

Sales moving up the curve

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 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 Q2 FY23 the company has focused on efficient delivery of systems to large customers. Harvest's quarterly comments and announcements during Q2 FY23 highlight rising interest in the Nodestream secure remote communications products from a range of potential and existing customers including defence and operators of aerial and sea-going drones. We remain of the view that cyber-security issues and the geopolitical environment are supportive of increased take-up of Harvest's products.

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.

Q2 shows cost control and sales rising

Harvest issued a trading update on 15 December highlighting strong revenue from customers. This was delivered with Q2 revenue of \$965k, a record 132.7% increase on the pcp (excluding discontinued operations) and an 8.8% increase on the previous quarter, with a 15% decline in payments to suppliers. Cash on hand was supported by receipt of a FY21 R&D rebate of \$946k (announced 16-Nov) with a further claim for FY22 R&D expenses of \$1.6m expected before 31 March. Including net cash of \$1.462m and directors' rights offer commitments HTG has financing of \$3.358m or approximately three quarters' operational expenses. Harvest management has announced strong levels of sales interest which, when consummated, should place the company in a strong position.

Valuation base case of \$167m supported by sales pipeline

Our valuation is based on a DCF using a Beta of 1.47x 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 was in CY22 with results from FY23 Q1 and Q2 supportive. Recent cost reductions will likely shorten the period until cash breakeven is attained. However, operating cashflow is currently running behind our initial estimate for H1 FY23. This may only be a sales timing issue - we will remodel near-term results with the half-year accounts.

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)
06/21	8.3	(7.5)	(10.3)	(1.4)	4.5	0.84
06/22	2.1	(11.0)	(14.5)	(2.5)	22.4	0.95
06/23e	8.0	(3.0)	(4.7)	(0.8)	6.3	0.99
06/24e	13.3	1.9	0.0	0.0	4.1	1.07

Source: Company data; RaaS estimates for FY23 to FY24e. FY22 revenue from discontinued vessel operations is excluded

Software & Services

31 January 2023

Share Details

ASX code	HTG
Share price (30-January)	\$0.092
Market capitalisation	\$56.97M
Shares on issue	588.9M
Net cash 31-Dec-2022	\$3.58M
Free float	~57%

Share Performance (12 months)



Upside Case

- Fast conversion of current leads
- Strong global defence sector 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
Marcus Machin	Non-Executive Director
Paul Guilfoyle	Managing Director/CEO

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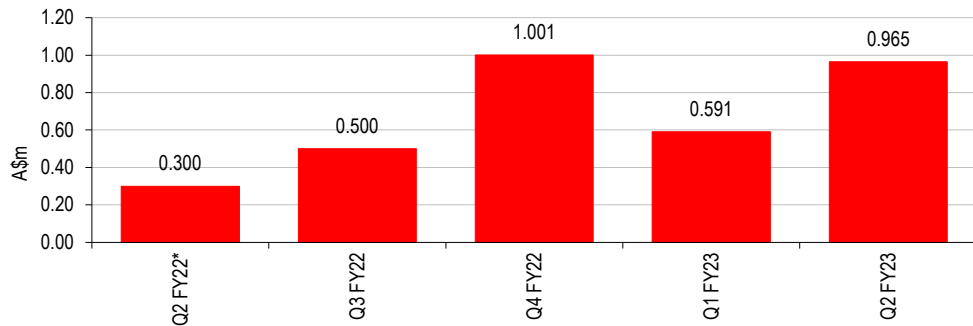
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Q2 FY23 Results Analysis

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 as 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. Receipts from customers are now primarily determined by sales of Nodestream secure remote communications technology.

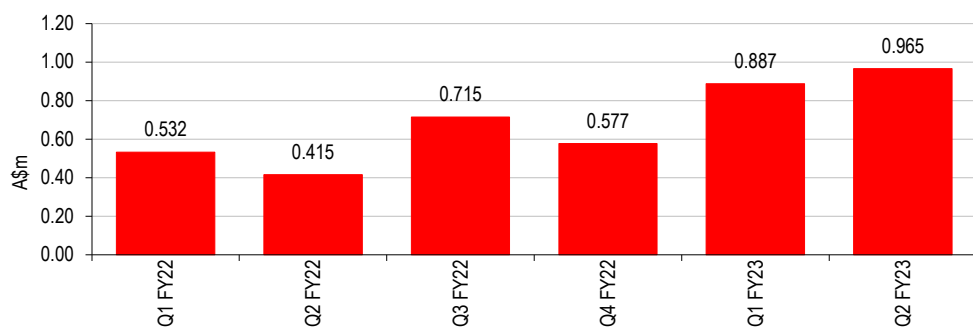
Exhibit 1: Quarterly receipts from customers Q2 FY22 – Q2 FY23



Source: Company reports.*Q2 FY22 is adjusted for estimated continued operations cash receipts

The receipts from customers shown in Exhibit 1 show that HTG is growing cash receipts both on a previous corresponding period and previous quarter basis. Note that we have adjusted Q2 FY22 and Q3 FY22 to remove the discontinued vessel operations. We estimate that continuing technology operations contributed an estimated \$0.3m to cash receipts in Q2 FY22 (and \$0.5m to Q3 FY22) which suggests substantial (estimated three-fold) q-o-q growth within the business. Reviewing Harvest's revenue from continuing operations in Exhibit 2 allows a clearer view of the growth in sales of Nodestream-related products and allows a more positive view of the sales momentum noted below. In view of potential timing issues with consummation of sales opportunities, management has focused on cost reduction, improving HTG's cashflow position. With directors' commitments, cash on hand and the expected R&D rebate Harvest appears to have sufficient funds to capitalise on short-term opportunities.

Exhibit 2: 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	Q2 FY23
Cash receipts	4.074	4.622	0.548	1.001	0.591	0.965
Payments to suppliers	(1.528)	(1.206)	(3.431)	(2.095)	(2.187)	(1.864)
R&D	(1.084)	(0.935)	(1.070)	(1.200)	(1.197)	(1.045)
Other	0.000	0.000	0.000	0.000	0.000	0.000
Operating cashflow	(1.526)	(1.435)	(3.648)	(2.185)	(2.185)	(1.059)
Free cashflow	(1.526)	(1.435)	(3.648)	(2.185)	(2.201)	(1.070)
Net cash at the end of the period	4.006	5.171	6.961	4.5071	2.176	1.462
Monthly cash burn	(0.509)	(0.478)	(1.216)	(0.728)	(0.734)	(0.357)
Quarters of cash on hand	3	3	2	2	1	1

Source: Company data *as reported and including discontinued operations

Key Events in The Quarter

Events in the quarter included:

- Reduction in operating costs of -15% on the previous quarter;
- Highly successful deployment of Nodestream to a European Defence Force with order expansion expected in the short term;
- The next two orders from Ocean Infinity for installation of RiS remote operation systems in 78m uncrewed surface vessels. Ocean Infinity plans further fleet expansion;
- Expansion of a contract with Beach Energy Ltd using Harvest's technology embedded in a smart buoy;
- Commencement of technical discussions with another global energy provider for further smart buoy development;
- Development of the Nodestream protocol as a cloud-based platform (named "NS2") is ahead of schedule;
- Discussions with potential sales partners for the Middle-East and US markets; and
- Directors Rod Evans and Stuart Carmichael resigned in October with Harvest "evaluating the skills and expertise required" in order to fill the roles.

Exhibit 5: Financial Summary

Harvest Technology Group Ltd						Share price (Date)		30/01/2023		Q2 FY23		0.092	
Profit and Loss (A\$m)						Interim (A\$m)		1H21 A	2H21 A	1H22 A	1H22 A	2H22 A	2H23 E
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F								
Sales Revenue	11.6	8.3	2.1	8.0	13.3	Revenue	2.2	6.1	0.9	1.3	2.8	5.2	
Gross Profit	4.6	1.7	1.5	6.7	11.9	EBITDA	(4.9)	(2.6)	(5.3)	(5.8)	(2.6)	(0.4)	
EBITDA	(2.7)	(7.5)	(11.0)	(3.0)	1.9	EBIT	(6.8)	(4.4)	(6.2)	(6.8)	(3.3)	(1.1)	
Deprn	(3.4)	(3.6)	(0.6)	(0.5)	(0.5)	NPAT (normalised)	(6.3)	(4.0)	(6.7)	(6.9)	(3.5)	(1.2)	
Amort	0.0	0.0	(1.2)	(0.9)	(0.8)	Minorities	-	-	-	-	-	-	
EBIT	(6.1)	(11.1)	(13.0)	(4.4)	0.5	NPAT (reported)	(6.3)	(4.0)	(7.2)	(7.1)	(3.5)	(1.2)	
Interest	0.0	0.0	(0.6)	(0.3)	(0.3)	EPS (normalised)	(1.35)	(0.76)	(1.28)	(1.11)	(0.55)	(0.19)	
Tax	0.7	1.6	(0.1)	0.0	(0.2)	EPS (reported)	(1.37)	(0.76)	(1.35)	Q2 FY23	(0.59)	(0.21)	
Minorities	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	-	-	-	-	-	-	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0	
NPAT pre significant it	(5.7)	(10.2)	(13.7)	(4.7)	0.0	Operating cash flow	(3.6)	(5.5)	(3.2)	(5.9)	(2.6)	(0.9)	
Significant items	(0.1)	(0.1)	(0.8)	0.0	0.0	Free Cash flow	(3.4)	(5.3)	(2.5)	(5.7)	(2.2)	(0.5)	
NPAT (reported)	(5.8)	(10.3)	(14.5)	(4.7)	0.0	Divisions		1H21 A	2H21 A	1H22 A	1H22 A	2H22 A	2H23 E
Cash flow (A\$m)						Revenue	0.0	0.0	0.8	1.5	2.8	5.2	
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	All Licenced Services ex Discontinued Marine Ops							
EBITDA	(2.7)	(7.5)	(11.0)	(3.0)	1.9	COGS	(2.7)	(3.8)	(0.2)	(0.4)	(0.6)	(0.6)	
Interest	(0.5)	(0.5)	(0.5)	(0.3)	(0.3)	Employment	(3.0)	(3.5)	(2.9)	(2.9)	(3.0)	(3.0)	
Tax	(0.2)	(0.0)	(0.1)	0.0	(0.2)	Technology, licence fees	(0.7)	(0.6)	(2.0)	(2.7)	(0.4)	(0.4)	
Working capital changes	2.3	(1.0)	2.6	(0.1)	(0.4)	Other costs	(0.6)	(0.8)	(1.0)	(1.2)	(1.5)	(1.5)	
Operating cash flow	(1.1)	(9.1)	(9.0)	(3.4)	0.9	EBITDA	(4.9)	(2.6)	(5.3)	(5.8)	(2.6)	(0.4)	
Mtce capex	(0.1)	(0.4)	(0.8)	(0.7)	(0.7)	Margins, Leverage, Returns							
Free cash flow	(1.2)	(9.4)	(9.8)	(4.1)	0.3	FY20A	FY21A	FY22A	FY23F	FY24F			
Growth capex	0.0	0.0	(0.0)	0.0	0.0	EBITDA	n.a.	n.a.	n.a.	n.a.	14.1%		
Acquisitions/Disposals	(3.2)	(0.8)	(0.7)	0.0	0.0	EBIT	n.a.	n.a.	n.a.	n.a.	4.0%		
Other	(0.6)	(0.2)	0.0	0.0	0.0	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	0.3%		
Cash flow pre financing	(5.0)	(10.4)	(10.5)	(4.1)	0.3	Net Debt (Cash)		4.5	2.7	0.7	(3.4)	6.5	
Equity	11.5	9.2	9.9	0.0	9.6	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	3.5	
Debt	2.4	(2.8)	(0.8)	0.0	0.0	ND/ND+Equity (%)	(%)	(56%)	(20%)	(6%)	34%	(65.2%)	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.6	
Net cash flow for year	8.9	(4.0)	(1.5)	(4.1)	9.9	ROA	n.a.	n.a.	n.a.	n.a.	3%		
Balance sheet (A\$m)						ROE	n.a.	n.a.	n.a.	n.a.	0%		
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	ROIC	n.a.	n.a.	n.a.	n.a.	5%		
Cash	11.3	6.8	4.5	0.4	10.3	NTA (per share)	0.02	0.01	0.00	n/a	0.02		
Accounts receivable	0.0	0.0	0.7	0.7	1.1	Working capital	(1.3)	(3.0)	0.6	0.7	1.2		
Inventory	0.1	0.2	0.6	0.2	0.2	WC/Sales (%)	(11%)	(36%)	29%	9%	9%		
Other current assets	1.1	6.6	0.8	0.8	0.8	Revenue growth	3630%	(28%)	(74%)	271%	67%		
Total current assets	12.5	13.5	6.6	2.0	12.3	EBIT growth pa	n/a	n/a	n/a	n/a	-112%		
PPE	3.4	0.5	1.4	1.6	1.7	Pricing							
Intangibles and Goodwill	7.8	10.3	9.1	8.2	7.4	No of shares (y/e)	(m)	312	484	551	551	551	
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	318	721	582	582	582	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(1.9)	(2.1)	(2.6)	(0.9)	0.0	
Other non current assets	0.6	0.3	0.2	0.2	0.2	EPS Normalised/Diluted	cps	(1.8)	(1.4)	(2.5)	(0.8)	0.0	
Total non current assets	11.8	11.1	12.2	11.5	10.8	EPS growth (norm/dil)	n.a.	-21%	74%	-68%	-101%		
Total Assets	24.3	24.6	18.7	13.5	23.2	DPS	cps	-	-	-	-	-	
Accounts payable	1.4	3.2	0.6	0.1	0.1	DPS Growth	n.a.	n.a.	n.a.	n.a.	n.a.		
Short term debt	2.6	0.5	0.1	0.1	0.1	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%		
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation	30	30	30	30	30		
Other current liabilities	0.7	1.5	1.0	1.0	1.0	PE (x)	-4.9	-4.3	-3.5	-10.8	1,154.0		
Total current liabilities	4.7	5.2	1.9	1.4	1.4	PE market	16.0	16.0	16.2	16.5	16.5		
Long term debt	4.2	3.6	3.7	3.7	3.7	Premium/(discount)	(131%)	(127%)	(122%)	(166%)	6912%		
Other non current liabs	2.8	0.0	1.7	1.7	1.7	EV/EBITDA	-9.6	-5.0	-4.4	-16.6	28.9		
Total long term liabilities	7.0	3.6	5.4	5.4	5.4	FCF/Share	cps	-0.4	-0.2	-1.6	-1.5	-0.5	
Total Liabilities	11.7	8.8	7.3	6.8	6.8	Price/FCF share	-22.0	-45.0	-5.8	-6.2	-18.5		
Net Assets	12.6	15.8	11.4	6.7	16.4	Free Cash flow Yield	(4.5%)	(2.2%)	(17.1%)	(16.1%)	(5.4%)		
Share capital	12.6	15.8	43.4	43.4	53.0								
Accumulated profits/loss	0.0	0.0	(37.8)	(42.5)	(42.5)								
Reserves	0.0	0.0	5.9	5.9	5.9								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder func	12.6	15.8	11.4	6.7	16.4								

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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of

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Effective Date: 6th May 2021



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