

Strong growth in cash receipts, new target for Sept MRR

Harvest Technology Group Limited (ASX:HTG) licenses its proprietary video compression and encryption technology for low-bandwidth, high-latency applications needing secure real-time streaming video and audio communication. The company delivers products and solutions for video, audio and data transfer from anywhere, via satellite or terrestrial networks regardless of congestion or quality. HTG's products and solutions enables real-time monitoring of remote locations, real-time feedback for field technicians, and secure video and audio conferencing. HTG reported quarterly cash receipts of \$1.001m, up 32% on the previous corresponding quarter (pcp) and 55% ahead of Q3 FY22. Q4 is seasonally a weaker quarter than the first two quarters of the year. Monthly recurring revenues (MRR) exceeded \$0.257m in the June quarter, up from \$0.212m in the March quarter and the company has forecast MRR of \$0.34-0.38m in the September quarter. Annual recurring revenues at June were in excess of \$3.0m. HTG forecasted its total monthly gross operating overheads would be \$0.825m in FY23. By our estimates, this puts the company on a path to be operating cashflow breakeven in FY23 and into operating profitability by early FY24. Our forecasts remain unchanged following the release of the Q4 result and our base case valuation remains steady at \$0.28/share.

Business model

HTG offers products and solutions which enable real-time monitoring of remote locations, real-time feedback for field technicians, and secure video conferencing. HTG has two product platforms, Infinity Nodestream™ and Remote Inspection System (RiS™). The company is on the verge of large-scale roll-out of the Infinity Nodestream™ secure video transmission product suite through reseller agreements with the major maritime satellite communications operators. It has also launched its own Remote Inspection System (RiS™) and a US business focused on enabling remote field technician support via real-time video over low-bandwidth networks and satellite. HTG licenses its hardware and software solutions to customers. The company has a Perth headquarters and has expanded over the past 12 months, establishing sales offices in the US and UK/EMEA regions. HTG is currently focused on converting reseller agreements with Speedcast and Marlink and partner leads with Inmarsat, the world's largest maritime satellite service providers, into actual licensed customers with a target of 1,000 licences by end-CY22.

Q4 shows continued growth in MRR over Q3

HTG reported continued growth (+16%) in software and hardware recurring revenues and an +83% increase in booked revenues quarter-on-quarter (qoq). Q4 R&D expense rose slightly, however, other costs were lower with increased attention to cost discipline noted by management. Net operating cash outflow was reduced from \$3.65m in Q3 to \$2.19m with \$4.5m cash at bank and \$1m in committed placement proceeds. Management forecasts 32% growth in Monthly Recurring Revenues (MRR) in FY23 Q1 with continued control of costs. The company is targeting 1,000 Nodestream licences by end December 2022 from less than 100 at the end of March.

Valuation base case at \$167m or \$0.28/share

Our valuation is based on a DCF using a Beta of 1.47 and risk-free rate of 3.5%. We have modelled three cases differentiated by customer conversion rates, cost of hardware manufacture and licence fees received. Our downside case values HTG at \$123m, while we can estimate upside to \$347m. The crucial period to achieve sufficient momentum in sales to justify these valuations is in CY22 with results from Q3, Q4 and outlook supportive.

Historical earnings and RaaS forecasts (in \$A unless otherwise stated)

Y/E	Revenues	EBITDA reported	NPAT reported	EPS* (c)	EV/Sales (x)	Price / Book (x)
06/21e	8.3	(7.5)	(10.2)	-	5.0	0.92
06/22f	2.4	(8.9)	(12.3)	(2.1)	23.8	0.96
06/23f	8.0	(3.0)	(5.8)	(2.3)	7.5	0.95
06/24f	13.3	1.9	(0.9)	(1.0)	4.9	1.01

Source: Company data for historicals; RaaS estimates for FY22f, FY23f and FY24f. FY22 excludes discontinued vessel operations

Software & Services

3rd August 2022

Share details

ASX code	HTG
Share price (2-Aug)	\$0.11
Market capitalisation	\$64.8M
Shares on issue (post-raise)	588.9M
Net cash 30-Jun-2022	\$4.497M
Free float	~64%

Share Performance (12 months)



Upside Case

- Fast conversion of current leads
- Strong Australian government take-up
- Inmarsat uses as part of key selling proposition for FleetXpress satellite service

Downside Case

- Lower conversion
- Slower take-up due to economic/COVID issues
- Difficulty in scaling/supply of hardware

Catalysts

- MRR hits \$340-380k target in September quarter
- Reaches own goal of 1,000 licences by end-CY22
- Further evidence of take-up of technology
- Evidence of reduced cash burn in CY23

Board of Directors & Management

Jeffrey Sengelmann	Non-Executive Chairman
Rod Evans	Non-Executive Director
Marcus Machin	Non-Executive Director
Stuart Carmichael	Non-Executive Director
Paul Guilfoyle	Managing Director/CEO

Company Contacts

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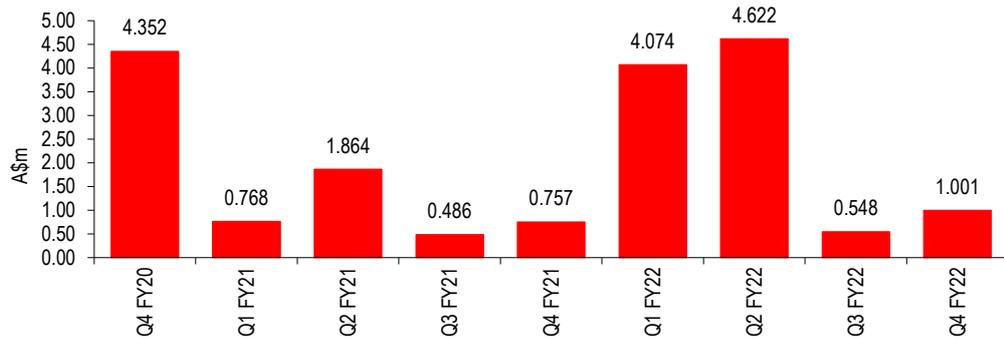
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Q4 FY22 Results Analysis

HTG completed a transition away from operating vessels for remote projects to a video hardware and software focus in October 2021, leaving licensing of hardware and software currently the main sources of income. Quarterly receipts reflect the currently lumpy nature of project work for contract customers and the end of vessel operations which reduces both revenues and costs.

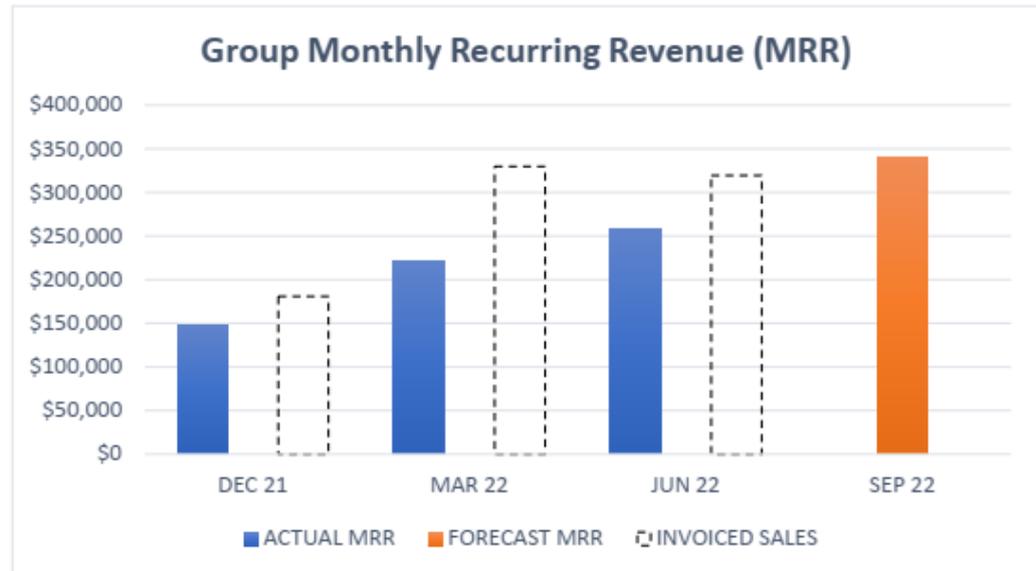
Exhibit 1: Quarterly receipts from customers (including discontinued operations)



Source: Company reports

HTG reported good growth in recurring revenues and maintained a strong forecast for MRR in the following September quarter. HTG reported MRR of \$212k in March, \$257k in June and expects MRR of \$340k \$280k in September 2022. Annual Recurring Revenues (ARR) from remote technology sales now exceeds \$3.0m. Group gross operating overheads are estimated by management at \$825k per month in FY23, emphasising the increased focus on cost discipline.

Exhibit 2: Group monthly recurring revenue including invoiced sales and company's forecast for September quarter



Source: Company Q4 FY22 Report

Strong

Exhibit 3: Q4 FY22 versus previous quarters (in A\$m unless otherwise stated)

	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Cash receipts	4.074	4.622	0.548	1.001
Payments to suppliers	(1.528)	(1.206)	(3.431)	(2.095)
R&D	(1.084)	(0.935)	(1.070)	(1..200)
Other	0.000	0.000	0.000	0.000
Operating cashflow	(1.526)	(1.435)	(3.648)	(2.185)
Free cashflow	(1.526)	(1.435)	(3.648)	(2.185)
Net cash at the end of the period	4.006	5.171	6.961	4.5071
Monthly cash burn	(0.509)	(0.478)	(1.216)	(0.728)
Quarters of cash on hand	3	3	2	2

Source: Company reports

Key Events In The Quarter

Events during the quarter included:

- Expansion of sales resources in the UK, EMEA and US with three additional appointments;
- A reseller agreement signed with RSM Australia;
- A partnership with Inmarsat Aviation delivering a new solution to livestream high-quality video from small drones; and
- HTG is exploring operational trial opportunities for a proposed Nodestream / Webex by Cisco integration.

Exhibit 4: Financial Summary

Harvest Technology Group Ltd						Share price (Date)		2/08/2022		A\$ 0.11		
Profit and Loss (A\$m)						Interim (A\$m)						
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	1H21 A	2H21 A	1H22 E	2H22 E	1H23 E	2H23 E	
Sales Revenue	11.6	8.3	2.4	8.0	13.3	2.2	6.1	0.9	1.5	2.8	5.2	
Gross Profit	4.6	1.7	1.8	6.7	11.9	(4.9)	(2.6)	(5.3)	(3.6)	(2.6)	(0.4)	
EBITDA	(2.7)	(7.5)	(8.9)	(3.0)	1.9	(6.8)	(4.4)	(6.2)	(4.6)	(3.6)	(1.3)	
Depn	(3.4)	(3.6)	(1.4)	(1.0)	(0.9)	(6.3)	(4.0)	(6.7)	(5.0)	(4.1)	(1.8)	
Amort	0.0	0.0	(0.5)	(0.9)	(0.8)	-	-	-	-	-	-	
EBIT	(6.1)	(11.1)	(10.8)	(4.9)	0.1	(6.3)	(4.0)	(7.2)	(5.0)	(4.1)	(1.8)	
Interest	0.0	0.0	(0.2)	(0.5)	(0.5)	-	-	-	-	-	-	
Tax	0.7	1.6	(0.2)	0.0	(0.0)	30.0	30.0	30.0	30.0	30.0	30.0	
Minorities	0.0	0.0	0.0	0.0	0.0	(3.6)	(5.5)	(3.2)	(5.0)	(3.0)	(0.9)	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	(3.4)	(5.3)	(2.5)	(4.5)	(2.6)	(0.5)	
NPAT pre significant item	(5.7)	(10.2)	(11.7)	(5.9)	(0.9)	Divisions						
Significant items	(0.1)	(0.1)	(0.5)	0.0	0.0	1H21 A 2H21 A 1H22 E 2H22 E 1H23 E 2H23 E						
NPAT (reported)	(5.8)	(10.3)	(12.3)	(5.9)	(0.9)	All Licenced Services ex C	0.0	0.0	0.8	1.5	2.8	5.2
Cash flow (A\$m)						Margins, Leverage, Returns						
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F		FY20A	FY21A	FY22F	FY23F	FY24F	
EBITDA	(2.7)	(7.5)	(8.9)	(3.0)	1.9	EBITDA	n.a.	n.a.	n.a.	n.a.	14.1%	
Interest	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	EBIT	n.a.	n.a.	n.a.	n.a.	0.9%	
Tax	(0.2)	(0.0)	(0.1)	0.0	(0.0)	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	n.a.	
Working capital changes	2.3	(1.0)	1.3	(0.5)	(0.4)	Net Debt (Cash)	4.5	2.7	(4.9)	(9.8)	(0.1)	
Operating cash flow	(1.1)	(9.1)	(8.1)	(4.0)	0.9	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	(0.1)	
Mtce capex	(0.1)	(0.4)	(1.1)	(0.9)	(0.9)	ND/ND+Equity (%)	(%)	(56%)	(20%)	38%	83%	1.0%
Free cash flow	(1.2)	(9.4)	(9.3)	(4.9)	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	4.4
Growth capex	0.0	0.0	0.0	0.0	0.0	ROA	n.a.	n.a.	n.a.	n.a.	n.a.	1%
Acquisitions/Disposals	(3.2)	(0.8)	0.0	0.0	0.0	ROE	n.a.	n.a.	n.a.	n.a.	n.a.	
Other	(0.6)	(0.2)	0.0	0.0	0.0	ROIC	n.a.	n.a.	n.a.	n.a.	n.a.	1%
Cash flow pre financing	(5.0)	(10.4)	(9.2)	(4.9)	0.0	NTA (per share)	0.02	0.01	n/a	n/a	0.01	
Equity	11.5	9.2	4.1	0.0	9.6	Working capital	(1.3)	(3.0)	0.3	0.7	1.2	
Debt	2.4	(2.8)	(0.6)	0.0	0.0	WC/Sales (%)	(11%)	(36%)	11%	9%	9%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Revenue growth	3630%	(28%)	(71%)	231%	67%	
Net cash flow for year	8.9	(4.0)	(5.8)	(4.9)	9.7	EBIT growth pa	n/a	n/a	n/a	n/a	-102%	
Balance sheet (A\$m)						Pricing						
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	No of shares (y/e)	(m)	312	463	545	550	550
Cash	11.3	6.8	0.8	(4.1)	5.5	Weighted Av Dil Shares	(m)	312	463	463	588	589
Accounts receivable	0.0	0.0	0.2	0.7	1.1	EPS Reported	cps	0.0	0.0	(2.1)	(2.2)	(1.0)
Inventory	0.1	0.2	0.1	0.2	0.2	EPS Normalised/Diluted	cps	0.0	0.0	(2.1)	(2.1)	(1.0)
Other current assets	1.1	6.6	1.6	1.6	1.6	EPS growth (norm/dil)	n.a.	n.a.	n.a.	1%	-53%	
Total current assets	12.5	13.5	2.7	(1.7)	8.4	DPS	cps	-	-	-	-	-
PPE	3.4	0.5	2.9	2.9	2.8	DPS Growth	n.a.	n.a.	n.a.	n.a.	n.a.	
Intangibles and Goodwill	7.8	10.3	9.2	8.3	7.5	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	
Investments	0.0	0.0	0.0	0.0	0.0	Dividend imputation	30	30	30	30	30	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	PE (x)	n.a.	n.a.	-5.2	-5.0	-11.1	
Other non current assets	0.6	0.3	0.2	0.2	0.2	PE market	16.0	16.0	16.2	16.5	16.5	
Total non current assets	11.8	11.1	12.4	11.4	10.5	Premium/(discount)	n.a.	n.a.	(132%)	(131%)	(167%)	
Total Assets	24.3	24.6	15.1	9.7	19.0	EV/EBITDA	-11.6	-5.8	-6.4	-21.6	37.5	
Accounts payable	1.4	3.2	0.1	0.1	0.1	FCF/Share	cps	-0.4	-0.2	-1.6	-1.3	-0.6
Short term debt	2.6	0.5	0.3	0.3	0.3	Price/FCF share	-26.4	-51.5	-6.9	-8.6	-19.9	
Tax payable	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield	(3.8%)	(1.9%)	(14.5%)	(11.6%)	(5.0%)	
Other current liabilities	0.7	1.5	1.5	1.9	2.4							
Total current liabilities	4.7	5.2	1.8	2.3	2.8							
Long term debt	4.2	3.6	5.4	5.4	5.4							
Other non current liabs	2.8	0.0	0.0	0.0	0.0							
Total long term liabilities	7.0	3.6	5.4	5.4	5.4							
Total Liabilities	11.7	8.8	7.2	7.7	8.2							
Net Assets	12.6	15.8	7.9	2.0	10.8							
Share capital	12.6	15.8	12.9	12.9	22.5							
Accumulated profits/losse	0.0	0.0	(5.0)	(10.9)	(11.8)							
Reserves	0.0	0.0	0.0	0.0	0.0							
Minorities	0.0	0.0	0.0	0.0	0.0							
Total Shareholder func	12.6	15.8	7.9	2.0	10.8							

Source: Company data for historicals, RaaS estimates; FY22 excludes discontinued vessel operations



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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