

May 23, 2024

HEARTCORE ENTERPRISES INC.

(NasdaqCM: HTCR)

HeartCore Enterprises, Inc., based in Japan, provides Software as a Service (SaaS) solutions for large commercial and governmental clients in Japan and around the world. Its core customer experience management platform (CX) enables clients to enhance the customer experience and improve customer engagement. This business is complemented by an enterprise digital transformation business (DX) that provides robotics process automation, process mining, and task mining, among other offerings, as well as by a rapidly emerging consulting service that helps private companies in Japan to list on the Nasdaq, and has signed 14 clients to date, two of which have completed initial offerings.

COMPANY HIGHLIGHTS

- * **Robust Customer Base:** HeartCore provides commercial software that enables companies to manage digital interactions with enterprise customers and end users. As of March 31, 2024, the company had 962 enterprise customers in Japan, approximately 65% of which are at paid status. We think the balance represents an opportunity to re-engage former paying customers to paying status as economic conditions in Japan continue to normalize following COVID-19 disruptions. We also view positively the company's majority-stake in U.S.-based Sigmaxways, which closed in early 2023 and provided 40% of HTCR's 2023 revenues. The deal should accelerate the company's entry into the U.S. and boost its long-term growth outlook by enabling the rollout of new products across a wider customer base.
- * **Diversifying Revenue Base:** Since its inception in 2009, HeartCore has commercialized a platform (CX) featuring a customer experience management (CXM) product that accounted for most of its revenues up until the last few years. The company has more recently introduced a Digital Transformation (DX) consulting service to help customers transition to cloud computing in areas including data mining, task mining, and robotic process automation, among other functions. This effort is still in the early stages of customer adoption. Over the past two years, HeartCore successfully shifted its business towards new revenue sources,

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PRICE CHART



KEY STATISTICS

Key Stock Statistics

Recent price (5/22/24)	\$0.75
Fair Value Estimate	\$4.50
52 week high/low	\$2.28/\$0.36
Shares outstanding (M)	20.9
Market cap (M)	\$15.7
Dividend (Annualized)	0.08
Yield (Annualized)	10.7%

Sector Overview

Sector	Information Technology
Sector % of S&P 500	29.6%

Financials (\$M, as of 3/31/24)

Cash/Equivalents	1.2
Debt	2.0
Working Capital (\$M)	-2.0
Current Ratio	0.8
Total Debt/Equity (%)	31.4%
Payout ratio	NM
Revenue (M) TTM	18.1
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	1.67
Inst. ownership	1%

Valuation

P/E forward EPS	3.4
Price/Sales (TTM)	0.9
Price/Book	NM

Top Holders

Prosperity Financial Group Inc
 Renaissance Technologies LLC
 Two Sigma Investments LP

Management

President/CEO/Chairman	Mr. Sumitaka Kanno
CFO	Mr. Qizhi Gao
COO	Mr. Kimio Hosaka
Company website	https://heartcore-enterprises.com

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including taking a majority stake in Sigmaways and launching its “Go IPO” consulting service, which, in aggregate, accounted for nearly 70% of its 2023 revenues and increased by nearly 150%, year-over-year.

- * **Consulting Unit Driving Cash Flow:** We believe that HeartCore is in the early stages of a compelling revenue growth cycle driven in part by “Go IPO,” which helps Japanese companies prepare to list on the Nasdaq. Since its launch in early 2022, Go IPO has signed 14 clients, two of which have closed on their listings. These deals provide HeartCore with upfront consulting fees as well as warrants representing 1%-4% of each client’s share capital, upon listing. The timing of client listings is inherently variable to HeartCore’s near-term revenue recognition, which we think has contributed to the stock’s volatility. However, we think the long-term value provided by this service is underappreciated by investors.
- * **Improving Balance Sheet:** As of March 31, 2024, HeartCore had \$1.2 million in cash and cash equivalents (\$3.25 million including marketable securities and warrants) and \$3.1 million in net receivables on its balance sheet. In March/April 2024, the company received \$9 million in cash from the partial sale of warrants from a Go IPO client (\$5.6 million net, after a source referral fee), which will be recognized as revenue upon the completion of a listing event (expected in the second half of 2024). The company also paid a dividend of \$0.02 per share, which we think could result in a regular dividend program moving forward.
- * **Fair Value:** Based on our EV/Revenue analysis, we arrive at a fair value estimate for HTCR of \$4.50 per share, well above current levels.

COMPANY/INDUSTRY BACKGROUND

HeartCore Enterprises develops and markets Software as a Service (SaaS) solutions to large commercial and governmental customers in Japan and around the world. The software enables customers to secure and manage digital customer interactions, as well as gain insights from, and partly automate, many work processes. HeartCore has a significant installed user base of 962 customers in Japan, achieved with modest investments in sales and marketing efforts. We see HeartCore significantly ramping its efforts to broaden its customer base globally.

Among its Japanese customers, 73% were paying customers as of December 31, 2023. The balance consisted of former paying customers that converted to free versions of the software. We think this represents an opportunity to convert some of these users back to paid status over time, as business conditions continue to normal-

ize in Japan, post-COVID. The company also had 24 customers outside Japan, nearly all of which were using free versions of the software.

HeartCore’s product suites are designed to support enterprise digital transformation and the migration of enterprises to cloud-based, SaaS applications. Its products also help to improve interoperability between legacy technologies as network complexity increases.

HeartCore’s core CXM Platform has been commercialized for 14 years, helping large organizations effectively manage, update, and secure digital interactions with customers. The platform includes a customer experience management (CXM) product), which helps large corporate and government users manage content on their websites. Such websites typically contain massive quantities of information that needs to be kept current and requires sophisticated content management software. The company has leveraged solutions partners to promote the brand and offer the CXM Platform to their clients, resulting in referrals that represented more than 60% of its customers in Japan, and more than 50% of its Japan-generated revenue in 2023.

HeartCore’s software features a user-friendly interface, quick deployment, ease of maintenance, search engine optimization, and extendable functionality, among other features. It also provides strong cybersecurity. We see this focus on cybersecurity as a key selling point, and believe that it has been instrumental in securing wide acceptance of the software in Japan.

In addition to website management, the CXM platform helps companies manage customer data and deliver personalized content to users. We view the ability to offer personalized advertising and content as a key growth driver for many technology products.

Since inception, CXM accounted for most of the company’s revenue before experiencing declines in 2022 as a result of weaker economic growth and an unfavorable yen/dollar exchange rate. The business historically has had strong customer retention among paying customers (88% in 2023, though down from 95% in 2021). We believe that this customer “stickiness” positions HeartCore to add new products into its installed base of paying customers and promote cross-selling opportunities, as macro-economic conditions stabilize.

Over the past five years, HeartCore has developed a complementary business to address the growing shift towards automation solutions among many of its corporate and governmental clients, particularly in the accounting and human resources areas. Its Digital Transformation Business (DX) addresses these market needs, with software for robotics-process automation, task mining, and process

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PEER COMPARISON											
Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
HEARTCORE ENTERPRISES INC	NASDAQ: HTCR	0.75	2.28	0.36	16	-41	148	NA	NA	1.98	11%
ZENVIA INC	NASDAQ: ZENV	3.44	3.88	0.66	174	413	148	NA	NA	1.98	NA
D-WAVE QUANTUM INC	NYSE: QBTS	1.23	3.20	0.57	211	21	22	NA	NA	1.04	NA
RED VIOLET INC	NASDAQ: RDVT	20.07	22.89	16.56	276	-11	13	2300	20.9	1.15	NA

mining, which help customers automate many business functions, and generate measurable metrics through task-mining and process-mining technologies. In October 2023, HeartCore launched a new platform, Dashiwake, which seeks to empower companies to harness their customer information effectively to facilitate the delivery of personalized content across multiple devices, ensuring that its clients can navigate privacy issues across various global markets.

In early 2024, HeartCore established a joint venture with Vietnam-based IT outsourcing and software development company Luvina Software to establish HeartCore Luvina Vietnam Co. This is expected to enhance HeartCore's sales-generation capabilities, leveraging Luvina's 850 engineers and presence in the Japanese corporate market, which generates all of the company's sales.

INVESTMENT THESIS

In our view, HeartCore has taken aggressive steps to diversify its business over the past few years, and should be well positioned to expand its revenue base in several high growth markets. In particular, intelligent process automation, the focus of its DX unit, was estimated as a potential \$38 billion global market opportunity by the end of 2024 (with a five-year compounded annual growth rate of 18.4%) by International Data Corporation. Further, global consultancy Bain & Company has estimated the global automation software market is an approximately \$65 billion market opportunity.

We are encouraged by recent partnerships and joint ventures aimed at enhancing its sales and marketing teams, which historically have been kept lean, but should be well positioned to diversify the enterprise software business' revenue streams

Its Robotic Process Automation (RPA) software facilitates automation for HR and accounting. HeartCore's RPA software (robots) can emulate most human-computer interactions at high volume and speed, without human error. Common tasks that can be automated by RPA include invoice processing, sales orders, account reconciliation, data entry for finance, human resources, manufacturing, supply chain, services, and procurement, payroll, employee onboarding, and data queries.

HeartCore's Task Mining software enables organizations to discover, understand, and analyze the tasks that employees perform as they relate to completing larger processes. Task mining software monitors user actions through an installed recorder that captures application data such as keystrokes, clicks, and data entry, all of which can provide actionable insights for companies to improve their processes and workflow, both manual and automated, to enhance operational efficiency, reduce errors, and improve employee engagement.

Like task mining, process-mining technologies can help improve processes on an enterprise level, with the ideal goal of automating them to enhance customer and employee experiences. Process-mining technology investigates large volumes of enterprise-event log data to discover and present end-to-end processes that the organization is performing to complete work and can lead to actionable suggestions on how to optimize and improve its processes.

In June 2022, HeartCore launched a new service aimed at helping human resources staff implement digital transformation

initiatives. It also launched Robot Store, an e-commerce website that provides Robotic Automation Process ("RPA") services to Japanese enterprise-level customers, enabling the purchase of ready-to-use computerization robots that automate daily tasks. Lastly, HeartCore has launched "truRes-12K," the world's first 12K-compatible real-time 360-degree virtual reality camera, a significant advance over VR cameras that use lower-quality 4K and 8K technologies.

In February 2023, HeartCore acquired a 51% stake in privately held Sigmaways Inc., a software engineering provider, for 2.5 million HeartCore shares and \$1 million in cash. Although Sigmaways' 2023 revenues were \$8.8 million, compared with \$12.9 million in 2022, we view the long-term thesis as intact, as Sigmaways focuses on multiyear contracts and has established relationships with a range of companies, including MasterCard, Live Nation, and Ikea, and should provide HeartCore with cross-selling opportunities as an entry vehicle to the lucrative North American market and provide R&D leverage. As part of the transaction, Sigmaways founder Prakash Sadasivam joined the HeartCore board and became HeartCore's chief strategy officer.

In addition to building a U.S. presence through Sigmaways, we also see HeartCore expanding its footprint by introducing its Dashiwake platform. We expect this initiative to benefit from the acquisition of Sigmaways as well as its recent addition of sales and marketing network support from Sabatini Global.

We are encouraged by HeartCore's investments in cutting-edge technology that we believe will further differentiate its platforms. Across 2023, Sigmaways introduced several novel initiatives including Psyche60s, an augmented/mixed/virtual reality experiences that combine immersive entertainment with educational aspects. The company will seek to form strategic partnerships with public institutions in the education sector to better utilize digital content in learning focused applications while capitalizing on industry interest and advancements in the augmented reality markets. In addition, Sigmaways signed with Heart-Tech Health and Coherent Health to bring end-to-end digital transformation software solutions to the high growth MedTech markets, supporting primary care physicians to drive improved outcomes and patient care experiences.

In March 2022, HeartCore launched Go IPO, a consulting offering that targets Japanese companies interested in listing on the Nasdaq. Go IPO generated nearly 30% of HeartCore revenue in 2023. The service provides help in hiring qualified auditors and attorneys, as well as document translation, S1/F1 filing support, and other services. To date, Go IPO has signed contracts with 14 companies, two of which have completed listing events, providing revenues that have helped to offset softer sales in its core divisions.

We believe that the early performance and long-term potential of Go IPO has been underappreciated by investors. In addition to \$350,000-\$900,000 in upfront consulting fees from each IPO client, HeartCore receives warrants to acquire 1%-4% of the client's capital stock following the Nasdaq listing. Although we see some of the anticipated listing transactions being extended from initial targeted timeframes due to macro-economic volatility, we view positively HeartCore's ability to monetize its Go IPO stock warrants. This was evidenced by its March 2024 sale of a portion

of a client's warrant rights in exchange for \$9 million in cash (\$5.6 million after a source referral fee), as well as its earning of approximately \$5 million in warrants from a completed listing event in the first quarter of 2023. We expect HeartCore to deploy these proceeds on shareholder-friendly initiatives, including the issuance of dividends as well new acquisitions.

RECENT DEVELOPMENTS

HeartCore completed an initial public offering and Nasdaq listing in February 2022. The stock declined more than 80% in that year. In 2023, it declined by 30% compared to a 24% increase for the S&P 500. Year-to-date in 2024, the shares have increased by 6%, compared with a 12% gain for the S&P 500.

In May 2024, HeartCore reported first quarter 2024 results. Revenues of \$5.0 million were 42% lower than the prior-year quarter, which was driven by higher recognized Go IPO revenues. We expect HeartCore to recognize \$9 million in proceeds from the partial sale of a Go IPO warrant that it received in March/April of 2024 upon completion of a listing event in the second half of the year. Net loss was \$1.5 million, or \$0.06 per share, compared with EPS of \$0.10 in the same period in 2023, but we note that approximately 70% of the net loss is attributable to changes in fair value to HTCR's marketable security/warrant portfolio.

In April 2024, HeartCore formed a new division focused on developing Artificial Intelligence (AI) software solutions for new and existing clients across the United States and Japan. The development division includes engineering talent in India as well as its Sigmaways team in the U.S.

In April 2024, HeartCore's board of directors authorized a dividend of \$0.02 per share, which was paid in May 2024. The company has determined that it may issue quarterly dividends going forward.

To date in 2024, HeartCore has announced the signing of three new consulting agreements, bringing its total Go IPO client roster to 14. The agreements have resulted close to \$2 million in initial fees and payables from aggregate service fees. Upon successful offerings, HeartCore would receive warrants representing 2%-3% of each clients' fully diluted common stock.

In March 2024, HeartCore signed an agreement to sell a portion of a Go IPO client's warrants to a Japanese financial institution, with the total contract value amounting to \$9 million in cash (\$5.6 million on a net basis after paying a source referral fee). The company has received the proceeds, which are expected to fund M&A activity as well as dividend payments, but plans to recognize it as revenue upon the completion of a listing event, which is expected in the second half of 2024.

In February 2024, HeartCore announced the establishment of HeartCore Luvina Vietnam Co., Ltd., a joint venture with software development company Luvina Software, a Vietnam-based IT outsourcing and software development company. The venture is expected to enhance HeartCore's sales generation, leveraging Luvina's 850 engineers and corporate presence in Japan among corporate clients.

In January 2024, HeartCore signed a deal to implement its Content Management System platform to Toshiba Elevator Designers' membership website.

In December 2023, HeartCore extended a partnership with TOPPAN Inc. to collaboratively introduce and market its recently announced Dashiwake customer-data platform to potential clients.

In December 2023, HeartCore's subsidiary, Sigmaways Inc engaged San Francisco-based Actquest to implement digital transformation, technology consulting services, and investor and marketing strategies onto its AI Sport Coaching platform.

In November 2023, HeartCore's Sigmaways subsidiary launched its Psyche60s virtual reality experience, which focuses on utilizing augmented reality ("AR"), and mixed reality ("MR") initiatives to enhance offerings in the education space.

In November 2023, HeartCore's Sigmaways subsidiary signed with New York-based Heart-Tech Health and Coherent Health to implement its end-to-end digital transformation, technology consulting services, and investor and marketing strategies onto their Med-Tech platforms.

In October 2023, HeartCore's Content Management System platform was awarded as the solution with top market share in Japan for the eighth consecutive year by independent IT consulting research firm ITR Corporation.

In September 2023, HeartCore signed a deal with Marushin Corporation, a leader within the logistics, licensing and development of towel products in Japan, to implement HeartCore's task mining software solution, CONTROLIO, into Marushin's network of digital systems.

In April 2023, HeartCore signed its tenth Go IPO client and received \$4.5 million in stock from two initial Go IPO clients, upon the completion of their Nasdaq listings. HeartCore launched Go IPO in March 2022.

In February 2023, HeartCore acquired a 51% majority stake in privately held Sigmaways Inc., a software engineering provider.

EARNINGS & GROWTH ANALYSIS

For 2024, we forecast revenue of \$35 million, which would represent 60% growth. For 2025, we project revenues of \$30 million, which would represent a 14% decline. We note that 2024 results are expected to benefit from new Go IPO transactions, including three announced in the first quarter of 2024, and \$9 million from the partial sale of a Go IPO warrant, which we expect to be recognized in the second half of 2024. We note that HeartCore has paid \$3.4 million of the \$9 million as a source referral fee, resulting in net proceeds of \$5.6 million. Excluding Go IPO, we expect 2025 revenues to increase by approximately 9%, driven by enhanced marketing efforts and expanding sales from new products and new strategic partnerships.

We note that top-line results in 2023 were driven by 11 months of contribution from Sigmaways, and by the Go IPO consulting unit. We think that Go IPO-related results could prove conservative if the rate of completed transactions accelerates. To date, only two of 14 clients have completed listings, and several expected offerings have been delayed from initial projections. However, we see potential for as many as seven to have completed offerings by the end of 2024.

We expect a gross margin of 50% in 2024 and 56% in 2025, up from 37% in 2023. We see margins benefitting from its Go IPO consulting business contributing a higher percentage of its

total revenues, though we view the rate of new client additions and completed listing transactions as inherently variable. For the \$9 million Go IPO warrant sale in 2024, we allocate \$3.4 million for the source referral fee to cost of revenues. We also note that its core software business had been expanding its gross margin prior to 2022, and we expect to recover over time.

We expect operating expenses, which exceeded 100% of revenue in 2022 (due to IPO expenses and higher advertising and marketing costs) and declined to 56% of revenues in 2023, to fall to 36% of revenue in 2024 and 46% in 2025, again due to the variability in Go IPO revenues.

We forecast EPS of \$0.22 in 2024 and \$0.13 in 2025. Our estimates assume a weighted average share count of 20.9 million in both periods. We expect variability in its results on a quarterly basis, given the timing of Go IPO recognized revenues following client listing transactions and other financing events.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on HeartCore is Medium-Low. As of March 31, 2024, HeartCore had \$1.2 million in cash and equivalents on its balance sheet, compared with \$1.0 million at the end of 2023. In addition, the company had more than \$2.0 million in marketable securities and warrants from its GO IPO clients, which it can either hold as investments or sell as a source of capital.

Subsequent to the end of the quarter, the company received \$9 million in cash from the sale of a partial warrant right to one of HeartCore's Go IPO clients, which the company plans to recognize as revenue upon the completion of a listing event, which it expects in the second half of 2024. The company has paid \$3.4 million of this amount for a source referral fee, resulting in net funds of \$5.6 million. The company has also received more than \$5 million from an additional completed Go IPO listing event. We expect these events to bolster the balance sheet, though we note that until the \$9 million proceeds are booked, HeartCore has classified the referral fee as a prepaid expense and the proceeds among its liabilities on its balance sheet. This resulted in a negative working capital position of \$2.0 million and a current ratio of 0.8, as of March 31, 2024.

As of December 31, 2023, total debt was approximately \$2.8 million, nearly \$1.8 million of which was classified as long-term debt. Since inception, the company had an accumulated deficit of \$16.1 million as of March 31, 2024. In October 2023, the company entered into an "at the market" offering agreement with H.C. Wainwright & Co., which allows for the sale of up to \$2 million in company shares.

Looking ahead, we expect stronger cash generation -- which could fund increased marketing investments as well as new acquisitions (though we expect the company to focus on managing dilution at current stock levels).

In 2023, net cash used in operating activities was \$4.3 million, compared with cash used of \$4.8 million in 2022. We are encouraged by operating cash flow turning positive in the first quarter of 2024, with net cash generated of \$741,000 compared with net cash used of \$1.05 million in the corresponding period in 2023.

Net cash used in investing activities was \$1.8 million in 2023, compared with cash used of \$12,200 in 2022, attributable to acquisition related payments and an advance on a note receivable

in 2023. Net cash provided by financing activities in 2023 was approximately \$136,000 in 2023, compared with cash provided of \$8.9 million in 2022, which reflected IPO proceeds of \$13.6 million, partially offset by the \$3.5 million spent on share buybacks.

In May 2024, HeartCore paid a dividend of \$0.02 per share (approximately \$417,000), and its management has disclosed that it may consider instituting a regular quarterly dividend moving forward, depending on market conditions. We see such a program as more likely, as the Go IPO consulting business continues to expand and additional clients complete listings on the Nasdaq over time. We view positively HeartCore management's confidence in the company's growth, as it used \$3.5 million in cash to repurchase its stock in the second half of 2022.

MANAGEMENT

Sumitaka Kanno (Yamamoto) is the founder of HeartCore and has served as the CEO and as a member of the board since June 2009. As of December 31, 2023, Mr. Kanno owned approximately 10.6 million shares of HeartCore stock, representing 51% of the total shares outstanding and voting power. Officers, directors and affiliates, in aggregate, held approximately 75% of the stock, with the remainder held by outside investors.

HeartCore's board has nine members, five of whom are classified as independent. We view this positively from a governance standpoint as the company is classified as a "controlled company" under Nasdaq Capital Market rules due to the CEO's majority stake.

RISKS

Risks for HeartCore include uncertain demand for its products and services, particularly in its core market of Japan, which has seen slower growth in recent years; the ability to access capital markets on favorable terms; the ability to manage growth; and competition from other software providers. The company also faces risks related to the protection of its intellectual property, the lingering effects of the pandemic, possible service interruptions from third-party data providers, and the potential for government sanctions.

In 2023, three customers accounted for more than 10% of HeartCore's revenue, though we expect such risk to be mitigated over the long-term by a diverse customer base. We see positive trends in this regard in terms of revenue diversification in Q1 2024, when the top two customers accounted for 26.4% of total revenues, compared with 47.7% during the same period in 2023. In addition, in 2023 and the first quarter of 2024, no vendor accounted for more than 10% of the company's total purchases, compared with three such vendors in 2022.

Lastly, HeartCore faces some currency risk, as it depends primarily on favorable exchange rates on the yen, the functional currency of its core Japan business, which depreciated by 8% in 2023. Sigmaways' business also carries exposure to both the Euro as well as the Canadian dollar. These are translated into the U.S. dollar, HeartCore's reporting currency, which is also the functional currency for HeartCore's and Sigmaways' U.S. operations.

VALUATION

HTCR is currently trading towards the lower end of the 52-week range of \$2.28-0.36. In our view, the valuation has been hindered

by limited visibility into the timing of new corporate listings by clients under the Go IPO consulting service business, amid continued softness in the recovery of its core software operations, and declining operating capital as the company has invested significantly in new growth products and services.

In our view, HeartCore's recent market capitalization and enterprise value below \$20 million has not started to reflect the strengthened balance sheet, as well as its outlook for recently launched strategic partnerships to drive new revenue sources and higher margins.

As noted above, we think that the Go IPO consulting service, which benefits from warrants on newly listed companies, has the potential to drive revenue growth and the recovery of the enterprise value. HeartCore recently cited a pipeline of more than 10 clients, beyond its current 14-client roster, of which only two have completed offerings to date. While the timing of future Nasdaq listing transactions and new client additions is inherently uncertain, as evidenced by several clients delaying planned offerings across 2023, we think the success of Go IPO in less than two years since its launch is under-appreciated by investors.

Also weighing on HeartCore valuation, in our view, is a challenging market environment for small-cap technology stocks,

particularly those who are undercapitalized as well as those with Asian operations or exposure. The market continues to contend with higher interest rates and "risk-off" equity markets since early 2022. However, we think that HeartCore is executing its growth strategy with the launch of new products and services and the expansion of its geographic footprint.

On an enterprise value/revenue basis, HeartCore is currently trading well below one-time our 2024 revenue estimate of \$35 million, well below the average multiple near six-times for a basket of global enterprise software peers. Given our view of HeartCore's firming fundamentals, strong client retention, and expanding product/service offerings, partially offsetting the inherent variability of the timing of Go IPO revenues, we believe that the stock should trade at a narrower discount to peers.

As such, we apply a multiple of three-times to our 2024 revenue estimate of \$35 million, adjusted to \$31.6 million to reflect \$3.4 million in source referral payments made in relation to the partial sale of a Go IPO warrant, to arrive at a target enterprise value around \$95 million. Adjusting for net cash, and using the current share count of 20.9 million, we derive a fair value estimate for HPCR of \$4.50 per share, well above current levels.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2020	2021	2022	2023	Q1 2024	Q2 2024E	Q3 2024E	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Revenue	9.0	10.8	8.8	21.8	5.0	6.2	14.1	9.7	35.0	7.3	7.4	7.6	7.7	30.0
Gross Profit	4.0	5.2	3.4	8.1					17.5					16.7
SG&A	3.4	4.6	9.4	12.2					12.1					13.1
R&D	0.3	0.5	0.6	1.0					0.5					0.6
Operating Income	0.3	0.1	-6.7	-4.1					5.0					3.0
Interest Expense	0.1	0.0	0.0	0.1					0.3					0.4
Pretax Income	0.2	0.1	-6.7	-5.0					4.0					2.6
Tax Rate (%)	32	NA	NA	NA					NA					22
Net income to HTCR	0.2	-0.3	-6.7	-4.2					4.5					2.5
Diluted Shares	14.4	15.2	17.9	20.4					20.9					20.9
EPS	0.01	-0.02	-0.37	-0.21	-0.06	-0.01	0.16	0.13	0.22	0.03	0.03	0.03	0.04	0.13
Dividend	NA	NA	NA	NA					0.08					NA
Growth Rates (%)														
Revenue	NM	20	NM	148					60					-14
Operating Income	NM	NM	NM	NM					NM					NM
Net Income	NM	NM	NM	NM					NM					NM
EPS	NM	NM	NM	NM					NM					NM
Valuation Analysis														
Price (\$): High	NA	NA	6.19	3.43					NA					NA
Price (\$): Low	NA	NA	0.78	0.36					NA					NA
PE: High	NA	NA	NA	NA					NA					NA
PE: Low	NA	NA	NA	NA					NA					NA
PS: High	NA	NA	12.6	3.2					NA					NA
PS: Low	NA	NA	1.6	0.3					NA					NA
Yield: High	NA	NA	NA	NA					NA					NA
Yield: Low	NA	NA	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL)														
Cash/Restricted Cash	3.1	3.1	7.2	2.0					NA					NA
Working Capital	0.6	0.1	4.9	-1.0					NA					NA
Current Ratio	1.2	1.0	2.3	0.8					NA					NA
LTDebt/Equity (%)	NA	NA	23.0	23.0					NA					NA
Total Debt/Equity (%)	NA	NA	40.0	27.0					NA					NA
Ratio Analysis														
Gross Profit Margin	44%	48%	39%	37%					50%					56%
Operating Margin	NA	NA	NA	NA					14%					10%
Net Margin	NA	NA	NA	NA					13%					8%
Return on Assets (%)	NA	NA	NA	NA					NA					NA
Return on Equity (%)	NA	NA	NA	NA					NA					NA
Op Inc/Int Exp	NA	NA	NA	NA					NA					NA
Div Payout	NA	NA	NA	NA					NA					NA

DISCLAIMER

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