

## Quarterly shows on track for full year

HSC Technology is a hardware and software company for the health and aged care industry. It is helping to shift the industry from reactive to proactive care, improving operational efficiencies of the sector. HSC has recently restructured with new management and moved away from a direct-to-consumer focus towards a direct-to-business approach, enabling larger and faster growth opportunities. As at 30 June 2021, HSC Technology has a 0.44% market penetration of the potential aged care market in Australia. We see the company's market penetration expanding to 4% by the end of CY25, with medium-term revenue growth of 50-70% p.a.

## Key takeaways from 4C

- Subscriptions up to 7,400, from 6,300 last quarter +17%, up 58% for 1H and almost doubling vs 12 months ago. This sees their market penetration increase another 6bp to 44bp.
- Forward orders of 3,350 from ADT driven by pending shutdown of the 3G network and component of the 2,300 Anglicare rollout, confirms they are on track with our CY estimates. We are forecasting subscribers of 11,300 by year end, giving HSC a market penetration of 65bp.
- Sales were up 35% YoY for 2Q, and up 8.4% for 1H as they continue to build out large customer partnerships. Hardware sales are lead indicator for the software subscription numbers.
- Cash burn \$85k per month, with \$3.3m cash balance, should see cash levels last 3 years. HSC continues to invest in inventory ahead of 3G shut down along with product improvement through R&D. They continue to look to be on track for FCF positive over CY22.

## Confirming our investment thesis

- Structural demand for technological assistance in aged care supported by demographics, Royal Commission recommendations into continuous monitoring, global digitisation and limited trained staff in aged care.
- Competitive advantage from HSC's software offering given exclusive licence over the CSIRO's algorithm. While hardware sales are the cash generator of the business, the software side provides the value-add.
- With a current cash balance of \$3.3m, we expect HSC Technology to be cash flow positive over CY22.
- Valuation: Our base-case 12-month forward discounted cash flow valuation is \$0.053, implying 193% upside from the current share price. This assumes a further 16% dilution in issued shares from options and performance rights.
- Please see initiation for our more comprehensive view and risks to valuation.

## HSC TECHNOLOGY GROUP

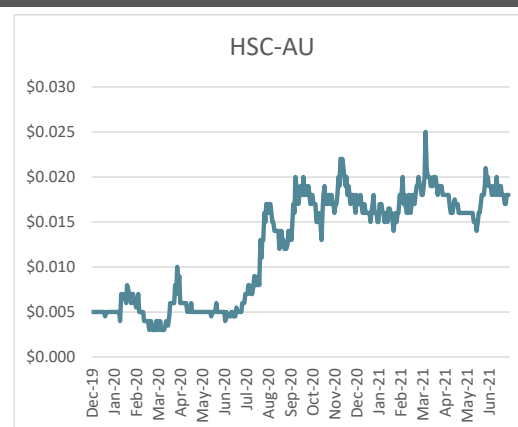
With medical-grade wearables, tracking technology and monitoring devices all linked through Internet of Things (IoT) networks, HSC Technology Group is changing the way healthcare is delivered and creating safer environments. HSC's Assistive Technology suite is designed to enable personalised and proactive care which increases staff productivity, reduces costs and minimises unnecessary adverse medical situations.

<https://www.hsctg.com.au/>

Stock	HSC.ASX
Price	A\$0.018
Market cap	A\$35m
Valuation (per share)	A\$0.053

August 2021	1HCY 21
Ongoing	New contract sales with major aged care providers

### HSC Share Price (A\$)



Source: FactSet.

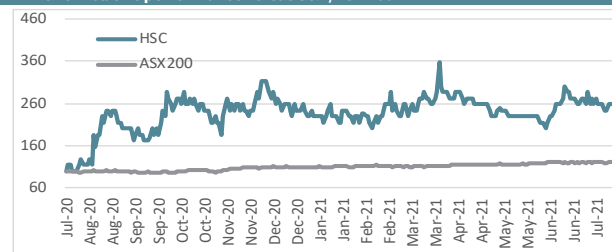
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## Financial Forecasts

**HSC TECHNOLOGY**  
Year end 31 December

**HSC-AU**
**12 month relative performance versus S&P/ASX 200**
**MARKET DATA**

Price	\$	0.018
DCF Valuation - 12 month	\$	0.053
Total return - 12 month	%	193%
52 week high / low	\$	0.004-0.025
Market capitalisation	\$m	35.4
Shares on issue (ordinary)	m	1,967.7
Options / rights	m	294.0
Shares on issue (diluted)	m	2,261.7



INVESTMENT FUNDAMENTALS		CY19A	CY20A	CY21E	CY22E	CY23E
Reported NPAT	\$m	-4.4	-2.4	-0.4	0.6	2.8
<b>Underlying NPAT</b>	<b>\$m</b>	<b>-4.4</b>	<b>-1.6</b>	<b>-0.4</b>	<b>0.6</b>	<b>2.8</b>
Reported EPS (diluted)	¢	-0.5	-0.1	0.0	0.0	0.1
<b>Underlying EPS (diluted)</b>	<b>¢</b>	<b>-0.5</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>
....Growth	%	-58%	-83%	-79%	-236%	367%
<b>Underlying PER</b>	<b>x</b>				60.4	13.8
Operating cash flow per share	¢	-0.4	-0.1	0.0	0.0	0.1
Free cash flow per share	¢	-0.3	-0.1	0.0	0.0	0.1
<b>Price to free cash flow per share</b>	<b>x</b>	<b>-1.8</b>	<b>-27.3</b>	<b>-238.0</b>	<b>46.1</b>	<b>12.8</b>
FCF yield	%	-55%	-4%	0%	2%	8%
<b>Dividend</b>	<b>¢</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Payout	%	0%	0%	0%	0%	0%
<b>Yield</b>	<b>%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
Franking	%	0%	0%	0%	0%	0%
<b>Enterprise value</b>	<b>\$m</b>	<b>5.2</b>	<b>25.7</b>	<b>30.9</b>	<b>30.4</b>	<b>27.0</b>
EV/Sales	x	7.5	24.5	16.8	9.5	4.9
EV/EBITDA	x	-1.4	-27.9	-93.8	48.6	9.8
EV/EBIT	x	-1.2	-16.9	-67.2	55.4	10.0
Price to book (NAV)	x	0.0	0.3	0.6	0.6	0.6
Price to NTA	x	0.0	0.5	0.8	0.8	0.7

KEY RATIOS		CY19A	CY20A	CY21E	CY22E	CY23E
EBITDA margin	%	-534.8	-87.6	-17.9	19.6	50.0
EBIT margin	%	-629.0	-144.3	-24.9	17.2	49.2
NPAT margin	%	-636.5	-226.6	-22.5	18.6	50.1
Underlying ROE	%	nm	nm	nm	8.2	20.0
Underlying ROA	%	nm	nm	nm	5.9	15.3
Net tangible assets per share	¢	0.3	0.3	0.3	0.4	0.7
Book value per share	¢	0.7	0.5	0.4	0.5	0.9
Net debt / (cash)	\$m	-2.2	-4.5	-4.5	-6.2	-12.5
Interest cover (EBIT / net interest)	x	116.3	45.5	-10.3	12.2	52.4
Gearing (net debt / EBITDA)	x	0.6	4.8	13.7	nm	nm
Leverage (net debt / (net debt + equity))	x	-1.8	-5.0	-5.2	-6.1	-9.5

DUPONT ANALYSIS (on Underlying)		CY19A	CY20A	CY21E	CY22E	CY23E
Net Profit Margin	%	-636.5	-226.6	-22.5	18.6	50.1
Asset Turnover	x	0.1	0.2	0.3	0.3	0.3
Return on Assets	%	-73.0	-34.1	-5.7	5.9	15.3
Financial Leverage	x	1.7	1.3	1.3	1.4	1.3
<b>Return on Equity</b>	<b>%</b>	<b>-126.6</b>	<b>-44.6</b>	<b>-7.7</b>	<b>8.2</b>	<b>20.0</b>

KEY PERFORMANCE INDICATORS		CY19A	CY20A	CY21E	CY22E	CY23E
Number of subscribers/users		0	4,700	11,321	23,232	41,740
Market penetration	%	0.00%	0.29%	0.65%	1.25%	2.09%
Average Revenue Per User	\$	\$ -	\$ 52	\$ 54	\$ 55	\$ 57
Software Revenue	\$m	0.0	0.2	0.6	1.3	2.4
Growth	%			148%	111%	85%
Hardware Revenue	\$m	0.0	2.9	4.6	7.5	12.3
Growth	%			61%	64%	63%

QTRLY DATA		2Q20	3Q20	4Q20	1Q21	2Q21
Number of subscribers		2,700	4,500	4,700	6,300	7,400
New subscribers		700	1,800	200	1,600	1,100
Market penetration		0.17%	0.28%	0.29%	0.38%	0.44%

Source: HSC reports, MST Access estimates

PROFIT AND LOSS		CY19A	CY20A	CY21E	CY22E	CY23E
Revenue	\$m	1.1	3.2	5.4	9.0	14.8
Gross Revenue	\$m	0.7	1.1	1.8	3.2	5.5
Operating Expenses	\$m	-4.4	-2.0	-2.2	-2.6	-2.8
<b>EBITDA</b>	<b>\$m</b>	<b>-3.7</b>	<b>-0.9</b>	<b>-0.3</b>	<b>0.6</b>	<b>2.8</b>
Depreciation & amortisation	\$m	-0.7	-0.6	-0.1	-0.1	0.0
<b>EBIT</b>	<b>\$m</b>	<b>-4.3</b>	<b>-1.5</b>	<b>-0.5</b>	<b>0.5</b>	<b>2.7</b>
Net interest	\$m	0.0	0.0	0.0	0.0	0.1
Non-operating income	\$m	0.0	-0.8	0.0	0.0	0.0
Tax expense	\$m	0.0	0.0	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>\$m</b>	<b>-4.4</b>	<b>-2.4</b>	<b>-0.4</b>	<b>0.6</b>	<b>2.8</b>
Adjustments to underlying	\$m	0.0	0.8	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>\$m</b>	<b>-4.4</b>	<b>-1.6</b>	<b>-0.4</b>	<b>0.6</b>	<b>2.8</b>
Weighted average basic shares	m	814.8	1,495.3	1,918.2	1,990.7	2,113.7
Weighted average diluted shares	m	814.8	1,670.3	2,161.7	2,271.7	2,266.7

GROWTH PROFILE		CY19A	CY20A	CY21E	CY22E	CY23E
Revenue	%	626.7	178.8	69.7	66.8	65.1
EBITDA	%	-12.9	-75.0	-64.3	-289.8	341.0
EBIT	%	-3.5	-65.0	-69.7	-219.3	394.2
Underlying NPAT	%	-2.7	-64.6	-73.2	-242.9	365.6
Underlying EPS	%	-57.8	-82.7	-79.3	-235.9	366.6
DPS	%	n/a	n/a	n/a	n/a	n/a

BALANCE SHEET		CY19A	CY20A	CY21E	CY22E	CY23E
Cash	\$m	2.7	4.5	4.5	6.2	12.5
Receivables	\$m	0.9	0.2	0.3	0.6	0.9
Other	\$m	0.7	2.0	2.2	3.1	4.6
Current	\$m	4.3	6.7	7.1	9.8	18.0
Property, plant & equip	\$m	0.4	0.2	0.1	0.1	0.1
Goodwill and intangibles	\$m	1.4	0.1	0.1	0.0	0.0
Other	\$m	0.0	0.0	0.0	0.0	0.0
Non current	\$m	1.8	0.3	0.2	0.1	0.1
<b>Total assets</b>	<b>\$m</b>	<b>6.0</b>	<b>7.0</b>	<b>7.3</b>	<b>10.0</b>	<b>18.1</b>
Payables	\$m	1.4	1.1	1.3	2.2	3.7
Borrowings	\$m	0.5	0.0	0.0	0.0	0.0
Other	\$m	0.6	0.5	0.5	0.5	0.5
<b>Total liabilities</b>	<b>\$m</b>	<b>2.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2.8</b>	<b>4.2</b>
Net assets	\$m	3.5	5.4	5.4	7.2	13.8
Equity	\$m	11.9	16.0	16.2	17.0	20.2
Retained earnings	\$m	-8.4	-10.6	-10.8	-9.8	-6.3
<b>Shareholder's equity</b>	<b>\$m</b>	<b>3.5</b>	<b>5.4</b>	<b>5.4</b>	<b>7.2</b>	<b>13.8</b>

CASH FLOW		CY19A	CY20A	CY21E	CY22E	CY23E
Net Income (Cashflow)	\$m	-4.3	-1.5	-0.5	0.5	2.7
Depreciation & Amortization	\$m	0.7	0.6	0.1	0.1	0.0
Change in Net Operating Assets	\$m	-0.1	0.6	0.1	0.2	0.4
Other Non-Cash Items, Total	\$m	0.3	-0.9	0.0	0.0	0.1
<b>Operating cash flow</b>	<b>\$m</b>	<b>-3.4</b>	<b>-1.2</b>	<b>-0.2</b>	<b>0.9</b>	<b>3.2</b>
Capital expenditure	\$m	-1.0	0.0	0.0	0.0	0.0
Acquisitions/divestment/other	\$m	-0.1	0.1	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>\$m</b>	<b>-1.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Equity	\$m	3.2	2.9	0.2	0.8	3.2
Increase / (decrease) in borrowings	\$m	0.5	0.0	0.0	0.0	0.0
Dividend/other	\$m	0.0	-0.1	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>\$m</b>	<b>3.7</b>	<b>2.8</b>	<b>0.2</b>	<b>0.8</b>	<b>3.2</b>
<b>Net cash flow</b>	<b>\$m</b>	<b>-0.7</b>	<b>1.7</b>	<b>0.1</b>	<b>1.7</b>	<b>6.3</b>
<b>Free cash flow</b>	<b>\$m</b>	<b>-4.4</b>	<b>-1.2</b>	<b>-0.2</b>	<b>0.9</b>	<b>3.2</b>

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