

September 22, 2015

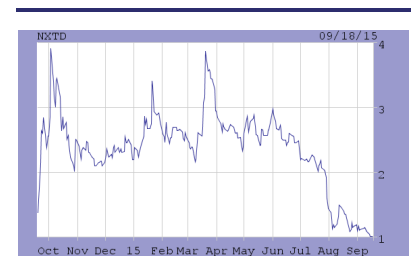
## Nxt-ID, Inc. (NXTD)

### Slow Progress but Promising Signs; Free Licensing Optionality

- ▶ Shares of Nxt-ID (NXTD – Spec Buy, PT \$6) remain under pressure by sellers from the most recent round of funding despite initial signs of traction. While progress towards achieving scale has been slower than anticipated, order volume continues to improve sequentially, with a significant uptick expected in 4Q15, and manufacturing issues are becoming more infrequent. Technical reviews remain positive, with competitor offerings stalled or facing either developmental or implementation headwinds. We acknowledge that Nxt-ID still remains in the “show me” stage, but think there is a significant disconnect between the current share price and the potential opportunity, with free optionality on technology licensing deals or a potential takeover.
- ▶ Although Nxt-ID is pacing behind our original expectations in terms of product rollout, we still expect the company will sell ~30,000 units by year-end, with upside depending on any third-party (3P) distribution deals. Unit sales could improve from 900 to 2,500 from 2Q to 3Q, and ramp significantly into the holiday period, with our forecast calling for 25,000 units sold in 4Q15, resulting in \$4.5 million in revenue. We believe 3P distribution has been somewhat deemphasized given the early lack of scale, but expect management is still looking to partner with QVC/HSN or Sam’s Club ahead of the holiday season if possible, depending on the terms. We have not included any 3P sales in our holiday forecast. We note, however, that Nxt-ID has been successfully selling online through Touch of Modern with a reasonable conversion rate (estimated 3-5%), albeit on a small scale, which has also further enhanced Wocket’s organic search ranking.
- ▶ Nxt-ID is developing enhancements and additional offerings for its product portfolio. We believe Nxt-ID will possess the first smart card to feature a fully functional EMV solution, expected by year-end, which could further differentiate the product and enhance its relevance, with the EMV implementation deadline set for October 1 (although we anticipate fewer than half the POS terminals will be EMV-compliant by the end of the year). In addition to an EMV solution, we expect a digital, phone-based app could tap into the more traditional mobile payment market, with a launch date anticipated in 2H16. Furthermore, given the prevalence of large players entering or attempting to enter the payments space, we think a licensing deal could be possible, especially if Nxt-ID establishes proof of concept this holiday period. We have not incorporated any benefit from the potential app rollout or licensing deals in our forecast, which calls for standalone Wocket sales of 150,000 units. We note that Nxt-ID would need to sell roughly 180,000 units to operate at breakeven, which could be achieved next year.

### Change in Earnings Forecast

<b>Rating:</b>	<b>Speculative Buy</b>
Current Price	\$1.01
Price Target	\$6.00
52-Wk Range	\$0.88 - \$4.20
Shares Outstanding (mm)	28
Market Cap (mm)	\$28
Enterprise Value (mm)	\$27
Average Volume (000s)	167
Net Cash/Share	\$0.09
Sector Weight	Overweight



FY Dec		Q1	Q2	Q3	Q4	Total	P/E	EV/EBITDA
EPS	2013A	(\$0.02)A	(\$0.01)A	(\$0.01)A	(\$0.02)A	(\$0.05)A	-19x	
	2014A	(\$0.02)A	(\$0.04)A	(\$0.05)A	(\$0.08)A	(\$0.20)A	-5x	
	2015E	(\$0.07)E	(\$0.13)E	(\$0.13)E	(\$0.09)E	(\$0.39)E	-3x	
EBITDA	2013A	(\$0.4)A	(\$0.1)A	(\$0.2)A	(\$0.4)A	(\$1.1)A		-24x
	2014A	(\$0.5)A	(\$0.9)A	(\$1.2)A	(\$1.9)A	(\$4.4)A		-6x
	2015E	(\$1.7)E	(\$2.2)E	(\$3.1)E	(\$2.5)E	(\$9.6)E		-3x

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## Investment Thesis

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Nxt-ID is an early stage technology company that is focused on products, solutions, and services that have a need for biometric identification and secure access control. They have three distinct lines of business that they are currently pursuing: mobile commerce (“m-commerce”), law enforcement and biometric access control applications. Nxt-ID’s primary source of revenue is derived the Wocket™, a first-in-class smart wallet which addresses the rapidly growing alternative payments market through a non-phone, flexible solution. We anticipate Nxt-ID could generate \$5 million in revenue in 2015 based on what we think are very achievable unit sales of 30,000, with new features, product innovation and potential forays into the transaction and security/authentication sides of the mobile payments market in the not too distant future, all adding to possible upside.

The domestic credit and debit card market stands at roughly \$4 trillion on nearly 30 billion transactions per year (source: Federal Reserve; includes online and card-not-present transactions). The domestic mobile payment market, by comparison, is expected to reach \$60-\$90 billion in transactional value by 2017 based on various forecasts from Juniper, Gartman, eMarketer and Forrester. While mobile payment growth has been vastly outpacing credit/debit card transaction growth (40-50% vs. 7-8%) and is expected to do so for the foreseeable future, the US market has lagged significantly behind the rest of the world due to limited NFC adoption and consumer unwillingness over security concerns. In the last 5 years, ACI Payments estimates that as many as 37% of all US cardholders had been affected by some type of fraud. A survey from CreditCards.com also indicated that over 60% of US users never or hardly ever used their phones to make a payment, with a similar level of respondents over the age of 50 indicating they would likely never do so and a surprising 30% of millennials stating the same. We think a tech-savvy, card-based solution could address a rapidly growing niche and bridge the gap until mobile solutions are more broadly accepted.

In addition to the Wocket, which can also hold coupons, a debit card and actual cash, differentiating itself from its closest competitor Coin, Nxt-ID has several patents related to biometric and authentication solutions, including 3D facial recognition technology that has already yielded one-time revenue of \$250,000 in 2012. We believe Nxt-ID could develop solutions for the growing mobile market and possibly generate additional revenue to the security industry through product sales, although we are currently not forecasting any. The multi-factor authentication market alone is forecast to exceed \$10 billion in revenue by 2020 (source: MarketsandMarkets) with the biometric solutions market expected to be nearly double that size.

Shares of Nxt-ID currently trade at 5.3x 2015 EV/Revenue, in line with most payment processing and online payments oriented companies. We note that Apple (AAPL-Not Rated) acquired Authentic for 4.6x forward EV/Rev in 2012 and believe Samsung may have acquired LoopPay for up to 10x. Using 2016 as the first full year of production and assigning a 6x EV/Revenue multiple, we arrive at our \$6 per share price target.

## Risks

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Nxt-ID currently generates no revenue and has had to raise capital for funding. Should the Wocket fail to generate initial traction and should Nxt-ID's biometric solution not gain at least modest acceptance, Nxt-ID may have to raise further capital or may not be able to continue as a going concern.

Nxt-ID faces intense competition in the crowded m-commerce and secure solutions space from much larger companies (Apple, eBay, Amazon, Square, etc.). Although they will likely be first to market with a non-phone solution in the Wocket, Nxt-ID also faces competition from other startups such as Coin that have either angel backing or have been crowd-funded, raising their hype and awareness.

Nxt-ID relies on the timely acquisition and delivery of certain components for its manufacturing process. Although the Wocket does not have a high number of inputs, quantities of crystals, diodes, leather and other manufacturing components may not be able to be obtained from overseas in time to meet shipment orders.

## Financial Outlook

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Even without additional distribution or significant accessory sales, and assuming no revenue from alternative sources (facial recognition, security solutions), we believe Nxt-ID could generate \$5 million in revenue on 30,000 unit sales. EPS could be a loss of \$0.39. Assuming Nxt-ID can gain further traction in multiple markets by 2016, we see the company reducing its EBITDA loss to \$2.5 million and possibly achieving breakeven depending on upside from 3P or licensing deals along with a potential app launch in 2H16.

## Valuation

<b>NXT-ID, Inc. Valuation Analysis</b>		
<i>(\$ in thousands, except per share data)</i>		
<b>Fiscal Year Ending December 31,</b>	<b>2015E</b>	<b>2016E</b>
<b>Stock Price</b>	<b>\$1.00</b>	<b>\$1.00</b>
<b><u>Earnings</u></b>		
EPS	(\$0.39)	(\$0.11)
P/E Multiple	(3)x	NM
<b><u>Free Cash Flow</u></b>		
FCF Per Share	(\$0.40)	(\$0.12)
Multiple	(2)x	NM
<b><u>EBITDA</u></b>		
Diluted Shares	27,000	27,000
Market Capitalization	\$27,000	\$27,000
Long-term debt	0	0
Working Capital	416	(10,020)
Enterprise Value	26,584	37,020
EBITDA	(9,566)	(2,538)
Multiple	(3)x	NM
<b><u>Revenue</u></b>		
Enterprise Value	26,584	37,020
Revenue	4,990	26,999
Multiple	5.3x	1.4x
Target Multiple		6.0x
Implied Price		\$6.00
<b>Price Target</b>		<b>\$6.00</b>
<i>Upside to Target</i>		<i>500%</i>

Source: Company reports and The Benchmark Company Estimates.

<b>NXT-ID, Inc. - Income Statement</b>				
<i>(\$ in thousands, except per share data)</i>				
<b>Fiscal Year Ending December 31,</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>
<b>Total Revenue</b>	-	-	<b>4,990</b>	<b>26,999</b>
<i>Yr.-Yr. Pct. Change</i>		0.0%	0.0%	441.0%
Cost of Revenue	0	0	(3,154)	(16,199)
<i>Pct. Revenue</i>		0.0%	63.2%	60.0%
<b>Gross Profit</b>	<b>0</b>	<b>0</b>	<b>1,836</b>	<b>10,799</b>
<i>Gross Margin</i>		0.0%	36.8%	40.0%
General & Administrative	(524)	(1,640)	(2,486)	(3,000)
<i>Pct. Revenue</i>		0.0%	49.8%	8.0%
Selling	(81)	(1,396)	(5,874)	(7,000)
<i>Pct. Revenue</i>		0.0%	117.7%	15.0%
Research & Development	(519)	(1,418)	(3,205)	(3,500)
<i>Pct. Revenue</i>		0.0%	64.2%	13.0%
Total Operating Costs	(1,124)	(4,454)	(11,565)	(13,500)
<i>Pct. of Revenue</i>		0.0%	231.7%	50.0%
Add Back Depreciation & Amortization	19	39	163	163
<b>EBITDA</b>	<b>(1,105)</b>	<b>(4,414)</b>	<b>(9,566)</b>	<b>(2,538)</b>
<i>Yr.-Yr. Pct. Change</i>		0.0%	116.7%	0.0%
<i>EBITDA Margin</i>		0.0%	-191.7%	-9.4%
Depreciation & All Amortization	(19)	(39)	(163)	(163)
Stock Compensation Expense	(311)	(793)	(1,053)	(1,250)
Operating Income	(1,435)	(5,246)	(10,782)	(3,951)
Interest Income (Expense)	(35)	(30)	(380)	(120)
Other Income (Expense)	(74)	(1,800)	(655)	(655)
Pretax Income (Loss)	(1,545)	(7,076)	(11,163)	(4,071)
Income Tax Benefit (Expense)	0	(1)	0	0
<i>Effective Tax Rate</i>	0.0%	0.0%	0.0%	0.0%
Net income (Loss)	(1,545)	(7,077)	(11,163)	(4,071)
Diluted Shares	21,298	22,311	25,963	25,963
GAAP EPS - Diluted	(\$0.07)	(\$0.32)	(\$0.43)	(\$0.16)
<b>Adjusted EPS</b>	<b>(\$0.05)</b>	<b>(\$0.20)</b>	<b>(\$0.39)</b>	<b>(\$0.11)</b>
<b>Free Cash Flow (FCF)</b>				
EBITDA	(1,105)	(4,414)	(9,566)	(2,538)
Cash Interest & Taxes	0	0	(380)	(120)
Capital Expenditures	(6)	(44)	(489)	(489)
Free Cash Flow	(1,111)	(4,458)	(10,435)	(3,147)
<b>Free Cash Flow Per Share</b>	<b>(\$0.05)</b>	<b>(\$0.20)</b>	<b>(\$0.40)</b>	<b>(\$0.12)</b>

Source: Company reports and The Benchmark Company.

<b>NXT-ID, Inc. - Income Statement, 2014</b>					
(\$ in thousands, except per share data)					
<b>Fiscal Year Ending December 31,</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>2014</b>
<b>Total Revenue</b>	-	-	-	-	-
<i>Yr.-Yr. Pct. Change</i>					
Cost of Revenue	-	-	-	-	-
<i>Pct. Revenue</i>					
<b>Gross Profit</b>	-	-	-	-	-
<i>Gross Margin</i>					
General & Administrative	(262)	(327)	(335)	(716)	(1,640)
<i>Pct. Revenue</i>					
Selling	(60)	(319)	(372)	(644)	(1,396)
<i>Pct. Revenue</i>					
Research & Development	(164)	(260)	(463)	(531)	(1,418)
<i>Pct. Revenue</i>					
Total Operating Costs	(486)	(906)	(1,170)	(1,891)	(4,454)
<i>Pct. of Revenue</i>					
Add Back Depreciation & Amortization	27	1	2	9	39
<b>EBITDA</b>	<b>(459)</b>	<b>(905)</b>	<b>(1,168)</b>	<b>(1,882)</b>	<b>(4,414)</b>
<i>Yr.-Yr. Pct. Change</i>					
<i>EBITDA Margin</i>					
Depreciation & All Amortization	(27)	(1)	(2)	(9)	(39)
Stock Compensation Expense	(34)	(144)	(376)	(239)	(793)
Operating Income	(520)	(1,050)	(1,546)	(2,130)	(5,246)
Interest Income (Expense)	(31)	0	0	1	(30)
Other Income (Expense)	(1,055)	(1,178)	(1,161)	1,594	(1,800)
Pretax Income (Loss)	(1,606)	(2,227)	(2,708)	(535)	(7,076)
Income Tax Benefit (Expense)	0	0	0	(1)	(1)
<i>Effective Tax Rate</i>	0.0%	0.0%	0.0%	-0.2%	0.0%
Net income (Loss)	(1,606)	(2,227)	(2,708)	(536)	(7,077)
Diluted Shares	21,956	22,008	22,640	22,640	22,311
GAAP EPS - Diluted	(\$0.07)	(\$0.10)	(\$0.12)	(\$0.02)	(\$0.32)
<b>Adjusted EPS</b>	<b>(\$0.02)</b>	<b>(\$0.04)</b>	<b>(\$0.05)</b>	<b>(\$0.08)</b>	<b>(\$0.20)</b>
<b>Free Cash Flow (FCF)</b>					
EBITDA	(459)	(905)	(1,168)	(1,882)	(4,414)
Cash Interest & Taxes	0	0	0	0	0
Capital Expenditures	(2)	(15)	(14)	(14)	(44)
Free Cash Flow	(461)	(920)	(1,182)	(1,896)	(4,458)
<b>Free Cash Flow Per Share</b>	<b>(\$0.02)</b>	<b>(\$0.04)</b>	<b>(\$0.05)</b>	<b>(\$0.08)</b>	<b>(\$0.20)</b>

Source: Company reports and The Benchmark Company.

NXT-ID, Inc. - Income Statement, 2015E						
(\$ in thousands, except per share data)						
Fiscal Year Ending December 31,	1Q	2Q	3QE	4QE	2015E	2016E
<b>Total Revenue</b>	<b>2</b>	<b>113</b>	<b>375</b>	<b>4,500</b>	<b>4,990</b>	<b>26,999</b>
<i>Yr.-Yr. Pct. Change</i>						441.0%
Cost of Revenue	(2)	(134)	(319)	(2,700)	(3,154)	(16,199)
<i>Pct. Revenue</i>		118.3%	85.0%	60.0%	63.2%	60.0%
<b>Gross Profit</b>	<b>0</b>	<b>(21)</b>	<b>56</b>	<b>1,800</b>	<b>1,836</b>	<b>10,799</b>
<i>Gross Margin</i>		-18.3%	15.0%	40.0%	36.8%	40.0%
General & Administrative	(553)	(594)	(644)	(694)	(2,486)	(3,000)
<i>Pct. Revenue</i>		525.3%	171.8%	15.4%	49.8%	8.0%
Selling	(658)	(655)	(1,655)	(2,905)	(5,874)	(7,000)
<i>Pct. Revenue</i>		579.2%	441.4%	64.6%	117.7%	15.0%
Research & Development	(573)	(941)	(941)	(750)	(3,205)	(3,500)
<i>Pct. Revenue</i>		831.6%	250.9%	16.7%	64.2%	13.0%
Total Operating Costs	(1,784)	(2,190)	(3,240)	(4,350)	(11,565)	(13,500)
<i>Pct. of Revenue</i>		1936.1%	864.1%	96.7%	231.7%	50.0%
Add Back Depreciation & Amortization	35	43	43	43	163	163
<b>EBITDA</b>	<b>(1,749)</b>	<b>(2,168)</b>	<b>(3,141)</b>	<b>(2,507)</b>	<b>(9,566)</b>	<b>(2,538)</b>
<i>Yr.-Yr. Pct. Change</i>				33.2%	116.7%	
<i>EBITDA Margin</i>		-1916.7%	-837.8%	-55.7%	-191.7%	-9.4%
Depreciation & All Amortization	(35)	(43)	(43)	(43)	(163)	(163)
Stock Compensation Expense	(263)	(263)	(263)	(263)	(1,053)	(1,250)
Operating Income	(2,047)	(2,474)	(3,447)	(2,813)	(10,782)	(3,951)
Interest Income (Expense)	0	(321)	(30)	(30)	(380)	(120)
Other Income (Expense)	0	(655)	0	0	(655)	(655)
Pretax Income (Loss)	(2,047)	(3,450)	(3,477)	(2,843)	(11,163)	(4,071)
Income Tax Benefit (Expense)	0	0	0	0	0	0
<i>Effective Tax Rate</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income (Loss)	(2,047)	(3,450)	(3,477)	(2,843)	(11,163)	(4,071)
Diluted Shares	24,878	25,488	25,488	28,000	25,963	25,963
GAAP EPS - Diluted	(\$0.08)	(\$0.14)	(\$0.14)	(\$0.10)	(\$0.43)	(\$0.16)
<b>Adjusted EPS</b>	<b>(\$0.07)</b>	<b>(\$0.13)</b>	<b>(\$0.13)</b>	<b>(\$0.09)</b>	<b>(\$0.39)</b>	<b>(\$0.11)</b>
<b>Free Cash Flow (FCF)</b>						
EBITDA	(1,749)	(2,168)	(3,141)	(2,507)	(9,566)	(2,538)
Cash Interest & Taxes	0	(321)	(30)	(30)	(380)	(120)
Capital Expenditures	(191)	(48)	(50)	(200)	(489)	(489)
Free Cash Flow	(1,940)	(2,537)	(3,221)	(2,737)	(10,435)	(3,147)
<b>Free Cash Flow Per Share</b>	<b>(\$0.08)</b>	<b>(\$0.10)</b>	<b>(\$0.13)</b>	<b>(\$0.10)</b>	<b>(\$0.40)</b>	<b>(\$0.12)</b>

Source: Company reports and The Benchmark Company.

## Important Disclosures

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As of June 30, 2015

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<b>Buy</b>	<b>83</b>	<b>79%</b>	<b>8</b>	<b>7%</b>
<b>Hold</b>	<b>26</b>	<b>21%</b>	<b>1</b>	<b>1%</b>
<b>Sell</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>

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**Buy:** Stock is expected to outperform the analyst's defined Sector/Industry Index\* over the following 6 to 12 months.

**Hold:** Stock is expected to perform in-line with the analyst's defined Sector/Industry Index\* over the following 6 to 12 months.

**Sell:** Stock is expected to underperform the analyst's defined Sector/Industry Index\* over the following 6 to 12 months.

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### The Benchmark Company Disclosures as of September 22, 2015

Company	Disclosure
Nxt-ID, Inc.	3

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**Investment Risk**

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