE	2015	2016	2017	2018	2019	2020	2021	2022	NXTD	Ticker
Total Revenue	\$0.6	\$7.70	\$23.00	\$31.9	\$42.0	\$56.0	\$74.0	\$102.0	\$2.00	Exchange
YoY Growth	na	na	198.7%	38.7%	31.7%	33.3%	32.1%	37.8%	\$2.00	Current Price
COGS %	110%	57.1%	50.0%	45.0%	45.0%	45.0%	45.0%	45.0%	24.0	Shares Out
COGS \$	\$1.80	\$4.40	\$11.50	\$14.36	\$18.90	\$25.20	\$33.30	\$45.90	\$48	Cap(M)
Gross Profit	-\$1.2	\$3.3	\$11.50	\$17.5	\$23.1	\$30.8	\$40.7	\$56.1	\$6	Cash
Gross Margin	-200%	42.9%	50.0%	55.0%	55.0%	55.0%	55.0%	55.0%	\$12	Debt
G&A%	600%	80.5%	47.8%	29.8%	26.2%	21.4%	17.6%	13.7%	2%	Avg. Dilution
G&A \$	\$3.60	\$6.20	\$11.00	\$9.50	\$11.00	\$12.00	\$13.00	\$14.00		
R&D %	450%	11.7%	4.3%	3.8%	4.8%	5.4%	5.4%	4.9%		
R&D \$	\$2.7	\$0.9	\$1.0	\$1.2	\$2.0	\$3.0	\$4.0	\$5.0		
S&M%	567%	37.7%	17.4%	13.8%	14.3%	14.3%	16.2%	14.7%		
S&M \$	\$3.4	\$2.9	\$4.0	\$4.4	\$6.0	\$8.0	\$12.0	\$15.0		
Operating Expenses %	1167%	129.9%	69.6%	47.3%	45.2%	41.1%	39.2%	33.3%	0%	Tax Rate
Operating Expenses \$	\$7.0	\$10.0	\$16.0	\$15.1	\$19.0	\$23.0	\$29.0	\$34.0	20	P/E Multiple
Operating Margin	-1367%	-87.0%	-2.8%	7.7%	9.8%	13.9%	15.8%	21.7%	15%	Discount Rate
Operating Income	-\$8	-\$6.7	-\$0.7	\$2	\$4	\$8	\$12	\$22		
Taxes	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.12	Intrinsic Value
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	406%	Up/Downside
Net Income	-\$8	-\$7	-\$1	\$2	\$4	\$8	\$12	\$22		
Net Margin			-2.8%	7.7%	9.8%	13.9%	15.8%	21.7%		
Market Value Using P/E	-\$164	-\$134	-\$13	\$49	\$82	\$156	\$234	\$442		
Cash Position	-\$6	-\$11	-\$12	-\$9	\$4	\$8	\$7	\$22		
Shares (M)	24.0	24.0	24.5	25.0	25.5	26.0	26.5	27.0		
Period Share Price	-\$7	-\$6	-\$1	\$2	\$3	\$6	\$9	\$16		
PV of MV 4 Years Out	\$47	\$89	\$134	\$253						
PV of Cash 4 Years Out	\$2	\$4	\$4	\$0						
PV MV + Cash	\$49	\$94	\$138	\$253						
PV Value Per Share	\$2.05	\$3.90	\$5.62	\$10.12						

## Additional Disclosures

SoundView serves as a strategic advisor to Nxt-ID and provides advisory and other services including strategy advice, company positioning, investor communication methods and ongoing technology and market research. See our full page of practices and disclosures which should be attached to this report. If not, it is available at <http://soundview.co/practices>