



## A HIGHLY UNUSUAL FINANCING

NXT-ID announced the completion of a round of financing to continue to fund development and expansion of their business that doesn't dilute existing equity holders and is accretive to shareholder value. To accomplish this win-win transaction the management team elected to surrender shares they own to offset the new shares issued. Management still retains a relatively large share of ownership going forward and is highly incentivized to maximize shareholder value.

Although it has probably happened before, in our 20+ years in the equity research business we can't recall such a transaction. There have been many cases where founders and early investors have been "crammed down" under duress, but this is case of adding capital to a company that has been increasingly successful.

The financing provides an initial \$1.35M less expenses plus an additional \$4.4M if the 1.35M warrants struck at \$3.25/share are exercised. [For convenience we have a copy of the recent 8K filing which describes all the details<sup>1</sup>. The proceeds of the transaction will be used to advance the commercialization of The Wocket, NXT-ID's innovative digital wallet product.

**Our base case intrinsic valuation (IV) estimate in December was just under \$10.93. Some minor revisions reflecting the financing assuming a full exercise of the warrants nudges our IV estimate to \$11.51.** The updated model is included in the Appendix.

We also note that this sends a clear signal to outside investors about the mindset of management to maximize total company value rather than their own ownership position. Further it shows that a growth company, even at the development stages, can bring in additional capital without dilution.

Because it should be viewed along with this brief note on financing we are including here a copy of our December update note which describes some of the recent developments in the payments space that allow us to have high confidence that some number of devices and solutions, and we believe one from NXT-ID, will provide superior protection and convenience to consumers, banks and businesses.

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<sup>1</sup> [http://s3.amazonaws.com/Published\\_Research/NXTD\\_8K\\_JAN\\_17\\_2014.pdf](http://s3.amazonaws.com/Published_Research/NXTD_8K_JAN_17_2014.pdf)

## APPENDIX – INTRINSIC VALUATION MODEL

NXT-ID

1/27/2014

### Intrinsic Valuation

Dec YE	2012	2013	2014	2015	2016	2017	2018	NXTD	Ticker
Total Revenue	\$0.3	\$0.5	\$6.9	\$20.7	\$51.8	\$103.5	\$165.6	Nasdaq	Exchange
YoY Growth		107.0%	1233.3%	200.0%	150.0%	100.0%	60.0%	423%	Rev Growth
COGS %	0.0%	50.0%	40.0%	36.0%	37.0%	37.0%	37.0%	\$4.65	Current Price
COGS \$	\$0.0	\$0.26	\$2.76	\$7.45	\$19.15	\$38.30	\$61.27	22	Shares Out
Gross Profit	\$0.3	\$0.3	\$4.1	\$13.2	\$32.6	\$65.2	\$104.3		
Gross Margin	100.0%	50.0%	60.0%	64.0%	63.0%	63.0%	63.0%	1%	Avg. Dilution
SG&A%	46.0%	154.6%	37.0%	29.0%	25.0%	22.0%	20.0%	\$102	Cap (M)
SG&A\$	\$0.1	\$0.8	\$1.65	\$6.00	\$12.94	\$22.77	\$33.12		
R&D %	30.0%	67.6%	21.7%	33.8%	30.9%	21.3%	18.1%		
R&D \$	\$0.1	\$0.4	\$1.5	\$7.0	\$16.0	\$22.0	\$30.0		
Operating Expenses %	76.0%	222.2%	45.7%	62.8%	55.9%	43.3%	38.1%		
Operating Expenses \$	\$0.2	\$1.2	\$3.2	\$13.0	\$28.9	\$44.8	\$63.1		
Operating Margin	24.0%	-172.2%	14.3%	1.2%	7.1%	19.7%	24.9%	\$7	Cash
Operating Income	\$0	-\$1	\$1	\$0	\$4	\$20	\$41		Debt
Taxes	\$0.0	-\$0.3	\$0.3	\$0.1	\$1.3	\$7.2	\$14.4	35%	Tax Rate
Tax Rate	35%	35%	35%	35%	35%	35%	35%	15	P/E Multiple
Net Income	\$0	-\$1	\$1	\$0	\$2	\$13	\$27	15%	Discount Rate
Net Margin	15.6%	-111.9%	9.3%	0.8%	4.6%	12.8%	16.2%		
Market Value Using P/E	\$1	-\$9	\$10	\$2	\$36	\$199	\$402	\$11.51	Intrinsic Value
Cash Position		\$7	\$7	\$8	\$10	\$23	\$50	147%	Up/Downside
PV of MV 4 Years Out	\$20	\$114	\$230						
PV of Cash 4 Years Out	\$6	\$13	\$29						
PV MV + Cash	\$26	\$127	\$258						
PV Value Per Share	\$1.19	\$5.72	\$11.51						



## SOUNDVIEW RESEARCH

NXT-ID INC. (OTC QB: TICKER \$4.25)

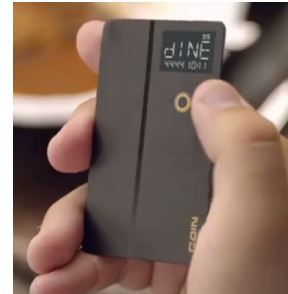
ENABLING CASH FROM THE CLOUD

KRIS TUTTLE AND STEPHEN WAITE – DECEMBER 11, 2013

### CASH IN THE CLOUD

Recently a new startup called Coin (<http://onlycoin.com>) has captured consumer attention with a slick video showing what a "digital wallet" might look like. The YouTube video (<http://youtu.be/w9Sx34swEG0>) is already over 7M views.

In another part of the digital cash universe Bitcoin has been in the news again with some frequency (both good and bad) and the value of the virtual currency has topped \$1000 for the first time. The Bitcoin phenomenon illustrates a desire for something like "pure cash" which offers both a "store of value" like gold and can be used for transactions.



**These industry developments increase our confidence and enthusiasm for the NXT-ID (NXTD) Wocket™ both as a digital wallet and a potential secure storage option for Bitcoins. As we outline below, the Wocket has a much more robust design in terms of security and usability.**

Investors are keenly interested in this "payments" space because it's the largest market out there (in gross terms anyway) and even a minuscule percentage of it can represent a massive opportunity. Because the business ultimately involves bits rather than bricks the margins are also very attractive. Leading companies like Visa (V), MasterCard (MC) and American Express (AXP) have been superior performing stocks over the long term and carry an aggregate market cap of roughly \$300B.

Smartphones are adding fuel to the digital payments fire. Why do we need to carry a wallet full of plastic cards and cash to handle day-to-day commerce? The example from Coin above illustrates that consumers are looking for more control and flexibility in handling their payments.

But the phones themselves are not very secure and most of the software comes from suppliers (including Google and Facebook) who are not very reliable when it comes to privacy and security. According to a Forrester survey in 2012 69% of US consumers are still "not interested" in using their mobile device for in-store payments and 58% are "very concerned" or "concerned" about privacy, security and safety when asked about mobile payments via their cell phone.<sup>1</sup>

Privacy is probably a bigger driver of consumer behavior around the digital wallet than security but they are both important. This fact helps us draw some conclusions about the requirements and methods for the digital wallet to reach mainstream adoption.

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<sup>1</sup> Forrester - Why the Digital Wallet Wars Matter August 2012

1. There will be a separate physical device (or devices) for commerce. The reasons are security, privacy and simple things like battery life. A wallet doesn't rely on daily charging.
2. A general solution has to be independent of any particular device or platform and be unrestricted in secure pairing options.
3. Biometrics and multi-factor authentication will make the digital wallet more secure than a physical one. "Person not present" is more effective than "card not present."
4. Connectivity and context will allow digital wallets to use context to improve reliability and reduce fraud. This is a big topic but basically more data and more processing allows for much better intelligence around individuals and even specific transactions.
5. There will be multiple methods. We already have EZPass for tolls and a Starbucks card for coffee. We'll see digital wallets, digital licenses, benefits cards and medical records.
6. Smartphones will be helpers and especially useful for less risky items like loyalty/rewards, coupons, tickets and promotions.
7. The lowly "stored value" cards used frequently by lower income and unbanked individuals might be adapted and see mainstream use as a cash substitute using dollars or virtual currencies like Bitcoin. Consumers want a cash-like peer-to-peer option.

NXT-ID has been working on their own solution to the digital wallet problem for some time now and expects to launch their product commercially at the end of Q1 2014. As we outline below the Wocket™ is a better-designed and more promising technology in many ways than anything else we have seen.



**Security:** Using a secure chip the Wocket can store 100's of cards and digital records. Authentication is multi-factor and includes biometrics. Cards go into the Wocket directly without involving unsecure intermediate steps.

**Usability:** The Wocket includes an ultra-lower power touchscreen display in addition to the dynamic magnetic stripe as both a UI and QR-code mechanism. A combination of power management, in-wallet charging and standard battery means that consumers won't have to fear a "dead wallet."

**Flexibility:** Rather than being tied to a phone or platform the Wocket can be paired with any device either locally or in the cloud when secure protocols are available. This dynamic pairing is a key feature of the NXT-ID approach and is a powerful and highly differentiated aspect of their technology.

## FUTURE SCENARIOS

The ultimate owners of the digital wallet and payment space will be the existing payment firms noted above but there are also lots of smaller dogs in that hunt. We'd include like Green Dot (GDOT), Total Systems (TSS), and The Western Union (WU). Tangentially but also importantly companies like LifeLock (LOCK) and even Tumi (TUMI) have roles to play in this market.

PayPal is well positioned as an alternative payment provider and has spawned a number of promising competitors like Square and Stripe. Some of the larger technology companies, notably Amazon, Google and Apple, are interested in online payments. So far they've been focused mostly on supporting online and "in network" transactions in conjunction with established payment systems.

All these players are going to need technology. It will take more than just a smartphone to address this market. So far we have not seen any company any more robust digital wallet solution outside of NXT-ID with their Wocket.

Our forecast is for the Wocket to ship at the end of Q1 2014 and begin to develop this market with early adopters. See our earlier reports for our specific sales estimates. Then we expect (but don't forecast) some of these established players to explore business development opportunities with NXT-ID around the Wocket.

This is much bigger though than just payments. The consumer-controlled electronic medical record is just the tip of another iceberg that can be addressed with technology like the Wocket. There's a mountain of work to do on standards and protocols but in order to re-engineer these business processes for the internet things need to get into digital formats.

## CONCLUSION

We believe in the digital conversion of our "wallet" over time and know that mobile devices alone won't be the answer for many years due to power limits, lack of privacy and security concerns.

Nobody knows if the NXT-ID Wocket is going to be "the one" but we do know that so far it's the most well designed product we have seen that is coming to market this year.

Our IV points to \$11 share price this year if they company delivers and executes according to plan. Investors should understand that this is an early-stage company working on a long-term strategy to capture a share of a significant market.

## APPENDIX: INTRINSIC VALUATION MODEL

NXT-ID

Dec YE	2012	2013	2014	2015	2016	2017	2018	
Reach		0.15	2.00	6.00	15.00	30.00	48.00	
Conversions		0.05	0.60	1.80	4.50	9.00	14.40	15-Oct-13
Wocket Sales		\$0.5	\$6.0	\$18.0	\$45.0	\$90.0	\$144.0	
Wocket Services		\$0.1	\$0.9	\$2.7	\$6.8	\$13.5	\$21.6	
YoY Change \$		0.3	6.4	13.8	31.1	51.8	62.1	
Total Revenue	\$0.3	\$0.5	\$6.9	\$20.7	\$51.8	\$103.5	\$165.6	
YoY Growth		107.0%	1233.3%	200.0%	150.0%	100.0%	60.0%	
COGS %	0.0%	50.0%	40.0%	36.0%	37.0%	37.0%	37.0%	
COGS \$	\$0.0	\$0.26	\$2.76	\$7.45	\$19.15	\$38.30	\$61.27	
Gross Profit	\$0.3	\$0.3	\$4.1	\$13.2	\$32.6	\$65.2	\$104.3	
Gross Margin	100.0%	50.0%	60.0%	64.0%	63.0%	63.0%	63.0%	
SG&A%	46.0%	154.6%	37.0%	29.0%	25.0%	22.0%	20.0%	
SG&A\$	\$0.1	\$0.8	\$1.65	\$6.00	\$12.94	\$22.77	\$33.12	
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Tax Rate	35%	35%	35%	35%	35%	35%	35%	
Net Income	\$0	-\$1	\$1	\$0	\$2	\$13	\$27	
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Market Value Using P/E	\$1	-\$9	\$10	\$2	\$36	\$199	\$402	
Cash Position		\$1	\$2	\$2	\$4	\$17	\$44	
Shares (M)	22	23	23	24	25	26	26	
Period Share Price	\$0	\$0	\$0	\$0	\$1	\$8	\$15	
PV of MV 4 Years Out	\$20	\$114	\$230					
PV of Cash 4 Years Out	\$2	\$10	\$25					
PV MV + Cash	\$23	\$124	\$255					
PV Value Per Share	\$1.04	\$5.47	\$10.93					

NXTD	Ticker
Nasdaq	Exchange
423%	Rev Growth
\$4.25	Current Price
22	Shares Out
3%	Avg. Dilution
\$94	Cap (M)
\$1	Cash
	Debt
35%	Tax Rate
15	P/E Multiple
15%	Discount Rate
\$10.93	Intrinsic Value
157%	Up/Downside

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<sup>1</sup> Bloomberg, Thomson/Reuters/FirstCall, S&P Capital IQ and FactSet.