



Profitable Growth & Business Expansion

With the PartX spinoff in process the “new NXT-ID” will be coming into focus. The two key factors we see driving value in the next few months are 1) sustainable revenue growth and profitability and 2) expansion into digital healthcare. We will launch coverage of PartX when it gets closer to trading.

The Logic Mark business is solid and we expect total revenues in 2019 of \$22M with 70% gross margins and 20% EBIT margins. Annual revenue growth should be in area of 25%. Even at a 15x P/E multiple this gets us to a Present Future Value (PFV) of \$3.69/share. (See model below.)

Current debt stands at about \$15M which is about \$0.60/share. Over time we’d expect management to apply these high EBIT margins to reducing the debt outstanding and associated interest payments. However right now there is more leverage in growing the business due to the high gross margins.

So far Logic Mark has grown in a single market (Personal Emergency Response or “PERS”) and there is still lots of market share available for them, especially with their lower-cost non-monitored solution.

There are also brand-new initiatives for PERS-like solutions for classes of employees like hotel workers. As reported by NPR hotel workers are often exposed to dangerous situations like sexual harassment and measures are being taken to improve their safety and working conditions. One key element of these programs is a “panic button” device to be worn or carried that can be activated in case of danger.

Quick Present Future Value (PFV)			
Nxt-ID			
NYSE Ticker:	NXTD	Shares (M):	25
Market Cap (M)	\$31	Price	\$1.25
Est 2019 Revs (M):	\$22	P/S	1x
LT Growth Rate	25%		
Multiple	15	Debt	\$15.00
LT GM	70%	Debt/Share	\$0.60
LT OM	20%		
Revs T+4 (\$M)	\$54	PFV @5%	\$5.30
OM T+4 (\$M)	\$11	PFV @10%	\$4.40
Value T+4 \$M	\$161	PFV @15%	\$3.69
Price T+4	\$6.45	PFV @20%	\$3.11

Other applications include hikers, climbers, fisherman, hunters and children. Some national parks are beginning to consider these devices for safety reasons for all visitors. The non-monitored, low cost but very effective Logic Mark technology is a good fit for these types of applications.

Today the PERS market is \$1.85B/year according to Statista. Just focusing on their existing market, expanding consumer distribution and tapping a few new markets like hospitality would allow Logic Mark to be 5 or even 10x their current size. Execution is always critical, but the company is in a strong position.

During their Q3 investor update on November 15th, management indicated that some Logic Mark products would soon be available in some “big box” retail channels, both in-store and online, by the end of the year. We think that expanded distribution is likely to have a positive impact on revenue growth in 2019.

We revisited our earlier market analysis work and while there are competitive products Logic Mark still stacks up very favorably with respect to competition. This is especially true in the “no monthly fee” category. In addition, their track record as a provider to the VA gives them much more credibility in the space than other device makers.

The long-term story is set to benefit as Logic Mark works to tap into a much larger opportunity in the home market for digital health.

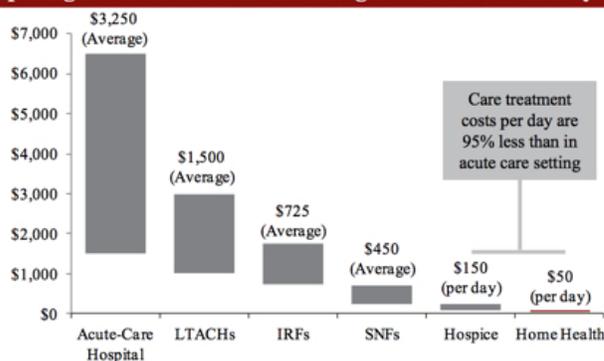
Home Healthcare is Huge

Home healthcare was a “hot” market space about 30 years ago when lots of care providers and insurance companies realized the opportunity to deliver traditional services like home injections, infusion therapy and nursing services as a new business opportunity outside hospitals, doctor offices and clinics.

In July of this year we saw the \$4.1B acquisition of Kindred Healthcare which includes Kindred at Home which will be owned 40% by insurance giant Humana (NYSE: \$HUM) with an option for them to acquire the rest at a later time.

It’s easy to see why home healthcare has grown so much – the cost advantages are staggering and it’s a much more efficient use of resources. The size of the home healthcare market is so large that it isn’t a factor in considering the opportunity for Nxt-ID – most estimates have it in the range of \$500B a year, growing at 7-8% per year.

Compelling Home Health Cost Advantages – Treatment Cost by Setting



There’s a fresh cycle of innovation, investment and growth now that digital technologies are able to perform a broad range of functions from basic monitoring to compliance, remote diagnosis and home treatment. The broad deployment of “Internet of Things” or simply “IoT” devices is making day-to-day remote monitoring a solvable problem.

The US FDA has embraced digital health technologies as a way to improve the

quality of care. They have even approved software that is designed to treat mental health conditions. To the surprise of many they have been constructive, supportive, even encouraging around the use of technology to deliver new methods and treatments.

A new protocol called Fast Healthcare Interoperability Resources (FHIR)¹ is becoming more standard and enabling real integration between myriad healthcare data sources and applications. There are still

The Big Guys are in the House

Digital health has become core strategic for Apple, Amazon and Google:

Apple has evolved their Watch to be much more of a health and fitness play than an extension of the iPhone for communications. Apple is bravely targeting the personal health record which has been a “third rail” for many technology companies due to regulations and privacy concerns. In 2016 Apple acquired Glimpse and

¹ <https://www.hl7.org/fhir/overview.html>
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integrated it into their HealthKit platform. Apple partnered with LabCorp that allows lab results to be distributed directly to your device. Apple is also working to advance more nascent platforms like ResearchKit (for medical treatments) and CareKit (for hospitals). Apple made a big leap forward with single lead EKG included in new Apple Watch. Overall Apple is shifting the Watch from just “health and wellness” to medical device. Non-invasive glucose monitoring may be coming. AirPods might become much more functional in monitoring and dealing with hearing loss. We expect to see much more from Apple and know they are currently “dog fooding” several offerings internally.

Amazon has formed a partnership with Berkshire Hathaway and JP Morgan to “create a new healthcare delivery model.” They have also acquired automated delivery pharmacy company Pill Pack for just under \$1B. Alexa can serve as infrastructure and an on-ramp to deliver myriad healthcare related services. So far the efforts at Amazon have seemed a little disjointed but they are likely to be a player – at least in so far as their infrastructure can be used as a platform for other companies to deliver services.

Google is focusing more on people right now. They made a splash with their recent hiring of David Feinberg who is a very respected healthcare executive. In addition, the long-term president of Cleveland Clinic, Dr. Toby Cosgrove joined Google earlier this year as did Dr. Robert Califf, a former commissioner of the FDA who went to work for Verily Live Sciences, Google’s healthcare data initiative.

There is a healthy skepticism regarding how well these “big tech” players will be able to operate in a regulated environment like healthcare. It’s very difficult for outsiders to understand the dynamics of the system and the needs of doctors and patients.

However, it at least illustrates that major investments are being made, at least in terms of infrastructure and learning. These will at least help with adoption.

Nxt-ID in Home Healthcare

NXTD management has talked a little about their plan to launch new products aimed at the home healthcare market. Mostly building on the Logic Mark platform but also incorporating some key assets that have existed inside Nxt-ID for some time.

Since the details are not available we have to speculate here to some degree although the path into the space is visible to us. We see the following components as part of the solution:

1. Updated Logic Mark device with additional capabilities like WiFi connectivity, voice interface, push to talk, fall detection, and location services. We expect this will take some time to develop and will be at a higher price point than the existing PERS offerings. Gross margin could also be lower but would be made up on software.
2. Software will be needed for configuration, control and data management. iOS and Android will need to be supported. It’s not clear if a kind of “hub” will be needed to handle processing, securing and storing persistent data. It’s tempting to try and use the cloud for the hub functions but in medical applications network reliability may not be adequate.

Nxt-ID is unlikely to do this alone. The market is already very active with a broad range of devices, services and solutions. For example, Medtronic makes devices for cardiac patients after they are released from the hospital. There are many similar specialized devices but these are not general purpose home care monitoring systems for the elderly or moderate risk population.

Although technology matters there is an ecosystem in healthcare that includes doctors, insurance providers and regulatory agencies. When Nxt-ID provides more information about their entry into this market we anticipate it will be in partnership with other companies.

Stock Conclusion

The three most important factors that should drive NXTD stock higher are 1) solid sustainable growth in the existing Logic Mark business, 2) high gross margins and 3) a pending TAM expansion after entering the home healthcare monitoring segment in 2019.

Our valuation snapshot is on page 1 but at the current prices shares offer substantial returns based on our \$3.60 PFV estimate. Even if one subtracts the outstanding debt the shares should trade closer to \$3.

There's no doubt current investors are eager to see further developments, particularly 1) expansion into new channels and 2) more details around the upcoming entry into home healthcare.

Today NXTD trades "ex-dividend" without the "PartX" business which has been spun-off and will begin trading towards the end of the year. We will be covering the PartX business separately closer to when the shares are trading.

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>