

### Approaching cash breakeven?

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. 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 (UAVs and USVs). We have updated our forecast and remain positive on the outlook for the business. Timing of cash receipts results in a slight reduction in valuation, nevertheless, HTG is expected to reach cash break-even in the June 2023 quarter based on strong sales momentum.

#### 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.

#### Cost control and rising sales underpin path to cash breakeven

Cash on hand was supported by receipt of a FY21 R&D Rebate of \$946k (announced Nov-16) with a further claim for FY22 R&D expenses of \$1.6m expected before March 31. Including net cash of \$1.462m and directors' rights offer commitments HTG has financing of \$3.358m or approximately three quarters of operational expenses. We have slightly reduced our revenue forecast for FY23 but continue to expect sales in the \$7m-\$8m range based particularly on success with the European Defence Force contract.

#### Valuation base case of \$154m or \$0.27/sh, momentum good

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 rate, cost of hardware manufacture, and licence fee received. Our base case has reduced from \$164m to \$154m or \$0.27/share. Our downside case values HTG at \$97m (previously \$124m), while we can estimate upside to \$324m (previously \$347m). Cost reductions underpin the path to cash breakeven. Operating cashflow has run slightly behind our initial estimate but sales momentum in Q2 and expected deliveries in H2 mean we remain confident Harvest will report stronger revenue as CY23 progresses.

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	2.1	(4.4)	(13.4)	(2.0)	16.5	0.75
06/22a	2.2	(11.2)	(15.3)	(2.5)	21.8	0.94
06/23f	11.2	(0.5)	(2.2)	(0.3)	4.7	1.02
06/24f	24.0	8.3	4.4	0.7	2.4	1.06

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

### Software & Services

8 March 2023

#### Share Details

ASX code	HTG
Share price (intraday)	\$0.087
Market capitalisation	\$55.5M
Shares on issue	624.1M
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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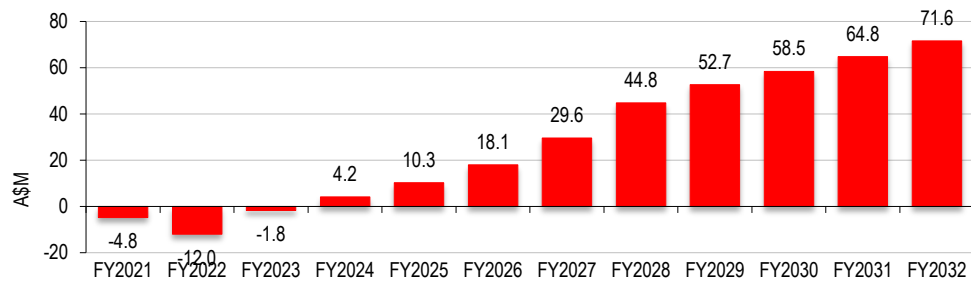
## H1 FY23 Results Analysis and Forecast Update

There were no significant issues revealed in the Interim accounts which were not discussed in the Q2 FY23 report released January-31 ([see our note link](#)). Notably the half-year result included a residual loss from discontinued vessel operations of \$223,197. The group H1 loss was \$4,629,073 with a net cash outflow of \$3,039,054. Cash on hand was enhanced by:

- Receipt of \$249,000 from options exercises in February 2023;
- Deferred placement proceeds of \$500,000 received in February 2023 from a Director;
- The expected R&D incentive rebate of \$1.6m due;
- No further losses from the discontinued vessel operations; and
- Strong interest from global resellers and customers in the past six months.

We have reviewed our forecasts and reduced expected revenue slightly with costs broadly unchanged. The profile of our estimated free cashflow is shown in Exhibit 1. Product deliveries in H2 FY23, particularly for the European Defence Force contract, will be the key to maintaining this profile.

**Exhibit 1: Free cashflow estimates**



Source: Company reports.

**Exhibit 2: Financial Summary**

Harvest Technology Group Ltd						Share price (Date) 8/03/2023							A\$0.09
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	1H21 A	2H21 A	1H22 A	2H22 A	1H23 A	2H23 E		
Sales Revenue	11.6	2.1	2.2	11.2	24.0	Revenue	1.0	1.1	0.9	1.3	1.9	9.3	
Gross Profit	4.6	1.9	1.5	9.5	21.8	EBITDA	(3.1)	(1.2)	(5.3)	(5.8)	(4.1)	2.8	
EBITDA	(2.7)	(4.4)	(11.2)	(0.5)	8.3	EBIT	(6.6)	(2.8)	(11.5)	(12.7)	(4.1)	2.3	
Depn	(2.9)	(2.8)	(0.6)	(0.4)	(0.8)	NPAT (normalised)	(6.3)	(4.0)	(7.2)	(7.3)	(4.6)	1.5	
Amort	(0.5)	(0.8)	(1.2)	0.0	0.0	Minorities	-	-	-	-	-	-	
EBIT	(6.2)	(8.1)	(13.0)	(0.9)	6.7	NPAT (reported)	(6.3)	(4.0)	(7.2)	(7.2)	(4.6)	1.5	
Interest	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	EPS (normalised)	(1.00)	(1.00)	(1.00)	(1.00)	0.00	0.25	
Tax	1.2	1.6	(0.1)	(0.6)	(1.9)	EPS (reported)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	0.25	
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	(6.2)	(10.2)	(14.5)	(2.0)	4.4	Operating cash flow	(3.5)	(5.5)	(3.1)	(5.9)	(3.2)	0.9	
Significant items	(0.7)	(3.2)	(0.8)	(0.2)	0.0	Free Cash flow	(3.4)	(5.3)	(2.5)	(5.7)	(3.2)	1.1	
NPAT (reported)	(6.8)	(13.4)	(15.3)	(2.2)	4.4	Divisions	1H21 A	2H21 A	1H22 A	2H22 A	1H23 A	2H23 E	
<b>Cash flow (A\$m)</b>						Revenue	0.0	0.0	0.9	1.3	1.9	9.3	
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	All Licenced Services ex Discontinued Marine Ops							
EBITDA	(2.7)	(4.4)	(11.2)	(0.5)	8.3	COGS	(0.1)	(0.2)	(0.3)	(0.4)	(0.7)	(1.0)	
Interest	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	Employment	(2.7)	(3.2)	(2.9)	(2.9)	(2.1)	(3.0)	
Tax	1.2	1.6	(0.1)	(0.6)	(1.9)	Technology, licence fees	(0.7)	(0.6)	(2.0)	(2.7)	(2.4)	(2.4)	
Working capital changes	1.0	(5.7)	2.9	(0.8)	(1.1)	Other costs	(0.5)	1.7	(1.0)	(1.2)	(0.8)	(0.1)	
Operating cash flow	(1.1)	(9.0)	(9.0)	(2.4)	4.9	EBITDA	(3.1)	(1.2)	(5.3)	(5.8)	(4.1)	2.8	
Mtce capex	(0.1)	(0.4)	(0.8)	(0.3)	(0.8)	<b>Margins, Leverage, Returns</b>							
Free cash flow	(1.2)	(9.4)	(9.8)	(2.6)	4.1	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.	34.7%		
Acquisitions/Disposals	(3.2)	(0.7)	(0.8)	0.0	0.0	EBIT	n.a.	n.a.	n.a.	n.a.	27.9%		
Other	(0.6)	(0.2)	0.0	0.0	0.0	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	18.2%		
Cash flow pre financing	(5.0)	(10.4)	(10.6)	(2.6)	4.1	Net Debt (Cash)		11.3	6.8	4.5	1.5	15.3	
Equity	11.5	9.2	9.9	0.5	9.6	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	1.8	
Debt	2.4	(2.8)	(0.8)	(0.3)	0.0	ND/ND+Equity (%)	(%)	(858%)	(74%)	(65%)	(19%)	(185%)	
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	0.1	
Net cash flow for year	8.9	(4.0)	(1.5)	(2.4)	13.7	ROA		n.a.	n.a.	n.a.	n.a.	28%	
<b>Balance sheet (A\$m)</b>						ROE		n.a.	n.a.	n.a.	n.a.	25%	
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	ROIC		n.a.	n.a.	n.a.	n.a.	68%	
Cash	11.3	6.8	4.5	2.1	15.8	NTA (per share)	\$	0.01	0.01	0.00	0.00	0.03	
Accounts receivable	1.0	5.8	0.7	1.2	2.3	Working capital		(0.3)	2.9	0.3	1.5	2.6	
Inventory	0.1	0.2	0.6	0.4	0.5	WC/Sales (%)		(3%)	136%	14%	13%	11%	
Other current assets	0.1	0.8	0.8	0.4	0.4	Revenue growth		115500%	(82%)	3%	420%	115%	
Total current assets	12.5	13.5	6.6	4.2	19.0	EBIT growth pa		n/a	n/a	n/a	n/a	-857%	
PPE	3.4	0.5	2.9	2.4	2.4	<b>Pricing</b>							
Intangibles and Goodwill	7.8	10.3	9.1	8.5	7.7	No of shares (y/e)	(m)	463	527	574	589	627	
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	463	507	574	627	608	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(1.5)	(2.5)	(2.7)	(0.4)	0.7	
Other non current assets	0.6	0.3	0.2	0.2	0.2	EPS Normalised/Diluted	cps	(1.3)	(2.0)	(2.5)	(0.3)	0.7	
Total non current assets	11.8	11.1	12.2	11.1	10.3	EPS growth (norm/dil)		n.a.	52%	25%	-87%	-322%	
Total Assets	24.3	24.6	18.8	15.3	29.3	DPS	cps	-	-	-	-	-	
Accounts payable	1.4	3.2	1.0	0.1	0.2	DPS Growth		n.a.	n.a.	n.a.	n.a.	n.a.	
Short term debt	0.0	0.0	0.0	0.3	0.3	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	3.4	2.0	0.9	0.0	0.0	PE (x)		n.a.	n.a.	n.a.	n.a.	13.2	
Total current liabilities	4.7	5.1	1.9	0.5	0.5	PE market		16.0	16.0	16.2	16.5	16.5	
Long term debt	0.0	0.0	0.0	0.3	0.3	Premium/(discount)		n.a.	n.a.	n.a.	n.a.	(20%)	
Other non current liabs	6.9	3.6	5.4	5.1	5.1	EV/EBITDA		-15.0	-8.4	-4.4	-121.7	7.3	
Total long term liabilities	6.9	3.6	5.4	5.3	5.3	FCF/Share	cps	-21.1	-164.1	-142.5	-36.0	91.0	
Total Liabilities	11.7	8.8	7.3	5.8	5.8	Price/FCF share		0.0	0.0	0.0	0.0	0.1	
Net Assets	12.7	15.8	11.4	9.5	23.5	Free Cash flow Yield		0%	0%	0%	0%	989%	
Share capital	22.4	33.7	48.7	44.6	54.3								
Accumulated profits/losse	(9.8)	(17.9)	(37.8)	(35.1)	(30.7)								
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	11.4	9.5	23.5								

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**

**Effective Date: 6<sup>th</sup> May 2021**



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

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