

# Harvest Technology Group Ltd

FY22 Annual Report Update

## Strong strategic focus and \$9.8m in additional capital

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 and audio communication. The company delivers products and solutions for video, audio and data transfer from anywhere, via satellite or terrestrial networks regardless of congestion or quality. HTG's products and solutions enables real-time monitoring of remote locations, real-time feedback for field technicians, and secure video and audio conferencing. We reported on the HTG Q4 in early August 22. The detailed annual report highlights the milestones achieved in FY22 including a successful capital raising in each half year, closing the year with \$4.5m in cash and additional commitments of a further \$1m from directors. Harvest discontinued vessel operations during the year to focus on technology solutions for remote operations. The company invested heavily in R&D in FY22 and is now focused on capitalising on that investment through distribution and reseller agreements signed with Inmarsat, Speedcast, Marlink and others. HTG also expects an R&D tax refund of circa \$0.75m from the ATO for the FY22 tax year. We have updated our forecasts with minor changes to estimates and valuation versus our previous note. Strong sales in the current half are key to validating our estimates and the company has kicked the half off well with a contract, initially worth US\$0.06m with the defence force of a European Union member. This is the first contract with a European defence force and validates the Nodestream technology for other customers.

### 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. HTG licenses its hardware and software solutions to customers. 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 reseller agreements with Speedcast and Marlink and partner leads with Inmarsat, the world's largest maritime satellite service providers, into actual licensed customers with a target of 1,000 licences by end-CY22.

### Investing in capacity to drive FY23 revenue

Despite a decline in revenue due to discontinued operations Harvest has increased revenue from remote communications technologies to \$2.2m. First half revenue was muted by COVID-related travel restrictions, however, growth accelerated in the second half. Discontinued vessel operations reported a loss of \$0.7m, reduced from a loss of \$3.4m in FY21. Along with a range of business achievements noted previously, HTG moved into new premises in Perth. The group invested \$0.96m in R&D versus \$0.28m in FY21, and increased people and capability in the operation and sales teams with staff costs rising to \$3.7m from \$1.1m in FY21.

### Valuation base-case at \$165m or \$0.28/share

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 rates, cost of hardware manufacture and licence fees received. Our downside case values HTG at \$122m, while we can estimate upside to \$345m. 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 forecasts (in \$A unless otherwise stated)

Y/E	Revenue	EBITDA reported	NPAT reported	EPS* (c)	EV/Sales (x)	Price / Book (x)
06/21a	8.3	(7.5)	(10.3)	(1.4)	3.6	n.a.
06/22a	2.1	(11.0)	(14.5)	(2.5)	18.5	0.80
06/23f	8.0	(3.0)	(4.7)	(0.8)	5.8	0.94
06/24f	13.3	1.9	0.0	0.0	3.8	0.99

Source: Company data for historicals; RaaS estimates for FY23f and FY24f

## Software & Services

13<sup>th</sup> September 2022

### Share Details

ASX code	HTG
Share price (12-Sept)	\$0.09
Market capitalisation	\$53.3M
Shares on issue	588.9M
Net cash 30-Jun-2022	\$4.497M
Free float	~64%

### 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

### Catalysts

- MRR hits \$340-380k target in September quarter
- Reaches own goal of 1,000 licences by end-CY22
- Further evidence of take-up of technology
- Evidence of reduced cash burn in CY23

### Board of Directors & Management

Jeffrey Sengelmann	Non-Executive Chairman
Rod Evans	Non-Executive Director
Marcus Machin	Non-Executive Director
Stuart Carmichael	Non-Executive Director
Paul Guilfoyle	Managing Director/CEO

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**Exhibit 1: Financial Summary**

Harvest Technology Group Ltd						Share price (Date)		12/09/2022		A\$ 0.0905		
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 E	2H23 E	
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)
Depn	(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)	(1.21)	(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
<b>NPAT pre significant it</b>	<b>(5.7)</b>	<b>(10.2)</b>	<b>(13.7)</b>	<b>(4.7)</b>	<b>0.0</b>	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)
<b>NPAT (reported)</b>	<b>(5.8)</b>	<b>(10.3)</b>	<b>(14.5)</b>	<b>(4.7)</b>	<b>0.0</b>	<b>Divisions</b>	<b>1H21 A</b>	<b>2H21 A</b>	<b>1H22 A</b>	<b>2H22 A</b>	<b>1H23 E</b>	<b>2H23 E</b>
<b>Cash flow (A\$m)</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	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	0.0	0.0	0.0	0.0	0.0	0.0
Working capital changes	2.3	(1.0)	2.6	(0.1)	(0.4)	Other costs	(0.4)	(0.4)	(0.3)	(0.1)	(0.7)	(0.7)
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)	<b>Margins, Leverage, Returns</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	
Free cash flow	(1.2)	(9.4)	(9.8)	(4.1)	0.3	EBITDA	n.a.	n.a.	n.a.	n.a.	14.1%	
Growth capex	0.0	0.0	(0.0)	0.0	0.0	EBIT	n.a.	n.a.	n.a.	n.a.	4.0%	
Acquisitions/Disposals	(3.2)	(0.8)	(0.7)	0.0	0.0	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	0.3%	
Other	(0.6)	(0.2)	0.0	0.0	0.0	Net Debt (Cash)		4.5	2.7	0.7	(3.4)	6.5
Cash flow pre financing	(5.0)	(10.4)	(10.5)	(4.1)	0.3	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	3.5
Equity	11.5	9.2	9.9	0.0	9.6	ND/ND+Equity (%)	(%)	(56%)	(20%)	(6%)	34%	(65.2%)
Debt	2.4	(2.8)	(0.8)	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.6
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		n.a.	n.a.	n.a.	n.a.	3%
Net cash flow for year	8.9	(4.0)	(1.5)	(4.1)	9.9	ROE		n.a.	n.a.	n.a.	n.a.	0%
<b>Balance sheet (A\$m)</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	ROIC		n.a.	n.a.	n.a.	n.a.	5%
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	<b>NTA (per share)</b>		0.02	0.01	0.00	n/a	0.02
Cash	11.3	6.8	4.5	0.4	10.3	<b>Working capital</b>		(1.3)	(3.0)	0.6	0.7	1.2
Accounts receivable	0.0	0.0	0.7	0.7	1.1	<b>WC/Sales (%)</b>		(11%)	(36%)	29%	9%	9%
Inventory	0.1	0.2	0.6	0.2	0.2	<b>Revenue growth</b>		3630%	(28%)	(74%)	271%	67%
Other current assets	1.1	6.6	0.8	0.8	0.8	<b>EBIT growth pa</b>		n/a	n/a	n/a	n/a	-112%
<b>Total current assets</b>	<b>12.5</b>	<b>13.5</b>	<b>6.6</b>	<b>2.0</b>	<b>12.3</b>	<b>Pricing</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>	
PPE	3.4	0.5	1.4	1.6	1.7	No of shares (y/e)	(m)	312	484	551	551	551
Intangibles and Goodwill	7.8	10.3	9.1	8.2	7.4	Weighted Av Dil Shares	(m)	318	721	582	582	582
Investments	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(1.9)	(2.1)	(2.6)	(0.9)	0.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(1.8)	(1.4)	(2.5)	(0.8)	0.0
Other non current assets	0.6	0.3	0.2	0.2	0.2	EPS growth (norm/dil)		n.a.	-21%	74%	-68%	-101%
<b>Total non current assets</b>	<b>11.8</b>	<b>11.1</b>	<b>12.2</b>	<b>11.5</b>	<b>10.8</b>	DPS	cps	-	-	-	-	-
<b>Total Assets</b>	<b>24.3</b>	<b>24.6</b>	<b>18.7</b>	<b>13.5</b>	<b>23.2</b>	DPS Growth		n.a.	n.a.	n.a.	n.a.	n.a.
Accounts payable	1.4	3.2	0.6	0.1	0.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Short term debt	2.6	0.5	0.1	0.1	0.1	Dividend imputation		30	30	30	30	30
Tax payable	0.0	0.0	0.0	0.0	0.0	PE (x)		-4.9	-4.2	-3.4	-10.6	1,135.2
Other current liabilities	0.7	1.5	1.0	1.0	1.0	PE market		16.0	16.0	16.2	16.5	16.5
<b>Total current liabilities</b>	<b>4.7</b>	<b>5.2</b>	<b>1.9</b>	<b>1.4</b>	<b>1.4</b>	Premium/(discount)		(130%)	(126%)	(121%)	(165%)	6797%
Long term debt	4.2	3.6	3.7	3.7	3.7	EV/EBITDA		-9.4	-4.9	-4.3	-16.3	28.5
Other non current liabs	2.8	0.0	1.7	1.7	1.7	FCF/Share	cps	-0.4	-0.2	-1.6	-1.5	-0.5
<b>Total long term liabilities</b>	<b>7.0</b>	<b>3.6</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>	Price/FCF share		-21.7	-44.2	-5.7	-6.1	-18.2
<b>Total Liabilities</b>	<b>11.7</b>	<b>8.8</b>	<b>7.3</b>	<b>6.8</b>	<b>6.8</b>	Free Cash flow Yield		(4.6%)	(2.3%)	(17.4%)	(16.4%)	(5.5%)
<b>Net Assets</b>	<b>12.6</b>	<b>15.8</b>	<b>11.4</b>	<b>6.7</b>	<b>16.4</b>							
Share capital	12.6	15.8	43.4	43.4	53.0							
Accumulated profits/losse	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							
<b>Total Shareholder func</b>	<b>12.6</b>	<b>15.8</b>	<b>11.4</b>	<b>6.7</b>	<b>16.4</b>							

Source: Company data for historicals, RaaS estimates

# FINANCIAL SERVICES GUIDE

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



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- how we transact with you
- how we are paid, and
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