



## Summary

Nxt-ID has grown and evolved into a security technology company that uses partnerships and acquisitions to monetize their innovations and reach into multiple end markets. The LogicMark business in healthcare is already generating substantial revenue and the WorldVentures business with the “Flye” smart card is about to enter a high volume stage of deliveries and begin to generate revenue as well. We will see these two areas expand and others added. Most recently Nxt-ID has joined the Cisco Solution Partner program to provide biometric and encryption solutions in conjunction with other ecosystem partners. [Investors should recall that in Q1 of this year Cisco paid \$1.4B to acquire Jasper to leverage their IoT platform in the enterprise market.]

We will be monitoring each area individually as it grows and contributes to the overall business. From a positioning standpoint, investors should consider Nxt-ID as a technology provider as shown in the figure below. The company strategy is to grow the existing partnerships aggressively in 2017 and add new ones that will drive growth in 2018 and beyond.



The rest of this report goes into greater depth on the newly-added LogicMark business in PERS and also the existing smart card business – both the WorldVentures Flye card and the evolution of the original Wocket card/wallet. We’ve also included a brief update regarding the third quarter of 2016 along with a brand new IV model which supports a share price of \$18. We will get more details out after the company holds their full ER call in mid-November.

## Recent Q3 Developments & Financial Results

In our August research note we highlighted the completion of an acquisition (LogicMark) which marked a big transition for NXT-ID from an early stage, largely pre-revenue company to one with commercial metrics of growing revenue and improving EBITDA.

After the stockholders meeting on September 1<sup>st</sup> the company completed their reverse stock split and other matters pertaining to the stock and balance sheet. The full details can be found in the SEC filings. These actions have allowed NXT-ID to achieve compliance with NASDAQ and free themselves to focus on growing the core businesses and extending their reach into new markets.

A clear harbinger of better things came in the release of preliminary Q3 results on October 10<sup>th</sup>. The company announced (emphasis ours):

**“Revenues were approximately \$3M for the three months ended September 30, 2016 compared to \$418K for the same period in 2015.** Revenues from the recent LogicMark acquisition were included from July 25, 2016, and accounted for approximately 90% of the increase from the comparative period in 2015. **The operating loss for the three months ended September 30, 2016 narrowed to approximately \$500K compared to an operating loss of \$3M for the same period in 2015.** The net loss for the three months ended September 30, 2016 was approximately \$1.5M after approximately \$1,000,000 in interest expense compared to a net loss of \$3.543M for the three months ended September 30, 2015.”

To summarize – \$3M in revenue and a \$500K operating loss versus \$418K in revenue and a \$3M operating loss a year ago. To be fair, interest charges were still substantial but we expect this to improve in the next several quarters.

In the very short-term, Q4 should offer another step-up in business results since we will see a full quarter of LogicMark in the results and deliveries of the WorldVentures smart card will commence in Q4 as well.

In 2017 NXT-ID will no longer be a company with regular reports of growing revenues and narrowing losses. For the next year we are expecting total revenues of \$37M with very easy YoY comparisons all year long. The current market cap is less than 1x 2017 revenues and compares to our IV of \$18 /share. (See our updated IV model in the valuation section below.)

Longer-term we expect to see more developments:

- 1) NXT-ID has broad ambitions around their competencies and IP in biometrics, security, sensors, miniaturization and business development. That means they have quite a few “irons in the fire” with a range of partners, large and small. NXT-ID is the tail on the dog and often can’t control the outcome or timing of these initiatives. However, some of them are likely to come to fruition.
- 2) LogicMark is a major expansion for NXT-ID into a new market that offers myriad possibilities. It’s a solid business today with some obvious near-term growth catalysts for the next year. But we see robust activity and investment in what we’ll call the **convergence of the internet of things (IoT) and healthcare**. This is a market that will **bring together two-way communication, sensors, biometrics and security** to make home and remote care for chronic medical conditions, including “aging in place”, a reality.

## LogicMark, Sensors, Monitoring and Real-Time Communications

LogicMark has built a business around emergency communications in healthcare. They have a strong business with the VA today, serving veterans who suffer from chronic conditions which often require emergency assistance. That business is steady and growing. Revenue projections for calendar 2017 for the company are around \$17M.

The family of products offered by LogicMark include monitored and “no monthly fee” solutions. The monitored systems report to a 24/7 call center and carry a monthly fee. They also offer devices for one-time purchase that call friends and family or 911 and don’t have a monthly fee. We’ve included a few pictures of some of their products. The CaretakerSentry is their most customizable and full-featured offering. It provides two-way voice communication through the base station and/or a pendant, on-demand and will communicate with a 24-hour call center through landlines or optional cellular accessory. It will also allow for a “caretaker” number to be programmed that can be activated from the base station. The customization of the CaretakerSentry makes it a popular platform option for dealers who want to provide tailored solutions to their customers.



One of the newer, more popular devices from LogicMark is the Guardian Alert Plus which offers pushbutton access to make a 911 call and works over standard cellular networks.

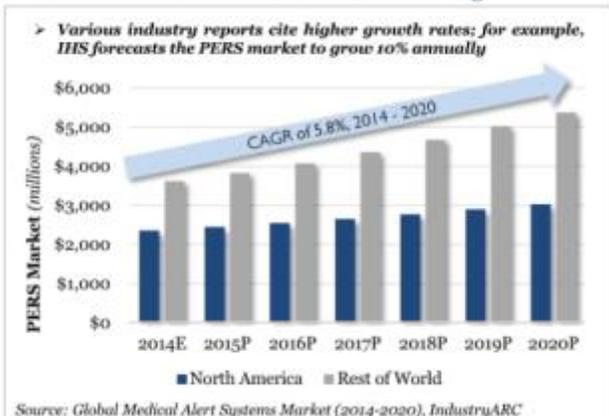
The GA+ is small enough to be worn as a pendant, clipped to a belt or carried in a pocket or purse. For emergency use this device is an ideal solution for many with no monthly fees and portability for use away from home. LogicMark has a number of good products but the combination of features and functions offered by the GA+ is likely to make it a very strong product in the portfolio.

This is a very fragmented market and LogicMark is nascent brand with consumers. We note that they get mostly very favorable

reviews. In contrast, large would-be competitors like Phillips get fairly low marks. If LogicMark continues to improve their product line and increase their channel reach and effectiveness, they can gain significant market share.

There are three huge trends driving this market – 1) the aging population, 2) desire to “age in place” and 3) the acute need to lower cost of care. The end result is a large and growing market today for PERS devices and what we expect will be a much larger market that more broadly deals with remote healthcare monitoring and management.

### ...Demand for PERS Products is Increasing



The opportunity for LogicMark is broader. These devices are suitable for anyone suffering from chronic health conditions, including old-age. The communication enabled can also be with remote care providers or family in addition to traditional emergency services.

## Remote Healthcare

Research has illuminated the promise of “health monitoring and management using IoT and cloud-based processing.” This diagram<sup>1</sup> provides something of a roadmap of ideas and technologies as we converge on complete solutions for remote monitoring, diagnosis, management and treatment.

The long-term trend toward more home-based care is a massive shift that has to occur over the next decade. This is forced by the aging population and basic economics. People also value autonomy and privacy which are important factors in determining which solutions will suit the market.

There are a range of companies that will vie for a piece of this new market. NXT-ID with LogicMark will be one of them, but they will have to navigate a field of direct competitors and exploit partnerships to extend their capabilities.

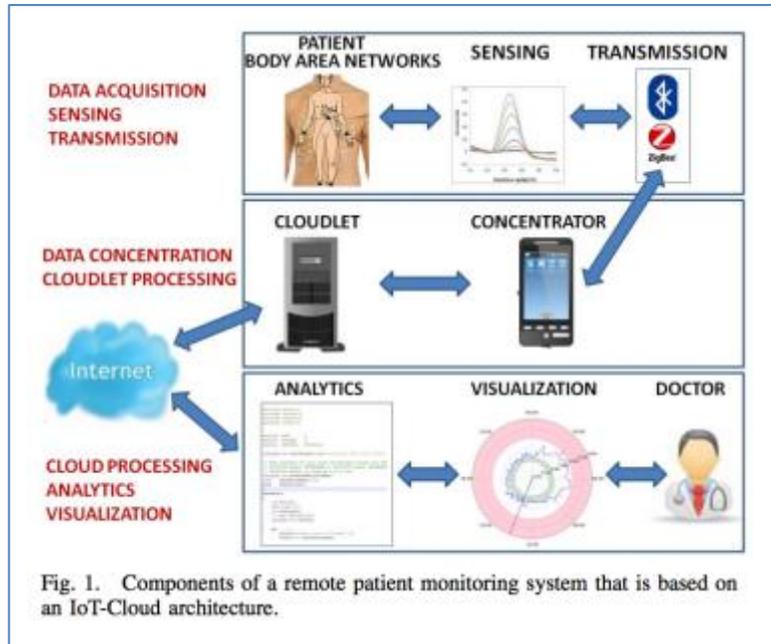
Sensors are already in the commercial stages. For example, iRhythm (NASDAQ: IRTC) just completed their IPO. They offer a simple device that a patient sticks on their chest which enables continuous heart monitoring for the millions of patients with heart arrhythmias. Using data analysis, they can determine which heart patterns are risk factors for stroke and which are not.

This is a hotbed of activity with companies focused on measuring physical activity, heart rate, skin temperature, blood glucose levels, blood pressure, respiratory rate, muscle activity, etc. Many of these approaches rely on minimally or non-invasive methods to gather their data.

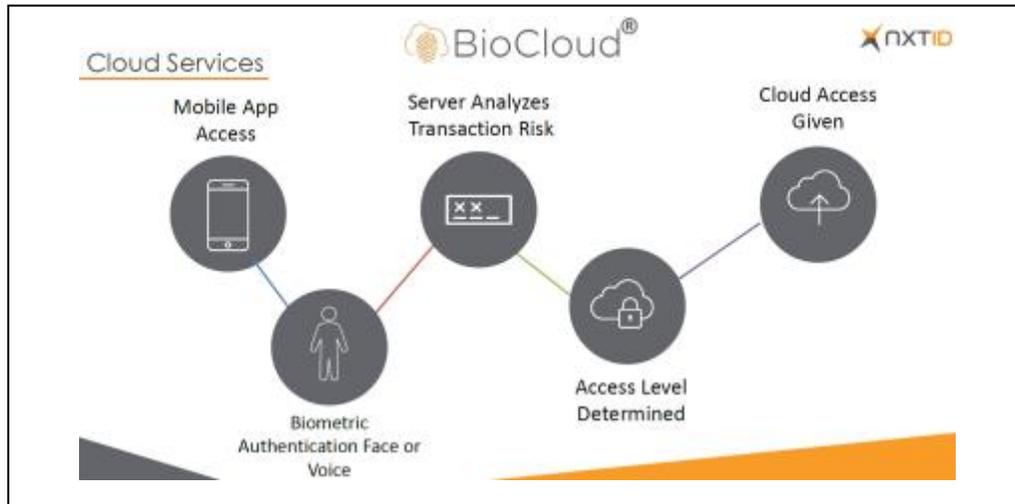
## IoT drives need to NXT-ID security and biometric technologies

Consumers are beginning to enjoy the benefits of smart home technologies and online digital assistants. It’s still early days, but they are starting to be useful. But did you know that anyone can talk to your Alexa and control whatever you have set up? That might include not just the things in your home but any of your online accounts.

Voice-based security is an obvious approach to this problem and the NXT-ID VoiceMatch™ is a strong solution. This is especially true when coupled with a cloud-based approach as shown below with the NXT-ID BioCloud™ which combines biometrics with encryption and distributed access control.



<sup>1</sup> Health Monitoring and Management Using Internet-of-Things (IoT) Sensing with Cloud-based Processing: Opportunities and Challenges. IEEE Computer Society, 2015 Conference on Services Computing. NXT-ID Update Note November 2016



Security and privacy concerns are already central to the adoption of IoT solutions which provides a target-rich environment for NXT-ID to collaborate and license their technology to the consumer-facing firms that are charging after the IoT opportunity.

We're beginning to see startups like Atlas5D in Cambridge, MA, which is focusing on in-home health monitoring using infrared-spectrum sensors like the ones in Microsoft Kinect to quantify patient actions. By not using video, they can ensure customers that their in-home privacy will be maintained.

We will need high bars set for many IoT applications which will hinge on strong security and biometrics. We know that some well-established OEM vendors in this space have made inquiries regarding components of the NXT-ID BioCloud and their biometric authentication technology.

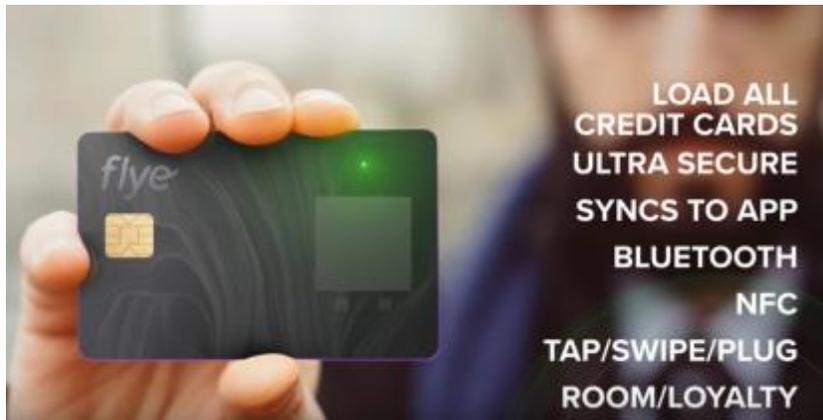
### Smart Cards and e-Wallets

Before we get to the WorldVentures card, investors should note that the technology pioneered in the Nxt-ID "Wocket" has continued to develop in both range of capability while shrinking in size. This provides a technology package that can be integrated into a "smart wallet" that has the same technology as Apple Pay or into a card that can be used for a variety of transactions including – magnetic stripe, NFC, tokens, barcode/QR codes and there can also be an EMV chip and a Bluetooth Beacon for remote sensing and response applications. Versions of this technology package provide a functional and secure "vault" that allows for full consumer control and customization by OEMs and solution providers.

The WorldVentures "Flye" smartcard is poised to finally deliver on the smart card vision that appeared in videos years ago. The card is aimed at WorldVentures members who care about travel, food and entertainment. That demands more than payments and includes loyalty programs and security features for peace of mind when traveling.

The Flye card is designed to work in synchrony with the WorldVentures smartphone application. So it's a "tethered" solution, albeit wirelessly. WV has a comprehensive vision for their card that includes the ability to deliver highly tailored membership experience.

This new Flye card will offer new and unique features compared to any other "card" in the market. It handles the core functions like loading in multiple cards, gathering loyalty points while opening up new opportunities - for example the Bluetooth Beacon makes it simpler for service providers to automatically open doors, provide access, initiate requests or any number of things – all with software.



Who is WorldVentures? They are a membership club for frequent travelers with over 500,000 members. Members pay an initial fee of \$200-\$300 and then \$50-100/month. A feature of the WV business model is the network-based selling model made popular by Amway and other multi-tier marketing organizations.

There is certainly some controversy around WorldVentures in particular and how much their members can make as sellers rather than simply enjoying benefits as travelers. What's important for us with respect to WV is that they are providing an excellent showcase for what this card technology can do with the right vision and software, and they can be a major distribution channel for Nxt-ID.

WorldVentures is large and successful enough to issue a sizable purchase order and pay upfront for Nxt-ID to co-develop the Flye card for their members. It's another tool for them to offer to a large group of eager adopters.

The vision and design behind the Flye card is spot on. We've heard from large organizations like Priceline (PCLN) that combining booking, reservations, reviews, loyalty and payment is what customers will eventually be doing. Right now there isn't a simple way to do that.

## Valuation

Now we have a revenue and earnings basis upon which to build a new IV model for NXTD. We will get more details after the company reports full Q3 results but based on what we already know, Nxt-ID will be reporting consistent revenues against very easy YoY comparisons for the next several quarters.

Our new model mostly reflects the additions of LogicMark and WorldVentures. With respect to LogicMark, we believe new products and expanded distribution will propel growth even faster as we get later in 2017 and into 2018. The Cisco arrangement is new, but as part of the Cisco IoT ecosystem we expect Nxt-ID to generate some revenues from this channel in 2017 and for it to ramp in 2018. Additional technology integration deals could add to our projections but none are "baked in."

One area we have been extra conservative in is the WorldVentures Flye card. If the card takes off (sorry!) then the revenues could be very materially beyond what we have modeled. But 1) we want to see the card in the field and 2) we want to see how WorldVentures rolls it out to members – existing ones and new ones. The second point is a big swing item regarding our future estimates of their demand for more cards from Nxt-ID.

At the current price, the stock is trading well under 1x 2017 sales and our IV suggests an \$18 near-term price objective.

Intrinsic Valuation							
Dec YE	2016	2017	2018	2019	2020	2021	
Total Revenue	\$8.50	\$37.50	\$47.0	\$60.1	\$71.0	\$87.5	NXTD
YoY Growth	na	341.2%	25.3%	27.9%	18.1%	23.2%	Nasdaq
COGS %	50.0%	45.0%	46.0%	47.0%	48.0%	49.0%	\$3.65
COGS \$	\$4.25	\$15.00	\$21.62	\$28.25	\$34.08	\$42.88	7.0
Gross Profit	\$4.3	\$22.50	\$25.4	\$31.9	\$36.9	\$44.6	\$26
Gross Margin	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	\$7
SG&A%	145.1%	53.3%	38.3%	30.0%	28.2%	27.4%	\$15
SG&A\$	\$12.33	\$20.00	\$18.00	\$18.00	\$20.00	\$24.00	2%
R&D %	8.8%	0.0%	0.0%	0.0%	0.0%	0.0%	
R&D \$	\$0.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Operating Expenses %	153.8%	53.3%	38.3%	30.0%	28.2%	27.4%	35%
Operating Expenses \$	\$13.1	\$20.0	\$18.0	\$18.0	\$20.0	\$24.0	20
Operating Margin	-103.8%	6.7%	15.7%	23.0%	23.8%	23.6%	15%
Operating Income	-\$9	\$3	\$7	\$14	\$17	\$21	
Taxes	-\$3.1	\$0.9	\$2.6	\$4.8	\$5.9	\$7.2	\$18.16
Tax Rate	35%	35%	35%	35%	35%	35%	398%
Net Income	-\$6	\$2	\$5	\$9	\$11	\$13	
Net Margin	-67.5%	4.3%	10.2%	15.0%	15.5%	15.3%	
Market Value Using P/E	-\$115	\$33	\$96	\$180	\$220	\$268	
Cash Position	-\$6	-\$4	\$1	\$10	\$21	\$34	
PV of MV 4 Years Out	\$126	\$153					
PV of Cash 4 Years Out	\$12	\$19					
PV MV + Cash	\$138	\$173					
PV Value Per Share	\$18.16	\$22.36					

## Company Background

Investors should take note of both the IP position of NXT-ID, the core management team, board of directors and company advisors.

### Intellectual Property

NXT-ID has numerous non-trivial patents pending. Many of these focus on tokenization and protection, as well as payment methodology, voice biometrics, and other biometric forms of directed payment. The first patent that is about to be issued surrounds a unique way in which we can identify someone making a transaction.

Although patents without applied knowledge are not always valuable, we think that it's worth enumerating recent filings of patent claims to provide a flavor of the position of NXT-ID IP. It's also helpful to understand the fairly obvious application of these methods to solve existing problems in security, privacy and payments.

**Method for replacing traditional payment and identity management systems and components to provide additional security and a system implementing said method** - Filed October 8, 2013 / Application Number 14/049175

**The un-password: real-time multi-factor authentication via dynamic pairing** - Filed March 17, 2013 / Application Number 61/802,681

**The un-password: risk-aware end-to-end multi-factor authentication via dynamic pairing** - Filed March 17, 2014 / Application Number 14/217,202

**Universal authentication and data exchange method, system and service** - Filed March 17, 2014 / Application Number 14/217,289

**Methods and systems to add electronics to materials to form a smart wallet** - Provisional application filed September 2, 2014 / Application Number 62/044,496

**Method to locally validate identity without putting privacy at risk** - Non-provisional application filed September 1, 2015 / Application Number 14/842,252

**Distributed method and system to improve collaborative services across multiple devices** - Non-provisional application filed February 8, 2016 / Application Number 15/018,496

**Voice directed payment system and method** - Non-provisional application filed February 10, 2016 / Application Number 15/040,984

**Miniature, multi-purpose antenna method and system for low-power close-proximity communications and energy transfer** - Provisional application filed April 3, 2015 / Application Number 62/143,028

**Personalized and intelligently connected method and system to authenticate and backup data on a device**  
Provisional application filed June 23, 2015 / Application Number 62/183,298

**Behavioral-directed authentication method and system** - Provisional application filed July 5, 2015 / Application Number 62/188,684

**Personalized tokenization system and method** - Provisional application filed July 14, 2015 / Application Number 62/192,218

**Method and system to securely suggest loyalty and payment account information and advertise consumer information** - Provisional application filed July 15, 2015 / Application Number 62/192,688

The real value of IP exists in the application of these methods in the real world in the form of working products.

### *NXT-ID Management*

**Gino Pereira, CEO** has over 30 years of experience in finance and operations with technology companies in the United States, Europe, and the Far East, including large multinational companies. During the past 15 years, he's been an entrepreneur and done about five different startup companies. A couple of them have turned into public companies. Gino is an accountant by training in the U.K. and has an MBA with a specialty in finance.

**David Tunnell, CTO** is an expert in biometrics and cryptology. He used to work at the **NSA** and taught courses at the **National Cryptologic School**. There is a trove of experience in encryption technology for him to apply here.

The board members — **Major General David Gust** was formerly in charge of all the **purchasing in the U.S. Army** for communication systems. **Mike Remedios** is **chief technology officer of WorldVentures Holdings** and was also a member of the Technology Board for eBay, when they also owned PayPal and Skype, as well as working in some major corporations.

**Stan Washington** is formerly of **American Express** and has extensive experience, both in the payments space and in understanding consumers in the payments and the clients of American Express, which is very relevant.

**Dan Sharkey** is the head of our audit committee. He was the chief management officer and executive VP of business development at **ATMI, the semiconductor company**, that he saw all the way through listing on NASDAQ to being successfully **sold to Entegris for \$1.15B in 2014**.

On the NXT-ID advisory board serves **Lawrence Flanagan**, who is currently the **president and CEO of AARP Member Services**. He was formerly the chief marketing officer of **MasterCard Worldwide**. He's also formerly from **Procter & Gamble**.

**Ken Moy** is the director of **global payments and emerging commerce at Subway**. He was formerly head of emerging payments at **MasterCard Worldwide**.

**Bill Fields** is the **former president and CEO of Walmart retail stores**. He was also the CEO of Blockbuster and recognized industry-wide for his expertise in retail and distribution. He also played a decisive role in all the different products that Walmart purchases from around the world.

### Additional Disclosures

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