

Nextech3D.AI Corporation (NEXCF)
Rating: Buy

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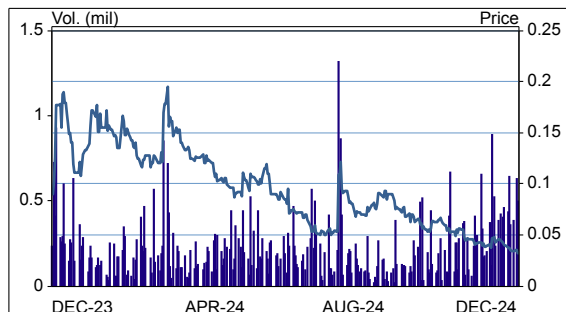
Updating Model on 3Q24 Results, Revenue Remains Slower to Materialize as Competition Builds; Reit. Buy, \$0.25 PT

Stock Data		12/3/2024		
Price		\$0.03		
Exchange		OTC		
Price Target		\$0.25		
52-Week High		\$0.23		
52-Week Low		\$0.03		
Enterprise Value (M)		\$5		
Market Cap (M)		\$5		
Shares Outstanding (M)		143.3		
3 Month Avg Volume		271,216		
Balance Sheet Metrics				
Cash (M)		\$0.1		
Total Debt (M)		\$0.0		
Total Cash/Share		\$0.00		
EPS (\$) Adjusted				
Full Year - Dec	2023A	2024E	2025E	
1Q	(0.06)	(0.01)A	--	
2Q	(0.06)	(0.01)A	--	
3Q	(0.05)	(0.01)A	--	
4Q	(0.07)	(0.01)	--	
FY	(0.24)	(0.05)	(0.05)	
Revenue (C\$M)				
Full Year - Dec	2023A	2024E	2025E	
1Q	1.3	1.0A	--	
2Q	1.4	1.1A	--	
3Q	1.2	0.8A	--	
4Q	1.1	1.4	--	
FY	5.0	4.3	5.5	
EBITDA (\$) Adjusted				
Full Year - Dec	2023A	2024E	2025E	
1Q	(4.6)	(2.2)A	--	
2Q	(4.4)	(1.5)A	--	
3Q	(3.8)	(1.2)A	--	
4Q	(3.0)	(1.1)	--	
FY	(15.7)	(6.0)	(4.4)	

Competition putting pressure on core modeling business. On November 29, NexTech3D.ai released finalized operating results for the period ended September 30, 2024. Results were largely disappointing as the company generated just \$0.8M of revenue during the quarter, down both sequentially and year over year. Much of the decline was attributed to increasing competition within the 3D modeling space. However, we believe becoming a certified 3D content provider for Amazon (AMZN; not rated) and the launch of AI Generated FOTOppt.ai Toggle Studio could be potential revenue catalysts for 2025. In addition to Amazon, we believe the company continues to pursue enterprise contracts. Gross margin of 71.0% represented a meaningful year over year improvement reflecting the company's offshoring efforts, moving much of the business operations to India in late 2023. Over time, as revenue scales, we believe the company should be positioned to generate gross margin of more than 80.0%. While revenue has been slower to materialize, as revenue scales the company is positioned to deliver meaningful operating leverage and an accelerated timeline towards profitability and free cash flow. We do believe shares remain under some pressure as it remains clear the company needs to raise additional capital to fund growth initiatives into 2025. Some investors may be waiting for a more stable balance sheet before getting involved in NEXCF shares. On what we consider a favorable risk reward profile, we remain Buy rated with a \$0.25 price target on NEXCF shares.

Adjusting estimates, introducing 2025, price target unchanged. We are reducing our revenue forecast for 2024 reflecting softer 3Q24 revenue results. We are now modeling 2024 revenue of C\$4.3M, a decrease from C\$5.6M previously. This is now down from 2023 levels. However, we expect an acceleration of revenue growth beginning in 2025 as the company gains new traction from its relationship with Amazon. As lower revenue is offset by lower operating cost, we are modeling an adj. EBITDA loss of C\$6.0M in 2024. While visibility remains difficult, we are introducing 2025 revenue and adj. EBITDA forecast of C\$5.5M and loss of C\$4.4M, respectively. We are leaving our price target unchanged at \$0.25.

Valuation attractive given meaningful revenue growth opportunity and path to profitability. We are valuing NEXCF shares at \$0.25, reflecting approximately 8.0x EV/revenue multiple on our current 2025 revenue estimate of C\$5.5M. Our \$0.25 price target represents approximately 700.0% upside from recent trading levels but consistent with the 52-week-high. A targeted 8.0x EV/revenue multiple represents a premium to other small capitalization technology peers operating within the augmented reality, virtual reality, and metaverse space. We view this as warranted in the near term as the business should begin to ramp quickly given recent partnership announcements and anticipated revenue generation. As the company begins to demonstrate its ability to drive meaningful revenue growth, improve gross margin expansion, and achieve consistent profitability we believe new investors should be attracted to NEXCF shares.



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Risks. (1) Dilution risk should the company raise additional capital given current cash burn; (2) high levels of industry competition; (3) technology risk; (4) M&A and integration risk; (5) partnership risk given partnership agreements; (6) foreign operation risk as the company operates in several jurisdictions with different levels of regulatory oversight; and (7) liquidity risk.

Nextech3D.AI Model - NEXCF															
H.C. Wainwright & Co., LLC															
(Canadian dollar \$000s); December Year-End															
Fiscal Year in \$ 000's	2019	2020	2021	2022	2023				2024				2025		
	2019E	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23A	2023A	1Q24A	2Q24A	3Q24A	4Q24E	2024E	2025E
Revenue															
Gross revenue	4,004	17,686	25,935	3,225	1,301	1,405	1,178	1,149	5,033	1,025	1,109	756	1,436	4,326	5,538
Cost of revenue	1,656	7,835	16,096	1,593	767	875	1,036	908	3,586	498	288	219	359	1,365	1,468
Gross profit	2,348	9,851	9,839	1,632	534	530	143	240	1,447	526	820	538	1,077	2,961	4,071
Gross margin	58.6%	55.7%	37.9%	50.6%	41.0%	37.7%	12.1%	20.9%	28.7%	51.4%	74.0%	71.1%	75.0%	68.4%	73.5%
Operating expenses:															
Sales and marketing	2,608	9,609	16,815	5,013	1,650	1,359	868	670	4,547	583	392	557	569	2,101	2,102
General and administrative	1,762	5,841	13,881	13,378	2,592	2,674	1,992	2,105	9,363	1,387	1,589	960	1,052	4,988	4,538
Research and development	721	3,592	6,612	3,892	880	877	1,064	429	3,250	738	345	267	536	1,886	1,873
Total costs and expenses	5,092	19,042	37,308	22,283	5,122	4,910	3,923	3,204	17,159	2,708	2,326	1,783	2,158	8,975	8,513
Operating income	(2,744)	(9,191)	(27,470)	(20,651)	(4,588)	(4,380)	(3,781)	(2,963)	(15,712)	(2,182)	(1,506)	(1,246)	(1,081)	(6,014)	(4,442)
Adj. EBITDA	(2,744)	(9,191)	(27,470)	(20,651)	(4,588)	(4,380)	(3,781)	(2,963)	(15,712)	(2,182)	(1,506)	(1,246)	(1,081)	(6,014)	(4,442)
Adj. EBITDA margin	-116.9%	-93.3%	-105.9%	-640.4%	-352.6%	-311.8%	-320.8%	-258.0%	-312.2%	-212.9%	-135.8%	-164.7%	-75.3%	-139.0%	-80.2%
Other expense (income)															
Stock based compensation	391	5,665	5,030	1,716	1,171	1,084	1,305	(1,785)	1,776	449	146	(299)	250	547	1,095
Amortization	190	672	2,050	2,656	531	500	565	510	2,106	0	0	0	0	0	0
Right of use amortization	0	0	206	77	56	(0)	0	0	56	0	0	0	0	0	0
Gain on digital assets	0	0	(219)	(381)	195	0	0	(195)	0	0	0	0	0	0	0
Impairment	69	69	0	3,178	184	(35)	0	7,440	7,590	0	0	0	0	0	0
Gain on sublease recognition									(121)	0	0	0	0	0	0
Loss on asset disposal									86	0	0	314	0	314	0
Loss on contingent consideration	0	0	(1,573)	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	22	83	133	123	29	16	20	23	88	25	35	35	40	135	140
Foreign exchange gain (loss)	10	10	(268)	(1,346)	(94)	743	(520)	(129)	0	0	32	18	0	50	32
Total other income	682	6,500	5,360	6,023	2,072	2,308	1,370	5,830	11,580	474	213	68	290	1,045	1,267
Income (loss) before income taxes	(3,426)	(15,691)	(32,829)	(26,674)	(6,660)	(6,689)	(5,151)	(8,793)	(27,292)	(2,655)	(1,719)	(1,314)	(1,371)	(7,060)	(5,710)
Income tax provision	0	97	177	(36)	(9)	(9)	0	48	30	0	0	0	0	0	0
Deferred income tax recovery					105	99	(203)	0	(0)	(12)	0	0	0	0	0
Net Income	(3,426)	(15,594)	(32,652)	(26,037)	(6,563.9)	(6,598.9)	(5,353.9)	(8,744.8)	(27,262)	(2,667.6)	(1,719.0)	(1,314.1)	(1,371.1)	(7,060)	(5,710)
Net Income Margin %															
Income from discontinued operations				(1,341)			(108.5)	(344.4)	(453)	0.0					
Other comprehensive income:															
Exchange difference on translating foreign operations	0	(253)	227	(433)	(96)	454	(302)	(205)	(149)	(16)	(9)	2	2	(21)	(44)
Comprehensive income (loss)	(3,426)	(15,846)	(32,425)	(27,811)	(6,660.377)	(6,145)	(5,764)	(8,950)	(27,863)	(2,684)	(1,728)	(1,312)	(1,369)	(7,080)	(5,753)
Basic Earnings Per Share	(\$0.06)	(\$0.23)	(\$0.39)	(\$0.26)	(\$0.06)	(\$0.06)	(\$0.05)	(\$0.07)	(\$0.24)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	(\$0.04)
Diluted Earnings Per Share	(\$0.06)	(\$0.23)	(\$0.39)	(\$0.26)	(\$0.06)	(\$0.06)	(\$0.05)	(\$0.07)	(\$0.24)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	(\$0.04)
Average Shares Outstanding (Basic)	58,291	68,657	83,888	100,202	106,926	109,767	116,484	123,166	114,085	128,824	139,985	136,091	149,700	138,650	150,552
Average Shares Outstanding (Diluted)	58,291	68,657	83,888	100,202	106,926	109,767	116,484	123,166	114,085	128,824	139,985	136,091	149,700	138,650	150,552
Operating Metrics															
Revenue Growth	n/a	319.6%	-0.1%	-83.4%	-64.0%	-68.6%	-89.4%	-41.3%	-11.3%	-1.4%	54.8%	276.7%	347.8%	104.6%	37.5%
Price	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Market Capitalization (CAD\$000s)	\$1,749	\$2,267	\$2,689	\$3,147	\$3,208	\$3,293	\$3,495	\$3,695	\$3,695	\$3,865	\$4,200	\$4,083	\$4,491	\$4,491	\$5,239
Enterprise Value (CAD\$000s)	(\$1,101)	(\$8,418)	(\$4,457)	(\$630)	(\$294)	(\$517)	\$506	\$2,787	\$2,787	\$3,761	\$4,017	\$3,981	\$8,375	\$8,375	\$8,315
Price-to-Earnings	n/a	-0.1x	-0.1x	-0.1x	-0.1x	-0.1x	-0.1x	-0.1x	-0.1x	-0.2x	-0.2x	-0.3x	-0.7x	-0.7x	-1.0x
EV to EBITDA	0.4x	0.8x	0.2x	0.0x	0.0x	0.0x	0.0x	-0.2x	-0.2x	-0.3x	-0.4x	-0.5x	-1.4x	-1.4x	-1.9x
Shareholders Equity	7,066	22,419	24,262	10,955	10,279	7,234	5,313	-5,457	-5,457	-5,834	-6,682	-7,310	-7,736	-7,736	-6,929
Net Debt	(2,849)	(10,685)	(7,146)	(3,777)	(3,502)	(3,810)	(2,989)	(908)	(908)	(103)	(182)	(102)	3,884	3,884	3,076

Source: Factset as of December 3, 2024 and H.C. Wainwright & Co. estimates.

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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	559	86.53%	124	22.18%
Neutral	81	12.54%	10	12.35%
Sell	1	0.15%	0	0.00%
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