

Sales pipeline filling

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 communication. The company delivers solutions for data transfer from anywhere via satellite or congested networks. Harvest offers a solution which enables real-time monitoring of remote locations, real-time feedback for field technicians, and secure video conferencing. In 2022 Harvest has launched two new product platforms with further product developments expected. The company raised \$6.78m in March 2022 via a private placement in preparation for an increase in sales tempo and customer numbers. Harvest 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. The company has launched its own Remote Inspection Service (RiS) and a US business focused on enabling remote field technician support via real-time video over low-bandwidth networks and satellite. Finally, Harvest has successfully trialled Nodestream with Cisco's Webex video conferencing product. The company has a successful product and is now focused on converting these opportunities to revenue.

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 trademarked 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. 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 a strong sales pipeline into customer wins.

Q1 FY23 shows continued growth in revenue

HTG reported continued growth (+34%) in recurring revenue and an +54% increase in booked revenue quarter-on-quarter to a record \$0.887m. Year-on-year revenue growth was 67%. Q1 R&D expense was flat with other costs lower demonstrating increased attention on costs. Net operating cash outflow was unchanged from negative \$2.19m in Q1 with \$2.2m cash at bank and \$1.95m in committed placement proceeds and R&D rebates. Management remains cautiously optimistic of continued growth in the sales pipeline despite challenging economic conditions. Harvest's product set is becoming more relevant with geo-political tensions and cyber-attacks highlighting the need for secure communications.

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

Our valuation is based on the discounted cashflow methodology using a Beta of 1.47 and risk-free rate of 3.5%. We have modelled three cases differentiated by customer conversion rate, cost of hardware manufacture and licence fee 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 estimates (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA reported	NPAT reported	EPS* (c)	EV/Sales (x)	Price/Book (x)
06/21a	8.3	(7.5)	(10.3)	(1.4)	3.2	0.79
06/22a	2.1	(11.0)	(14.5)	(2.5)	16.8	0.93
06/23f	8.0	(3.0)	(4.7)	(0.8)	4.8	0.98
06/24f	13.3	1.9	0.0	0.0	3.2	1.09

Source: Company data; RaaS Advisory estimates for FY23f and FY24f. FY22 revenue from discontinued vessel operations is excluded

Software & Services

2 November 2022

Share Details

ASX code	HTG
Share price (1-Nov)	\$0.07
Market capitalisation	\$41.2M
Shares on issue	588.9M
Net cash commitments 30-Sep-2022	\$4.1M
Free float	~57%

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

Board of Directors

Jeffrey Sengelman	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

Paul Guilfoyle CEO	+61 8 6370 6370
Jack Rosagro Comp. Sec.	+61 8 9482 0511
investor@harvest-tech.com.au	

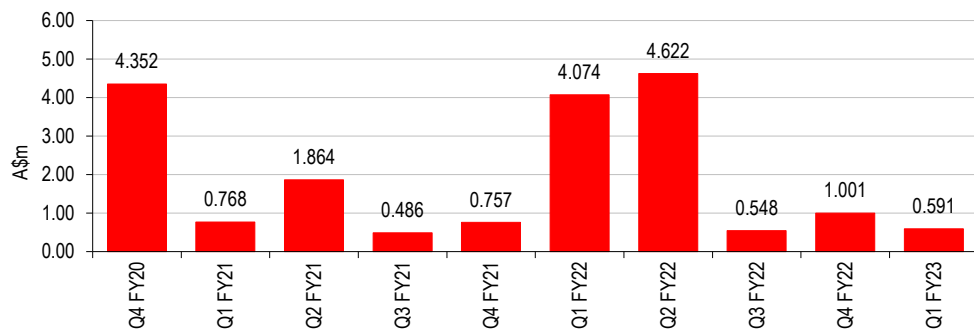
RaaS Contacts

Scott Maddock	+61 418 212 625 scott.maddock@raasgroup.com
Finola Burke	+61 414 354 712 finola.burke@raasgroup.com

Q1 FY23 Results Analysis

Harvest 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 revenue and costs.

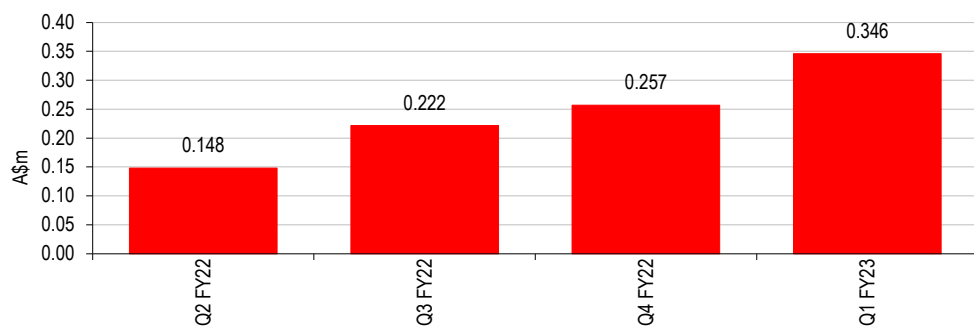
Exhibit 1: Quarterly receipts from customers (including discontinued operations)



Source: Company reports

The company reported good growth in monthly recurring revenue in June (Exhibit 2) and exceeded expected MRR for the quarter. Hereafter, MTG will report only quarterly revenue in accordance with Australian Accounting Standards as management believe the changing business mix means MRR is becoming less relevant.

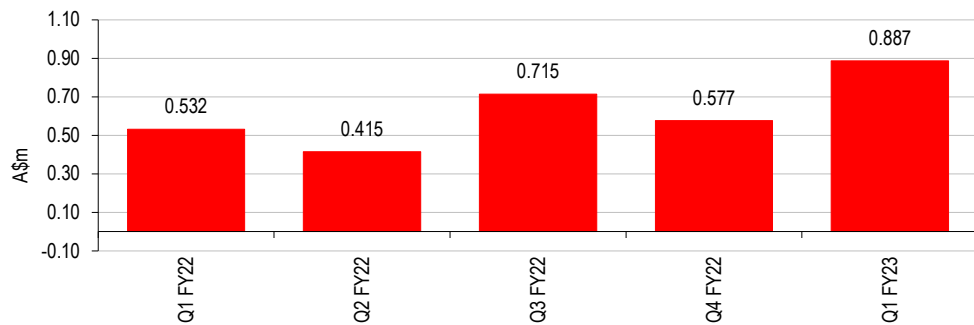
Exhibit 2: Monthly recurring revenue



Source: Company Q4 FY22 report. Monthly recurring revenue (MRR) represents a blended revenue figure across all Infinity products and services sold to customers

Harvest showed 67% yoy growth vs Q1 FY22 and 54% growth over the June quarter. Sales momentum continued after quarter end including an initial order with International Rescue for an initial bespoke solution using ruggedised Nodestream technology.

Exhibit 3: Quarterly revenue



Source: Company reports

Exhibit 4: Q1 FY23 versus previous quarters (in A\$m unless otherwise stated)

	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
Cash receipts	4.074	4.622	0.548	1.001	0.591
Payments to suppliers	(1.528)	(1.206)	(3.431)	(2.095)	(2.1870)
R&D	(1.084)	(0.935)	(1.070)	(1.200)	(1.197)
Other	0.000	0.000	0.000	0.000	0.000
Operating cash flow	(1.526)	(1.435)	(3.648)	(2.185)	(2.185)
Free cash flow	(1.526)	(1.435)	(3.648)	(2.185)	(2.201)
Net cash at the end of the period	4.006	5.171	6.961	4.5071	2.170
Monthly cash burn	(0.509)	(0.478)	(1.216)	(0.728)	(0.734)
Quarters of cash on hand	3	3	2	2	1

Source: Company data

Key Events In The Quarter

Events in the quarter included:

- 34.5% growth in monthly recurring revenue from June 2022;
- 53.8% growth in quarterly revenue from June 2022;
- A two-year contract with Vallianz Holdings Ltd initially for installation of Nodestream technology on a new vessel; and
- A second contract with Beach Energy Ltd to embed Harvest's technology in a smart buoy to capture and process data from subsea assets in near real-time.

Exhibit 5: Financial Summary

Harvest Technology Group Ltd						Share price (Date)		1/11/2022		A\$		0.07	
Profit and Loss (A\$m)						Interim (A\$m)		1H21 A	2H21 A	1H22 A	2H22 A	1H23 E	2H23 E
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F								
						Revenue		2.2	6.1	0.9	1.3	2.8	5.2
						EBITDA		(4.9)	(2.6)	(5.3)	(5.8)	(2.6)	(0.4)
						EBIT		(6.8)	(4.4)	(6.2)	(6.8)	(3.3)	(1.1)
						NPAT (normalised)		(6.3)	(4.0)	(6.7)	(6.9)	(3.5)	(1.2)
						Minorities		-	-	-	-	-	-
						NPAT (reported)		(6.3)	(4.0)	(7.2)	(7.1)	(3.5)	(1.2)
						EPS (normalised)		(1.35)	(0.76)	(1.28)	(1.11)	(0.55)	(0.19)
						EPS (reported)		(1.37)	(0.76)	(1.35)	(1.21)	(0.59)	(0.21)
						Dividend (cps)		-	-	-	-	-	-
						Imputation		30.0	30.0	30.0	30.0	30.0	30.0
						Operating cash flow		(3.6)	(5.5)	(3.2)	(5.9)	(2.6)	(0.9)
						Free Cash flow		(3.4)	(5.3)	(2.5)	(5.7)	(2.2)	(0.5)
NPAT pre significant it						(5.7)	(10.2)	(13.7)	(4.7)	0.0			
Significant items						(0.1)	(0.1)	(0.8)	0.0	0.0			
NPAT (reported)						(5.8)	(10.3)	(14.5)	(4.7)	0.0			
Cash flow (A\$m)													
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F								
						COGS		(2.7)	(3.8)	(0.2)	(0.4)	(0.6)	(0.6)
						Employment		(3.0)	(3.5)	(2.9)	(2.9)	(3.0)	(3.0)
						Technology, licence fees		0.0	0.0	0.0	0.0	0.0	0.0
						Other costs		(0.4)	(0.4)	(0.3)	(0.1)	(0.7)	(0.7)
						EBITDA		(4.9)	(2.6)	(5.3)	(5.8)	(2.6)	(0.4)
						Margins, Leverage, Returns		FY20A	FY21A	FY22A	FY23F	FY24F	
						EBITDA		n.a.	n.a.	n.a.	n.a.	14.1%	
						EBIT		n.a.	n.a.	n.a.	n.a.	4.0%	
						NPAT pre significant items		n.a.	n.a.	n.a.	n.a.	0.3%	
						Net Debt (Cash)		4.5	2.7	0.7	(3.4)	6.5	
						Net debt/EBITDA (x)		(x)	n/a	n/a	n/a	3.5	
						ND/ND+Equity (%)		(%)	(56%)	(20%)	(6%)	34% (65.2%)	
						EBIT interest cover (x)		(x)	n/a	n/a	n/a	0.6	
						ROA		n.a.	n.a.	n.a.	n.a.	3%	
						ROE		n.a.	n.a.	n.a.	n.a.	0%	
						ROIC		n.a.	n.a.	n.a.	n.a.	5%	
						NTA (per share)		0.02	0.01	0.00	n/a	0.02	
						Working capital		(1.3)	(3.0)	0.6	0.7	1.2	
						WC/Sales (%)		(11%)	(36%)	29%	9%	9%	
						Revenue growth		3630%	(28%)	(74%)	271%	67%	
						EBIT growth pa		n/a	n/a	n/a	n/a	-112%	
						Pricing		FY20A	FY21A	FY22A	FY23F	FY24F	
						No of shares (y/e)		(m)	312	484	551	551	551
						Weighted Av Dil Shares		(m)	318	721	582	582	582
						EPS Reported		cps	(1.9)	(2.1)	(2.6)	(0.9)	0.0
						EPS Normalised/Diluted		cps	(1.8)	(1.4)	(2.5)	(0.8)	0.0
						EPS growth (norm/dil)			n.a.	-21%	74%	-68%	-101%
						DPS		cps	-	-	-	-	-
						DPS Growth			n.a.	n.a.	n.a.	n.a.	n.a.
						Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%
						Dividend imputation			30	30	30	30	30
						PE (x)			-4.1	-3.6	-2.9	-9.0	965.9
						PE market			16.0	16.0	16.2	16.5	16.5
						Premium/(discount)			(126%)	(123%)	(118%)	(155%)	5768%
						EV/EBITDA			-7.9	-4.0	-3.6	-13.8	24.5
						FCF/Share		cps	-0.4	-0.2	-1.6	-1.5	-0.5
						Price/FCF share			-18.5	-37.6	-4.9	-5.2	-15.5
						Free Cash flow Yield			(5.4%)	(2.7%)	(20.4%)	(19.3%)	(6.5%)

Source: Company data for actuals; RaaS analysis; FY22 Revenue excludes earnings from discontinued vessel operations

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

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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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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

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