



Summary

This season is famously bad in terms of liquidity in the stock market and especially for smaller, already thinly-traded issues. *Since successfully launching their secure digital Wocket and raising capital to fund marketing and production expansion for the upcoming holiday season shares of NXTD have been cut in half since our last published update in June.*

Part of the reason for the recent decline appears to be a direct result of a “sell” rating put on the shares by Zacks. It’s important to realize that the Zacks system is driven by a set of quantitative and **backward-looking** metrics. Their ratings are not based on what we would call traditional research into what future business trends will be. Methods like the one Zacks uses can be useful for well established companies like GE or Oracle but are worse than useless for emerging growth companies.

The situation is especially compelling given that NXT-ID remains precisely on the plan we dialed into to our estimates this year and next which feed directly into our Intrinsic Valuation (IV) value of \$7.47/share. There are certainly some potential near-term events like distribution partnerships that we have not factored into our numbers as of yet.

What follows is a more detailed account of company progress in Q2, the plans and outlook for Q3 and Q4, the terms of the capital raise and adjustments to our IV model based on them.

Recent Results

The most significant accomplishment in Q2 was shipping the first batch of pre-orders. The company will recognize some revenue (\$110K) for the quarter with the rest falling into Q3 due to the 2 week return period. Production level Wockets are in the field and being used. Initial indications are for an 80% success rate which is very good given the incredible diversity of POS devices and terminals. The company expects to get this up closer to 90% with some tweaks and software updates.

The second major hurdle cleared recently was obtaining the financing needed to fund the marketing and increased production required to be ready for the upcoming holiday shopping season. NXT-ID completed a \$3 million equity capital raise that provides sufficient funding to ramp up production and marketing of the Wocket. The capital raise included 1,72 million shares of common stock at \$1.75 per share as well a private placement of 860,716 warrants to purchase shares of common stock at an exercise price of \$2.35 per share. If exercised NXT-ID would receive another \$2M in funding.

NXT-ID shipped their first 2000 Wockets and raised capital to fund the marketing launch into the holiday shopping season.

Although nothing has been announced the management team has been working through a number of potential distribution arrangements and becoming operationally ready to be able to run at a 10,000 unit per month delivery rate.

One stealthy but potentially important note on recent results was the filing for a patent covering “Crypto-Currency Management” which isn’t a near-term driver but as the momentum behind blockchain-based technology keeps expanding the ability to address non-traditional digital currency will be important. (see further blockchain-related comments in the market section below.)

Market Update

The digital payments space has remained a hotbed of activity with PayPal now a separate public company (NASDAQ:PYPL) and Visa (NYSE:V) teaming up and funding Stripe. The proliferation of devices that can tie into future payment systems (like the Apple Watch and Moto 360) helps justify infrastructure updates that will make payments easier across a broad array of types – from cards to Wockets to phones to watches.

So far the Wocket remains the only true digital wallet without the need to be “tethered” to something else.

EMV has been in the news and NXT-ID has been planning for it for a long time. In order to fully support EMV the Wocket will be upgraded to include EMV and NFC technologies. It will take EMV quite some time to roll out to the masses of terminals out there so an upgraded Wocket later this year will enable consumers to use these

terminals when they begin to encounter them.

We’ve seen an explosion of activity around generalizing the blockchain technology underlying Bitcoin for all sorts of transactional applications. It may help legitimize usage. Although the Wocket isn’t about Bitcoin per se it’s in a good position to help consumers who want to use Bitcoin or other digital currencies.

Anecdotally we noted more “Bitcoin accepted here” signs on Cape Cod this summer. We made some inquiries and although usage is not commonplace in general more travelers are using Bitcoin as a kind of standard currency when they can. Rather than convert Euros to dollars they have brought Bitcoin. Maybe this is just due to the recent weakness in the Euro, or maybe it’s a trend. In any case this is the first time we’ve come into contact with Bitcoin run-of-the-mill consumer locations like restaurants, amusement parks and gift shops.

The events and players are distinct but in general the market is “more of the same” which is a concerted movement toward more digital, more secure and more mobile payments which is exactly where the Wocket fits. It remains to be seen how consumers sift through the myriad offerings and settle into what works for them. As we’ve stated before the Wocket is unique as an actual wallet replacement rather than something that is an extension of your smartphone.

Stock Conclusion

In the few years we’ve been working with and following NXT-ID the current moment offers the best risk/reward we’ve seen so far. The company has come a very long way since their IPO at \$1 and seen share prices as high as \$5.60 with a substantial period trading between \$4.5/share.

There are a few reasons we can point to in the short term – limited liquidity, a spurious and backward-looking downgrade from Zacks in the headlines and general “risk off” mentality as the world grapples with slowing growth and rising (at least in the US) interest rates.

We remain comfortable with our 40,000 unit assumption for 2015 based on the planned marketing campaign in Q3, a monthly production goal of 10,000 units and the upcoming holiday buying season. Market data suggests there is already demand for 100,000 to 200,000 units if it can be reached and serviced so at this point demand isn’t a limiting factor. Looking further out into 2016 our 120,000 unit number isn’t aggressive either.

We're tweaking our model to account for some more shares outstanding and also took the opportunity to add expenses for SG&A to support increased marketing and operational readiness. It has had only a minor impact on the IV estimate – taking it from \$8.28 to \$7.47.

As we mentioned at the start of the note the risk/return from the current stock level is very attractive. Longer-term investors will also note that our the IV for 2016 doubles so if NXT-ID exits 2015 with good momentum there is quite a bit of additional upside.

NXT-ID	Price	\$1.20						
NXTD	IV	\$7.47						
11-Aug-15	Delta	523%						
NXT-ID	2015	2016	2017	2018	2019	2020		
Wocket Units (K)	40	120	300	600	975	1500		
Wocket Price	\$150	\$150	\$150	\$150	\$150	\$150		
Wocket Services	\$600	\$1,800	\$4,500	\$9,000	\$14,625	\$22,500		
Sales	\$6,600	\$19,800	\$49,500	\$99,000	\$160,875	\$247,500		
YoY Growth	NA	200.0%	150.0%	100.0%	62.5%	53.8%		
Gross Margin%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%		
Gross Profits	\$3,960	\$11,880	\$29,700	\$59,400	\$96,525	\$148,500		
SGA %	90.9%	60.6%	50.5%	45.5%	37.3%	32.3%		
SGA \$	\$6,000	\$12,000	\$25,000	\$45,000	\$60,000	\$80,000		
Net Operating Margin	-30.9%	-0.6%	9.5%	14.5%	22.7%	27.7%		
Operating Income	-\$2,040	-\$120	\$4,700	\$14,400	\$36,525	\$68,500		
Taxed Operating Income	-\$1,326	-\$78	\$3,055	\$9,360	\$23,741	\$44,525		
Market Value Using P/E	-\$19,890	-\$1,170	\$45,825	\$140,400	\$356,119	\$667,875		
Cash Position	\$0	-\$78	\$2,977	\$12,337	\$36,078	\$80,603		
Shares (K)	30,000	30,600	31,212	31,836	32,473	33,122		
Period Share Price	-\$1	\$0	\$1	\$4	\$11	\$20		
PV of MV 4 Years Out	\$203,612	\$381,860						
PV of Cash 4 Years Out	\$20,628	\$46,085						
PV MV + Cash	\$224,240	\$427,945						
PV Value Per Share	\$7.47	\$13.99						
							NXTD	Ticker
							NASDAQ	Exchange
							113%	Rev Growth
							\$1.20	Current Price
							30,000	Shares Out
							2%	Avg. Dilution
							\$0	Debt
							35%	Tax Rate
							15	P/E Multiple
							15%	Discount Rate
							\$36	Cap (M)
							\$0	Cash
							\$7.47	Intrinsic Value
							523%	Up/Downside

Editor's Note: This article covers one or more stocks trading at less than \$1 per share and/or with less than a \$100 million market cap. Please be aware of the risks associated with these stocks.

Glossary of Terms

IV or Intrinsic Value is our method of evaluating growth stocks. Over the last twenty years we've found that most traditional measures like P/E, PEG, and even DCF models are not effective at arriving at a single price point that represents the true value of the future prospects of a company. It has some things in common with a DCF approach but deviates by focusing instead on long-term market value since it's more akin to what a growth stock delivers than stable cash flows.

POS is an abbreviation for "Point of Sale" systems which include terminals which handle your credit cards to back office computers that interface with the large payment processors and gateways.

Disclosures

SoundView serves as a strategic advisor to NXT-ID and provides this research note for informational purposes only. SoundView does not have "ratings" and is not an investment bank, broker/dealer or registered investment advisor.

We've undertaken to research all facts presented here but can make no promises that they are correct or that our reasoning and supporting intrinsic valuation model is an accurate depiction of the future. SoundView employees may have positions in stocks they work on however at the time of this writing we are not aware of any outstanding positions in the shares of NXT-ID.