

Improving efficiency and revenue

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. In FY23 Q2 the company has focused on efficient delivery of systems to large customers and is expected to once again see substantial revenue growth which will translate to cashflows at a higher margin after onshoring of some technical roles. An improved cost structure potentially suggests a shorter path to breakeven than we currently model. Harvest's trading update on 15 December confirms sales are strong and interest in the Infinity suite of products is increasing. The current geopolitical environment is supportive of a business engaged in securing communications and providing connectivity in remote locations and we expect further strong sales growth.

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.

Q2 on track – trading update

Harvest issued a trading update on 15-Dec highlighting strong revenue from customers with expected Q2 revenue in the range \$950k to \$1.05m. Both income and costs appear likely to improve in Q2. Harvest has reduced costs by bringing technical roles back to Australia, simultaneously reducing exposure to a strong US\$. Cash on hand has been supported by receipt of a R&D Tax Incentive Rebate for FY21 of \$946,951 (announced 16-Nov) with a further claim for FY22 R&D expenses yet to be lodged. Harvest management notes a large increase in enquiry rate, likely assisted by high-profile attacks on data storage and IT infrastructure this year.

Base valuation of \$0.28/share supported by efficiency gains

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 rate, cost of hardware manufacture and licence fee received. Our base case is \$167m or \$0.28/share while a downside case values HTG at \$123m or \$0.21/share and an upside case is \$347m or \$0.59/share. The crucial period to achieve sufficient momentum in sales to justify these valuations is in CY22 with results from FY23 Q1 and Q2 supportive. Recent cost reductions will likely shorten the period until cash breakeven is attained.

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)	1.7	0.89
06/22a	2.1	(11.0)	(14.5)	(2.5)	3.3	0.79
06/23f	8.0	(3.0)	(4.7)	(0.8)	17.0	0.93
06/24f	13.3	1.9	0.0	0.0	4.8	0.98

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

Software & Services

16 December 2022

Share Details

ASX code	HTG
Share price (15-Dec)	\$0.073
Market capitalisation	\$43.0M
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
- Continued interest from large customers is converted to contracts

Downside Case

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

Board of Directors

Jeffrey Sengelman	Non-Executive Chairman
Marcus Machin	Non-Executive Director
Paul Guilfoyle	Managing Director/CEO

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Exhibit 1: Financial Summary

Harvest Technology Group Ltd						Share price (Date)		15/12/2022		A\$ 0.071			
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)
						Divisions		1H21 A	2H21 A	1H22 A	2H22 A	1H23 E	2H23 E
						Revenue		0.0	0.0	0.8	1.5	2.8	5.2
						All Licenced Services ex Discontinued Marine Ops							
Cash flow (A\$m)						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		(0.7)	(0.6)	(2.0)	(2.7)	(0.4)	(0.4)
						Other costs		(0.6)	(0.8)	(1.0)	(1.2)	(1.5)	(1.5)
						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.	n.a.	14.1%
						EBIT		n.a.	n.a.	n.a.	n.a.	n.a.	4.0%
						NPAT pre significant items		n.a.	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	n/a	3.5
						ND/ND+Equity (%)		(%)	(56%)	(20%)	(6%)	34%	(65.2%)
						EBIT interest cover (x)		(x)	n/a	n/a	n/a	n/a	0.6
						ROA		n.a.	n.a.	n.a.	n.a.	n.a.	3%
						ROE		n.a.	n.a.	n.a.	n.a.	n.a.	0%
						ROIC		n.a.	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)			-3.8	-3.3	-2.7	-8.3	890.6
						PE market			16.0	16.0	16.2	16.5	16.5
						Premium/(discount)			(124%)	(121%)	(117%)	(151%)	5311%
						EV/EBITDA			-7.2	-3.6	-3.3	-12.7	22.7
						FCF/Share		cps	-0.4	-0.2	-1.6	-1.5	-0.5
						Price/FCF share			-17.0	-34.7	-4.5	-4.8	-14.3
						Free Cash flow Yield			(5.9%)	(2.9%)	(22.2%)	(20.9%)	(7.0%)

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

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

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

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