

### Interest level high and rising

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. Harvest's quarterly comments and announcements during Q3 FY23 emphasised high levels of 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 geo-political environment are supportive of increased take-up of Harvest's products. In Q3 Harvest has focused on cost minimisation while client scoping decisions progress.

### 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.

### Q3 slows, engagement builds, cash position improved

Harvest's Q3 FY23 result showed a decline in Q3 receipts to \$686k, still +25% higher than the pcip but a -29% decrease on the previous quarter. Operating cashflow improved \$830k vs Q2 FY23 through lower payments to suppliers and lower R&D outgoings. Net cash at the end of the quarter totalled \$2.15m after the (expected) receipt of a FY22 R&D rebate of \$1.6m from the ATO. This represented 9.4 quarters of funding at the Q3 rate of expenditure which supports our confidence that Harvest will succeed in converting high levels of interest and project scoping activity into actual sales.

### Valuation base case of \$130m (\$0.206/share)

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 base case is now \$130m or \$0.206/share (previously \$0.27/share). Our downside case values HTG at \$74m, while we can estimate upside to \$297m. We have reduced our expectations (previous base case was \$167m) as conversion of the sales pipeline has slowed over the past six months due to economic and geo-political uncertainty. We retain our positive view of the technology and company but recognise the challenges in moving customer discussions to actual sales.

#### 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	2.1	(4.4)	(13.4)	(2.0)	16.5	0.59
06/22	2.2	(11.2)	(15.3)	(2.5)	21.8	0.89
06/23e	4.0	(4.3)	(5.4)	(0.8)	4.7	1.02
06/24e	7.3	(3.6)	(5.7)	(0.9)	2.4	1.13

Source: Company data; RaaS estimates for FY23 to FY24. FY22 revenue from discontinued vessel operations is excluded

### Software & Services

4 May 2023

#### Share Details

ASX code	HTG
Share price (3-May)	\$0.052
Market capitalisation	\$33.3M
Shares on issue	631.8M
Net cash 31-Mar-2023	\$2.4M
Free float	~55%

#### 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
Ross McKinnon	Non-Executive Director
Paul Guilfoyle	Managing Director/CEO

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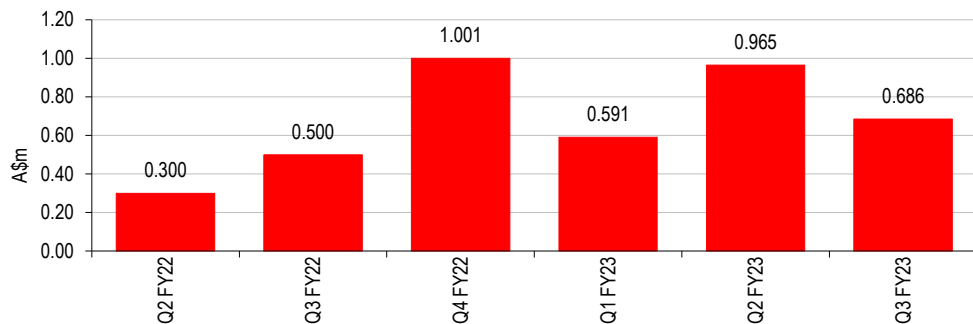
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## Q3 FY23 Results Analysis

The Australian Tax Office approved Harvest’s R&D Tax Incentive Rebate for FY22 and HTG received \$1.6m in Q3. This confirmed HTG will have adequate capital to support operations as expected. Additionally, Mr Ross McKinnon has been appointed as a Non-Executive Director of HTG and invested \$0.5m in HTG at 6.5cps. Mr McKinnon brings broad experience in growing technology businesses. Harvest is currently assembling the staff and resources necessary to fulfil further orders from the EU Defence Force customer and we expect growth in revenue again in the current quarter.

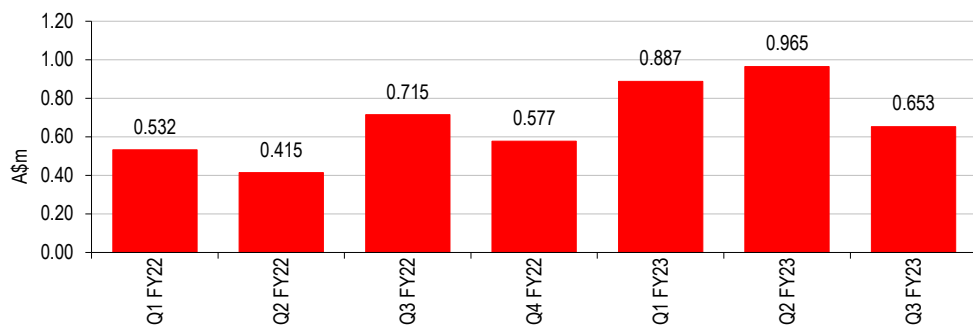
### Exhibit 1: Quarterly receipts from customers Q2 FY22 – Q3 FY23



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

Receipts from customers (Exhibit 1) show that HTG grew cash receipts in Q3 on a previous corresponding period basis and we expect will resume growth on a previous quarter basis in Q4. (We have adjusted Q2 FY22 and Q3 FY22 to remove the discontinued vessel operations.) Reviewing Harvest’s revenue from continuing operations (Exhibit 2) provides a clearer view of the growth in sales of Nodestream-related products but highlights the project delays in Q3. Cost reduction has remained a focus which leaves the company in an improved cash-flow position.

### Exhibit 2: Quarterly revenue



Source: Company reports

**Exhibit 3: Q3 FY23 versus previous quarters (in A\$m unless otherwise stated)**

	Q1 FY22*	Q2 FY22*	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Cash receipts	4.07	4.62	0.55	1.00	0.59	0.97	0.69
Payments to suppliers	(1.53)	(1.21)	(3.43)	(2.10)	(2.19)	(1.86)	(1.76)
R&D	(1.08)	(0.94)	(1.07)	(1.20)	(1.20)	(1.05)	(0.93)
Other	-	-	-	-	-	-	-
Operating cash flow	(1.53)	(1.44)	(3.65)	(2.19)	(2.19)	(1.06)	(0.23)
<b>Free cash flow</b>	(1.53)	(1.44)	(3.65)	(2.19)	(2.20)	(1.07)	(0.23)
Net cash at the end of the period	4.01	5.17	6.96	4.51	2.17	1.46	2.38
Monthly cash burn	(0.51)	(0.48)	(1.22)	(0.73)	(0.73)	(0.36)	(0.08)
<b>Quarters of cash on hand</b>	3	4	2	2	1	1	9

Source: Company data; \*As reported and including discontinued operations

## Key Events in The Quarter

Events in the quarter included:

- Revenue grew 45% in the 12 months to March 2023;
- Net operating cash outflow for the quarter was reduced from \$1.1m in the December quarter to \$0.2m in the March quarter;
- Cash inflows included receipt of a \$1.6m R&D claim and \$1.25m raised from equity issues;
- Rising cost inflation and margin pressure in the offshore, energy and maritime sectors in the past 12 months has delayed Harvest's sales cycle in the short term while increasing sales opportunities for cost-reducing solutions for new customers;
- Harvest's sales pipeline continues to expand monthly despite these pressures;
- Customer churn remains at zero;
- Harvest continues to collaborate with its European Defence Force customer to determine a scope of work and implementation schedule for the technology across all assets and operations;
- TechnipFMC and Inpex renewed licensing contracts for Nodestream;
- Ocean Infinity ordered the next RiS systems to be installed on the next two 78m uncrewed surface vessels to be launched;
- The Beach Energy smart buoy project commenced a successful close-out in the quarter with monthly licensing fees due to commence from May 2023. Technical discussions continue with another global energy "major" for a potential buoy development programme;
- Fugro Australia added 12 more Nodecom audio conferencing systems and two encoders to its network; and
- Appointed Mr Ross McKinnon as a Non-Executive Director.

## Forecasts and Valuation Impact

Customer project delays have slowed conversion of interest and project scoping into contracts and sales but both the underlying geo-political and economic impetus for use of Harvest's technology remain strong. Nevertheless, achieved revenues have been slower than our expectations and we have scaled back the estimated revenue recognition contained in our original report for FY23 and FY24. This results in a 15% decline in our base valuation to \$130m from \$154m (\$0.26/share from \$0.27/share).

<b>Exhibit 4: Forecast and valuation changes</b>		
	<b>FY23*</b>	<b>FY24*</b>
<b>Revenue \$m</b>		
Previous	11.20	24.00
New	4.04	7.32
<b>NPAT \$m</b>		
Previous	(2.20)	4.40
New	(5.41)	(5.67)
<b>Operating cash flow \$m</b>		
Previous	(2.40)	4.90
New	(4.49)	(4.04)
<b>Valuation base case \$m</b>		
Previous	154.0	
New	130.2	
Source: RaaS estimates		

**Exhibit 5: Financial Summary**

Harvest Technology Group Ltd						Share price (Date) 3/05/2023						A\$0.05
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	4.0	7.3	Revenue	1.0	1.1	0.9	1.3	1.9	2.2
Gross Profit	4.6	1.9	1.5	2.9	6.4	EBITDA	(3.1)	(1.2)	(5.3)	(5.8)	(4.1)	(1.1)
EBITDA	(2.7)	(4.4)	(11.2)	(4.3)	(3.6)	EBIT	(6.6)	(2.8)	(11.5)	(12.7)	(4.1)	(1.5)
Depn	(2.9)	(2.8)	(0.6)	(0.4)	(0.8)	NPAT (normalised)	(6.3)	(4.0)	(7.2)	(7.3)	(4.6)	(1.7)
Amort	(0.5)	(0.8)	(1.2)	0.0	0.0	Minorities	-	-	-	-	-	-
EBIT	(6.2)	(8.1)	(13.0)	(4.7)	(5.2)	NPAT (reported)	(6.3)	(4.0)	(7.2)	(7.2)	(4.6)	(1.7)
Interest	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	EPS (normalised)	(1.00)	(1.00)	(1.00)	(1.00)	0.00	(0.28)
Tax	1.2	1.6	(0.1)	0.0	0.0	EPS (reported)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)	(0.28)
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)	(5.2)	(5.7)	Operating cash flow	(3.5)	(5.5)	(3.1)	(5.9)	(3.2)	(1.3)
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)	(1.0)
NPAT (reported)	(6.8)	(13.4)	(15.3)	(5.4)	(5.7)	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	1.8
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	All Licenced Services ex Discontinued Marine Ops						
EBITDA	(2.7)	(4.4)	(11.2)	(4.3)	(3.6)	COGS	(0.1)	(0.2)	(0.3)	(0.4)	(0.7)	(0.5)
Interest	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	Employment	(2.7)	(3.2)	(2.9)	(2.9)	(2.1)	(1.0)
Tax	1.2	1.6	(0.1)	0.0	0.0	Technology, licence fees	(0.7)	(0.6)	(2.0)	(2.7)	(2.4)	(1.9)
Working capital changes	1.0	(5.7)	2.9	0.3	0.0	Other costs	(0.5)	1.7	(1.0)	(1.2)	(0.8)	0.0
Operating cash flow	(1.1)	(9.0)	(9.0)	(4.5)	(4.0)	EBITDA	(3.1)	(1.2)	(5.3)	(5.8)	(4.1)	(1.1)
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)	(4.7)	(4.9)	EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Growth capex	0.0	0.0	0.0	0.0	0.0	EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Acquisitions/Disposals	(3.2)	(0.7)	(0.8)	0.0	0.0	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	(0.6)	(0.2)	0.0	0.0	0.0	Net Debt (Cash)	11.3	6.8	4.5	0.7	0.1	
Cash flow pre financing	(5.0)	(10.4)	(10.6)	(4.7)	(4.9)	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	n/a
Equity	11.5	9.2	9.9	1.8	4.3	ND/ND+Equity (%)	(%)	(858%)	(74%)	(65%)	(10%)	(1%)
Debt	2.4	(2.8)	(0.8)	(0.3)	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net cash flow for year	8.9	(4.0)	(1.5)	(3.3)	(0.6)	ROE	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Balance sheet (A\$m)</b>						ROIC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	NTA (per share)	\$	0.01	0.01	0.00	n/a	n/a
Cash	11.3	6.8	4.5	1.2	0.7	Working capital	(0.3)	2.9	0.3	0.8	1.0	
Accounts receivable	1.0	5.8	0.7	0.6	0.9	WC/Sales (%)	(3%)	136%	14%	20%	14%	
Inventory	0.1	0.2	0.6	0.3	0.2	Revenue growth	115500%	(82%)	3%	88%	81%	
Other current assets	0.1	0.8	0.8	0.4	0.4	EBIT growth pa	n/a	n/a	n/a	n/a	n/a	
Total current assets	12.5	13.5	6.6	2.6	2.2	Pricing	FY20A	FY21A	FY22A	FY23F	FY24F	
PPE	3.4	0.5	2.9	2.4	2.4	No of shares (y/e)	(m)	463	527	574	612	650
Intangibles and Goodwill	7.8	10.3	9.1	8.5	7.7	Weighted Av Dil Shares	(m)	463	507	574	635	631
Investments	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(1.5)	(2.5)	(2.7)	(0.9)	(0.9)
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(1.3)	(2.0)	(2.5)	(0.8)	(0.9)
Other non current assets	0.6	0.3	0.2	0.2	0.2	EPS growth (norm/dil)	n.a.	52%	25%	-68%	10%	
Total non current assets	11.8	11.1	12.2	11.1	10.3	DPS	cps	-	-	-	-	-
Total Assets	24.3	24.6	18.8	13.7	12.5	DPS Growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accounts payable	1.4	3.2	1.0	0.1	0.1	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	
Short term debt	0.0	0.0	0.0	0.3	0.3	Dividend imputation	30	30	30	30	30	
Tax payable	0.0	0.0	0.0	0.0	0.0	PE (x)	n.a.	n.a.	n.a.	n.a.	n.a.	
Other current liabilities	3.4	2.0	0.9	0.4	0.6	PE market	16.0	16.0	16.2	16.5	16.5	
Total current liabilities	4.7	5.1	1.9	0.8	1.0	Premium/(discount)	n.a.	n.a.	n.a.	n.a.	n.a.	
Long term debt	0.0	0.0	0.0	0.3	0.3	EV/EBITDA	-8.1	-3.6	-2.4	-7.6	-10.6	
Other non current liabs	6.9	3.6	5.4	5.1	5.1	FCF/Share	cps	-21.1	-164.1	-142.5	-69.3	-49.7
Total long term liabilities	6.9	3.6	5.4	5.3	5.3	Price/FCF share	0.0	0.0	0.0	0.0	0.0	
Total Liabilities	11.7	8.8	7.3	6.1	6.3	Free Cash flow Yield	0%	0%	0%	0%	0%	
Net Assets	12.7	15.8	11.4	7.59	6.2							
Share capital	22.4	33.7	48.7	45.9	50.1							
Accumulated profits/losse	(9.8)	(17.9)	(37.8)	(38.3)	(44.0)							
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	7.59	6.2							

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



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