April 2, 2024

# Zacks Small-Cap Research

*Sponsored – Impartial - Comprehensive*

Tom Kerr, CFA
312-265-9417
tkerr@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

## HeartCore Enterprises (NASDAQ: HTCR)

**HTCR: HeartCore announces the sale of $9.0 million in Go IPO client warrants. The company also announces a new dividend authorization.**

Utilizing a discounted cash flow valuation process containing conservative estimates combined with other valuation methodologies, we believe HTCR could be worth **$3.00** per share.

| | |
|---|---|
| Current Price (4/1/24) | $1.19 |
| **Valuation** | **$3.00** |

### OUTLOOK

HeartCore Enterprises is an established software development and consulting company based in Tokyo, Japan and operates in five core offerings and solutions. These include 1) Content Management in which the core product is HeartCore CMS, 2) Digital Transformation which includes Controlio, myInvenio, Apromore and HeartCore Robo, 3) GO IPO, a consulting service that helps Japanese companies prepare for a U.S. Nasdaq public listing, 4) Sigmaways, that specializes in infrastructure modernization, and 5) other revenues. We believe the company is poised for strong growth due to its entry in the U.S. market and solid results from the Go IPO offering.

### SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$3.43** |
| **52-Week Low** | **$0.36** |
| **One-Year Return (%)** | **11.8** |
| **Beta** | **1.50** |
| **Average Daily Volume (sh)** | **62,442** |
| **Shares Outstanding (mil)** | **20.8** |
| **Market Capitalization ($mil)** | **$21.9** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **0** |
| **Insider Ownership (%)** | **76** |
| **Annual Cash Dividend** | **$0.08** |
| **Dividend Yield (%)** | **6.70** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **N/A** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/A** |
| **P/E using 2023 Estimate** | **N/A** |
| **P/E using 2024 Estimate** | **2.7** |

| | |
|---|---|
| **Risk Level** | **High** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **Software** |

### ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2022 | $2.2 A | $2.7 A | $1.9 A | $2.0 A | $8.8 A |
| 2023 | $8.7 A | $5.1 A | $4.7 A | $4.8 E | $23.3 E |
| 2024 | $5.1 E | $5.6 E | $6.3 E | $7.2 E | $23.7 E |
| 2025 | | | | | $26.9 E |

**EPS / Loss Per Share**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2022 | -$0.09 A | -$0.09 A | -$0.11 A | -$0.08 A | -$0.37 A |
| 2023 | $0.10 A | -$0.04 A | -$0.11 A | -$0.01 E | -$0.08 E |
| 2024 | $0.19 E | $0.04 E | $0.06 E | $0.09 E | $0.38 E |
| 2025 | | | | | $0.42 E |

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution, or intangibles.

© Copyright 2024, Zacks Investment Research. All Rights Reserved.

## WHATS NEW

Recent News

- On April 1, 2024, the company announced it had authorized a dividend payment in the amount of $0.02 per share which will total $417,283 to be paid by the company.

  After evaluating the Company's balance sheet and financial profile, HeartCore and its Board of Directors deemed it was in the best interest of the company and stockholders to declare the dividend. The record date for holders to participate in the dividend is April 26, 2024, and the payment date will be May 3, 2024. HeartCore may issue quarterly dividends going forward, contingent upon the financial results.

  HeartCore CEO Sumitaka Kanno Yamamoto stated, *"I am pleased to announce our inaugural dividend payment, a testament to our strong financial health and cash management throughout the year. After a thorough assessment of our balance sheet and the recent influx of cash from the sale of a Go IPO client warrant, we felt that rewarding our valued shareholders was appropriate and long overdue. We are confident in the current Go IPO pipeline that has become a revenue-generating catalyst for the Company, and eagerly anticipate sharing further updates as they unfold. Looking ahead, we anticipate sales and gross profit to reach their highest levels since HeartCore's inception in the first quarter of 2024. We thank all of our valued shareholders for your continued support, and we're excited for the growth that lies ahead in 2024."*

- On March 18, 2024, the company announced that it had signed an agreement with PharmaBio Corporation for its 13th Go IPO consulting service win. As compensation for its services, HeartCore expects to generate an aggregate of $500,000 in initial fees and $300,000 in success fees. In addition, HeartCore has received a warrant to acquire 3.0% of PharmaBio's common stock, on a fully diluted basis.

  HeartCore CEO Sumitaka Kanno Yamamoto stated, *"I am pleased to announce our 13th Go IPO contract win and our second contract for 2024. With the recent $9 million generated from the sale of a Go IPO client's warrant, this business remains a pivotal driver for our long-term financial growth and our ability to pursue M&A opportunities within our software business. As our clients achieve successful listings on U.S. exchanges, HeartCore is poised to reach new heights, fueled by the revenue influx from the post-IPO sale of additional Go IPO client warrants. Our team's reputation and services continue to solidify, establishing us as the preferred, go-to U.S. IPO advisory firm within the Japanese markets. We look forward to announcing our client's successful listings and eagerly await the financial benefits that will help stabilize and propel the HeartCore business. Our team is confident that 2024 will be the strongest year in company history."*

- On March 4, 2024, HeartCore announced that it had signed an agreement to sell a Go IPO client's warrants to a Japanese financial institution, with the total contract value amounting to $9 million in cash.

  By selling the warrants it received for the Go IPO client, HeartCore is able to realize the full $9.0 million payment in cash in the 1st quarter of 2024 which will significantly bolster its cash reserves. This addition of capital strategically positions the company to pursue its M&A efforts with a focus on expanding its software business as well as driving global expansion initiatives. The company intends to sell additional warrants as more Go IPO clients list on major U.S. exchanges.

- On February 29, 2024, the company announced that it had signed an agreement with Jyo Co., Ltd for its 12th Go IPO consulting service win.

As part of the agreement, HeartCore will assist Jyo in its efforts to go public and list on the Nasdaq Stock Market or the New York Stock Exchange. Through Go IPO, the Heartcore services clients by assisting throughout the audit and legal firm hiring process, translating requested documents into English, assisting in the preparation of documentation for internal controls required for an initial public offering or de-SPAC, providing general support services, assisting in the preparation of the S-1 or F-1 filing, and more. As compensation for its services, HeartCore expects to generate from Jyo an aggregate of $700,000 in initial fees. In addition, HeartCore has received a warrant to acquire 2% of Jyo's common stock.

- On February 28, 2024, the company announced the establishment of HeartCore Luvina Vietnam, a joint venture with Luvina Software Joint Stock Company ("Luvina Software"), a Vietnam-based IT outsourcing and software development company.

  The establishment of HeartCore Luvina Vietnam should catalyze synergies within HeartCore and its related companies to facilitate seamless sales generation. Luvina Software currently staffs 850 engineers and generates 100% of sales through contracts with Japanese corporations. Joining forces with HeartCore Luvina Vietnam presents an optimized pathway for an increase in sales and opportunities for business expansion beyond Japan. Further, HeartCore's demand and involvement as a subcontractor for website construction projects continues to grow, increasing overall sales for the company.

  HeartCore CEO Sumitaka Kanno Yamamoto stated, *"I am pleased to announce our newly established joint venture company, HearrtCore Luvina Vietnam, which will significantly boost our efforts in expanding our global software business. Having worked closely with Luvina Software and its talented team over the past five years across various projects, we view this partnership as a critical next step in advancing and optimizing sales generation within our enterprise software business and group companies, specifically Sigmaways. The establishment of HeartCore Luvina Vietnam marks a pivotal move in our overarching global expansion efforts, presenting fresh avenues for growth abroad, particularly in the United States and Europe. We believe this strategic initiative will not only enhance our presence in key markets but also foster new opportunities for innovation and collaboration on an international scale."*

Other News

- On January 16, 2024, the company announced that it had signed a deal to implement its Contents Management System (CMS) platform to Toshiba Elevator Designers' membership website which is operated by Toshiba Elevator and Building Systems Corporation.

  Having been in operation for several years and primed for a transformation, the Website underwent a comprehensive renewal to strengthen its content dissemination strategy and elevate user satisfaction. This initiative was driven by a strategic plan to integrate essential features such as a) a streamlined membership registration and login authentication process, b) a user-friendly display of membership information, c) personalized content for each member, and d) robust security measures for external users.

  The incorporation of HeartCore's CMS platform introduces a new level of efficiency for employees, enabling them to closely monitor member site usage, promptly address inquiries, and tailor content based on their specific roles. This integration aims to create a highly dynamic and responsive online platform, in line with Toshiba Elevator's commitment to delivering an enhanced and secure digital experience for its members.

- On December 13, 2023, the company announced it had extended its partnership with TOPPAN to collaboratively introduce and market its recently announced Dashiwake customer data platform to new potential clients.

  Since establishing the partnership with TOPPAN in May 2023, HeartCore has taken a significant step in enhancing and expanding the sales initiative of its digital marketing business. As part of that effort, the company intends to leverage TOPPAN's extensive digital marketing systems and proficiency in the Information and Communication field with the goal of jointly promoting the Dashiwake platform and enhancing the promotion and sales of this customer data platform to users. Through this collaborative effort, HeartCore remains committed to strengthening its ongoing relationship with TOPPAN and actively exploring new opportunities for further collaboration and synergies, while continuing to advance its promotional efforts to introduce its cutting-edge software solution to prospective clients.

- On December 11, 2023, the company announced that it has developed and integrated a new "Builder for Creating Admin Screens" functionality into its market leading content management systems (CMS) platform, which allows users to create original submission screens within the platform.

  HeartCore's latest "Builder for Creating Admin Screens" function allows users of the CMS platform to effortlessly design and customize their own personalized submission screens tailored specifically to individual needs and preferences. Developing a submission screen in many CMS platforms often requires the involvement and expertise of external production entities or proficient web designers, resulting in both time and cost-intensive processes for departments lacking that specialized knowledge. In response to this issue, HeartCore's new solution enables users to internally create new content pages and DB management screens, facilitating quick page additions, consistent information dissemination, and enhanced marketing flexibility while minimizing operating costs.

- On December 4, 2023, the company announced that its subsidiary, Sigmaways, has engaged San Francisco-based Actiquest to implement digital transformation, technology consulting services, and investor and marketing strategies onto its AI Sport Coaching platform.

  Actiquest is a pioneer in the AI for Sports industry, developing advanced technology for AI based sports coaching and training with the goal of creating personalized, adaptive training experiences for athletes. Through this strategic collaboration, Actiquest is set to elevate its AI-based capabilities by leveraging the robust software development expertise of Sigmaways and HeartCore. The synergy between Sigmaways' advanced technological capabilities and Actiquest's innovative products aims to not only refine existing AI models but also foster new developments in AI technology.

  This agreement represents a significant stride in advancing the dynamic sports coaching market, where AI-driven technologies such as computer vision and generative AI are poised to play a pivotal role in tailoring personalized training regimens and enhancing overall performance for each individual athlete. Actiquest's innovative technological approach to sports training stands as a guiding force for Sigmaways and HeartCore to elevate their AI development strategies, serving to advance the trajectory of AI for broader impacts across diverse fields.

Go IPO

The Go IPO consulting offering, which was launched in April 2022, has already contributed meaningful value to HeartCore. Go IPO is a service that helps Japanese companies achieve a NASDAQ public listing in the U.S. This consulting service is based on the company's own go-public experience as well as its general business expertise in navigating cross border issues between Japan and the U.S. From the Japanese market perspective, the company helps with audit attestation, underwriter exams and TSE related information and processes. For the U.S. markets, the company helps with auditor audit attestation

for two years, reviews by the underwriter and their attorneys, as well as SEC confirmation. Go IPO performs the difficult task of converting Japanese accounting data to IFRS and U.S. GAAP accounting principles and works with the audit firm.

Since inception, Go IPO has signed 13 companies as clients, two of which have already gone public. The company receives a base consulting fee, often in the range of $500,000 to $900,000, as well as low cost warrants that are converted to shares once the IPO occurs. Revenue is recognized using mark-to-market accounting at the end of each quarter, and the recognized stock price for revenue recognition may be above or below the official IPO price.

The two client IPOs that have occurred created marketable securities for HeartCore that are valued at $757,106 as of September 30th, 2023. The warrants that have been issued by remaining Go IPO clients are valued at $2.5 million as of the end of the 3rd quarter. The company has the flexibility to hold these shares and warrants as investments or to sell them as a source of capital.

There is an approximate 9-12 month time frame from when a client is signed to when an IPO will occur based on recent history. Based on the contract signing dates for the remaining 9 clients, the company could recognize IPO revenues from these clients in 2024 at some point.

We had expectations that some of the clients would have their IPO in the 4th quarter of 2023 but no IPOs occurred in the quarter due to market conditions. The timing of these IPOs is highly uncertain due to potential regulatory delays, the complexity of each offering, and overall stock market conditions.

Valuation and Estimates

Our 2024 revenue estimate is adjusted to $23.7 million, and our 2024 EPS estimate is $0.38. We introduce a 2025 EPS estimate of $0.42.

We maintain our target price of **$3.00** pending results of 1st quarter 2024 financial results.

We believe this to be a conservative estimate as revenue growth rates could greatly exceed our estimates as a result of better than expected client IPO revenues. There is also potential for gross margin improvements above our estimates. Our discount rate also utilizes a high equity risk premium to account for execution risks and possible macroeconomic disruptions.

The markets which HeartCore is focused on are expected to produce above average growth rates for an extended period of time. We expect the company's revenues to grow at solid double-digit rates over the next 10 years.

## KEY INVESTMENT POINTS




Source: HeartCore Investor Presentation

- HeartCore Enterprises (NASDAQ: HTCR) is an established software development and consulting company based in Tokyo, Japan and currently has a market capitalization of approximately $18.8 million.

- The company operates in five core product and offering areas which include Content Management, Digital Transformation, GO IPO, Sigmaways, and Other Revenues.

- The company has a large installed user base of business and government agency customers which are mostly based in Japan at this time.

- The company accelerated its efforts to establish a presence in North American markets by acquiring California based Sigmaways. The acquisition closed in the 1st quarter of 2023.

- The company's customer retention rate for its core products is approximately 95%, which creates a steady stream of recurring revenues.

- The company is led by an experienced management team with expertise in software development, technology and corporate finance.

- As of 9/30/23, the company had $2.2 million in cash and equivalents and $3.2 in marketable securities, however cash levels are expected to increase substantially after receiving $9.0 million for the sale of Go IPO client warrants.

- We believe HeartCore is poised for strong profitable growth in 2024 and believe the stock is worth **$3.00** based on our discounted cash flow calculation which incorporates conservative estimates and a high discount rate.

## OVERVIEW

Source: HeartCore.com

HeartCore Enterprises (NASDAQ:HTCR) is an established software development company based in Tokyo, Japan and operates in five key areas. These include 1) Content Management in which the core product is HeartCore CMS, 2) Digital Transformation which includes Controlio, myInvenio, Apromore and HeartCore Robo, 3) GO IPO, a consulting service that helps Japanese companies prepare for a U.S. Nasdaq public listing and 4) Sigmaways which closed in February 2023, and 5) Other Revenues.

HeartCore was founded in 2001 and has 44 employees at this time of which approximately half are devoted to software programming and engineering. The company has an established customer base with over 800 active customers and maintains a very high retention rate of approximately 95%. The company went public through an initial public offering in February 2022 raising $15 million in proceeds. The IPO was priced at $5.00 per share.

In September 2022, HeartCore announced they had entered into an agreement to acquire 51% of Sigmaways, a California based digital technology company. This acquisition would expand the operational footprint in the U.S. and is expected to add significantly to HeartCore's revenue base. In 2021, Sigmaways generated approximately $8.7 million in revenues. The acquisition is also expected to create complementary cross-sell and upsell opportunities for both organizations. This acquisition closed in February 2023.

The company is led by an experienced management with deep expertise in software development, technology and corporate finance. Sumitaka Kanno (Yamamoto) is the founder of HeartCore and

has served as the Chief Executive Officer and member of the Board of Directors of HeartCore since June 2009.

With $2.2 million in cash on the balance sheet available as of the end of the 3rd quarter of 2023, we believe the company may be self-funded to support future operations and does not need to access the debt or equity markets if the GO-IPO clients go public as expected. However, for potential material future acquisitions, the company may access the capital markets to finance a large acquisition.

## PRODUCT PORTFOLIO

### Content Management



Source: HeartCore Investor Presentation

Large enterprises or organizations that operate complex websites, blogs, mobile apps, ecommerce businesses or social networks need to utilize and manage large amounts of content to deliver their services or products. These websites often contain many thousands of pages. To handle this complex task, most large enterprises use a content management system, also referred to as a customer experience management platform. These platforms integrate marketing, sales, service, and content management systems as well as other tools and integrations that enable companies to attract and engage customers throughout the customer lifecycle.

The company's core offering that provides these services is the HeartCore CMS which allows the user to create, manage, and modify content on websites without the need for specialized technical knowledge. Key benefits to this system include a high degree of user-friendliness, relatively quick deployment compared to other complex processes, low ongoing maintenance requirements, extendable functionality, and SEO friendly features.

Specific HeartCore CMS features include an easy-to-use editor that can create and update web pages as easily as entering text into a word processor as well as the ability to import data by simply copying and pasting specific information and content. The system offers secure and privacy-oriented publishing settings where the user can view private information on the restricted website before it gets publicly disclosed. The company believes HeartCore CMS is the only CMS in the world that can publish tens of thousands of pages simultaneously as well as thousands of PDF files at the same time. The product also offers granular access rights and detailed access permissions and flexible workflows. This allows users to reduce the production and operation time and ensure the accuracy of information. Lastly, HeartCore CMS offers extensive review and preview functions that's show final versions across all screen sizes and device types. The program can also preview registered content from two or three generations ahead with a future date on the same page.

The total addressable market size for content management software is approximately $6.0 billion and expected to grow at an annualized rate of 18% over the next ten years. The content management offerings represented 81% of 1st quarter 2022 revenues.

## Digital Transformation

This consists of three separate offerings which includes robotic process automation (RPA), task mining and process mining. They share a common goal of accelerating the digital transformation of enterprises across their entire business lines, particularly in the areas of marketing, sales, and customer service.



Source: HeartCore Investor Presentation

Robotic process automation is an advanced technology that allows automation for a predetermined set of tasks. RPA robots can mimic most human-computer interactions to carry out error-free tasks at high volume and speed. These tasks can include invoice processing, process sales orders, account reconciliation, employee onboarding, payroll, and enterprise data entry for core processes such as finance, human resources, manufacturing, supply chain, services, and procurement.

HeartCore Robo is the company's flagship RPA product and offers automation of key business applications such as packaged business software, internally developed software, website applications and mobile apps. This RPA offering can work across all platforms including remote and virtual environments as well as all operating systems and browsers. Specific features include high-speed identification of operation targets on the screen using a proprietary image analysis engine as well as automatic HTML operations and data acquisition within web pages. The product also utilizes highly advanced optical character recognition tools. The company believes it may be the only major RPA provider to focus on Android and Mac devices.



Source: HeartCore Investor Presentation

Task mining is an important technology that enables organizations to detect and analyze the tasks employees perform as they relate to completing larger processes which works by monitoring the actions users take. The purpose of using task mining software is to discover and understand the tasks employees are performing. This software process became particularly important during the Covid-19 pandemic as a substantial number of office-based employees were forced to work from home.
The company's task mining offering is Controlio which began operations in March 2020. The company believes Controlio has a much more comprehensive and inclusive solution than competitors such as Skysea, LanScope, and MeeCap. Task mining represents approximately 4.0% of total company revenues.



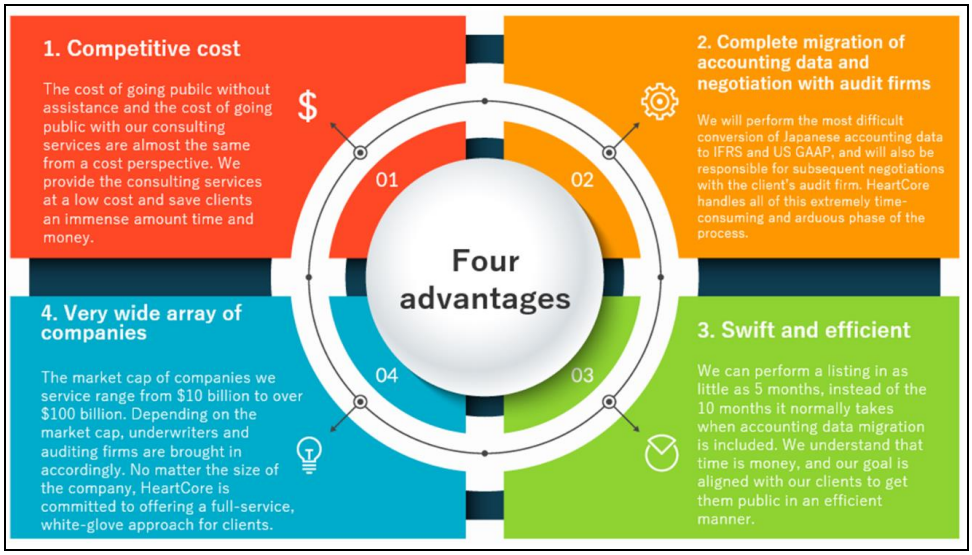
Source: HeartCore Investor Presentation

Process mining is the technology that investigates and analyzes the large amounts of data in enterprise event logs to discover and present end-to-end processes that the organization is performing to complete work. The purpose of most process mining applications is to optimize and improve business processes which may lead to more efficient operations and even automation of processes.

The company has two process mining offerings, myInvenio which began operations in March 2019, and Apromore which became available for sale in June 2021. Similar to the company's task mining offerings, the company believes myInvenio has a far more comprehensive process mining solution than competitors such as Celonis, Signavio, and UiPath. Process mining represents approximately 10% of total company revenues.

## Go IPO Consultation

Go IPO is a new service from HeartCore that helps Japanese companies achieve a NASDAQ public listing in the U.S. Launched in April 2022, this NASDAQ consulting service is based on the company's own go-public experience as well as its general business expertise in navigating cross border issues between Japan and the U.S. From the Japanese market perspective, the company helps with audit attestation, underwriter exams and TSE related information and processes. For the U.S. markets, the company helps with auditor audit attestation for two years, reviews by the underwriter and their attorneys, as well as SEC confirmation. More specifically, the company performs the difficult task of converting Japanese accounting data to IFRS and U.S. GAAP accounting principles and works with the audit firm.




Source: HeartCore Investor Presentation

## Sigmaways (51%)

In September 2022, HeartCore announced that they signed an agreement to acquire 51% of Sigmaways, a California based digital technology company. This acquisition would expand the operational footprint in the U.S. and is expected to add significantly to HeartCore's revenue base. In 2021, Sigmaways generated approximately $8.7 million in revenues. The acquisition is also expected to create complementary cross-sell and upsell opportunities for both organizations.

Key services include Infrastructure Modernization in which the company leads organizations in their business modernization efforts. This includes seeking new ways to leverage data, artificial intelligence, and optimization of other technologies.

Sigmaways also offers Data Analytics & Business Intelligence services where they use data-driven insights to help businesses to unlock hidden opportunities. The company delivers data management, business intelligence and analytics solutions to optimize and realize the true potential of data.

Through Digital Commerce services, the company helps clients build customer centric solutions across a variety of retail channels. These solutions adapt to unexpected market changes and deliver customized products and services.

Sigmaways also helps clients to attain operational efficiency by integrating Robotic Process Automation (RPA) with technologies to achieve enterprise transformation across the organization. This includes providing consulting to clients for understanding existing automation levels and discovering areas of new opportunities.

## MANAGEMENT

Sumitaka Kanno (Yamamoto),CEO, is the founder of HeartCore and has served as the Chief Executive Officer and member of the Board of Directors of HeartCore since June 2009. Mr. Kanno is an experienced information technology software programmer and graduated with a bachelor's degree from Kansai Gaidai University, Osaka, Japan. He has worked at BroadVision.com in Japan, a global software vendor and former NASDAQ company, where he specialized in websites and software.

Kimio Hosaka, Chief Operating Officer, has been a member of the Board of Directors since May 18, 2021. Mr. Hosaka has served as the Chief Operating Officer and member of the Board of Managers of HeartCore since August 2015. Mr. Hosaka graduated with a bachelor's degree in physics from Chuo University, Tokyo, Japan. Mr. Hosaka brings 20 years of experience in technology as an engineer and manager at All Nippon Airways Systems, Electronic Data Systems, and Heartcore.

Hidekazu Miyata has served as Chief Technical Officer since May 18, 2021. Mr. Miyata graduated with a bachelor's degree in economics from Doshisha University, Japan. Mr. Miyata worked for a software development company, Electronic Data Systems and has more than 20 years of software development experience.

Qizhi Gao has served as the Chief Financial Officer of HeartCore since May 2017. From December 2007 through April 2017, Mr. Gao served as the Group Leader, Finance & Accounting Department at Marubishi Corporation in Tokyo, Japan. Mr. Gao graduated with a bachelor's degree in computer accounting from Chuo College of Information and Accounting.

Keisuke Kuno has served as CX division Vice President since May 18, 2021. Since March 2010, Mr.Kuno has also served as the head of the CX division and member of the Board of Directors of HeartCore. Mr. Kuno graduated with a bachelor's degree in business administration from Hosei University, Tokyo, Japan. Mr. Kuno does not hold, and has not previously held, any directorships in any reporting companies.

## RISKS

- The company may require additional funding for its growth plans and such funding may result in a dilution of your equity investors. If the costs of implementing the company's growth plans exceeds internal estimates significantly or if the company can't come across opportunities to grow through expansion plans which cannot be predicted at this time, and if funds generated from our operations prove inadequate for these purposes, the company may need to raise additional funds to meet these funding requirements. These additional funds may be raised by issuing equity or debt securities or by borrowing from banks or other resources.

- Subscription renewal rates may decrease, and any decrease could harm future revenue and operating results. Customers have no obligation to renew their subscriptions for the company's processes and services after the expiration of their subscription periods, substantially all of which are one year or less. In addition, customers may seek to renew for lower subscription tiers, for fewer contacts or seats, or for shorter contract lengths, which could materially affect the company's operating results.

- The company faces significant competition from both established and new companies offering digital marketing, task and process mining, content management, customer experience management, and robotic process automation. The digital marketing, task and process mining, content management,

customer experience management, and robotic process automation market is evolving, highly competitive and significantly fragmented. With the introduction of new technologies and the potential entry of new competitors into the market, the company expects competition to persist and intensify in the future, which could harm the company's operating results.

- The company may acquire or invest in other companies or technologies in the future, which could divert management's attention, fail to meet management expectations, result in additional dilution to current shareholders, increase operating expenses, disrupt operations or harm financial results. There are many inherent risks in integrating and managing acquisitions.

- The ability to raise capital in the future may be limited and the failure to raise capital when needed could prevent the company from growing or meeting its financial goals. The business and operations may consume resources faster than anticipated. In the future, the company may need to raise additional funds to invest in future growth opportunities and additional financing may not be available based on prevailing market conditions.st write.

## INSIDER TRADING AND OWNERSHIP

Currently, Sumitaka Yamamoto, the CEO of the company, beneficially owns 10,984,539 shares of common stock, which currently represents approximately 62.2% of the voting power of the outstanding capital stock.

| Name and Address of Beneficial Owner | Number and Nature of Shares Beneficially Owned (1) | Percentage of Outstanding Common Stock |
|---|---|---|
| ***Directors and Executive Officers:*** | | |
| Sumitaka Yamamoto | 10,984,539 | 58.07% |
| Keisuke Kuno | 53,338 | * |
| Kimio Hosaka | 89,669 | * |
| Ferdinand Groenewald | — | — |
| Yoshitomo Yamano | — | — |
| Yuki Tan | — | — |
| Takeshi Omoto | — | — |
| Yuta Katai | — | — |
| All executive officers and directors as a group (10 persons) (2) | 11,217,326 | 59.30% |
| | | |
| ***Other 5% Stockholders:*** | | |
| Daishin Yasui | 2,325,425 | 12.29% |

Source: HeartCore SEC filings

## SUMMARY

We believe HeartCore Enterprises is entering a strong growth phase due to multiple factors. The company's key industry verticals of customer management, content management, and data mining are expected to grow at strong double-digit rates. The company has multiple cross-selling and up-selling opportunities across all of its offerings and product lines, particularly after the Sigmaways acquisition. In addition, expansion into the U.S market is just beginning with a new office being opened up in the Silicon Valley region of California and the Sigmaways deal. The 90%+ retention rate will provide a solid base of recurring revenues and will also help with marketing and sales efforts as its satisfied customer base is reflected in those numbers. Currently, over 650 customers will be able to upgrade to the latest version of HeartCore CMS (Version 12). In addition, the company's Go IPO has the potential to generate millions of dollars in high margin revenues.

HeartCore has the potential to grow both revenues and earnings at very robust double-digit growth rates if it is able to execute on its strategic plans. Prudent tuck-in acquisitions will also play a role in future growth as the company attempts to capitalize on synergistic opportunities. The company's current stock price does not likely reflect that potential level of profitable growth going forward.

## PROJECTED INCOME STATEMENT

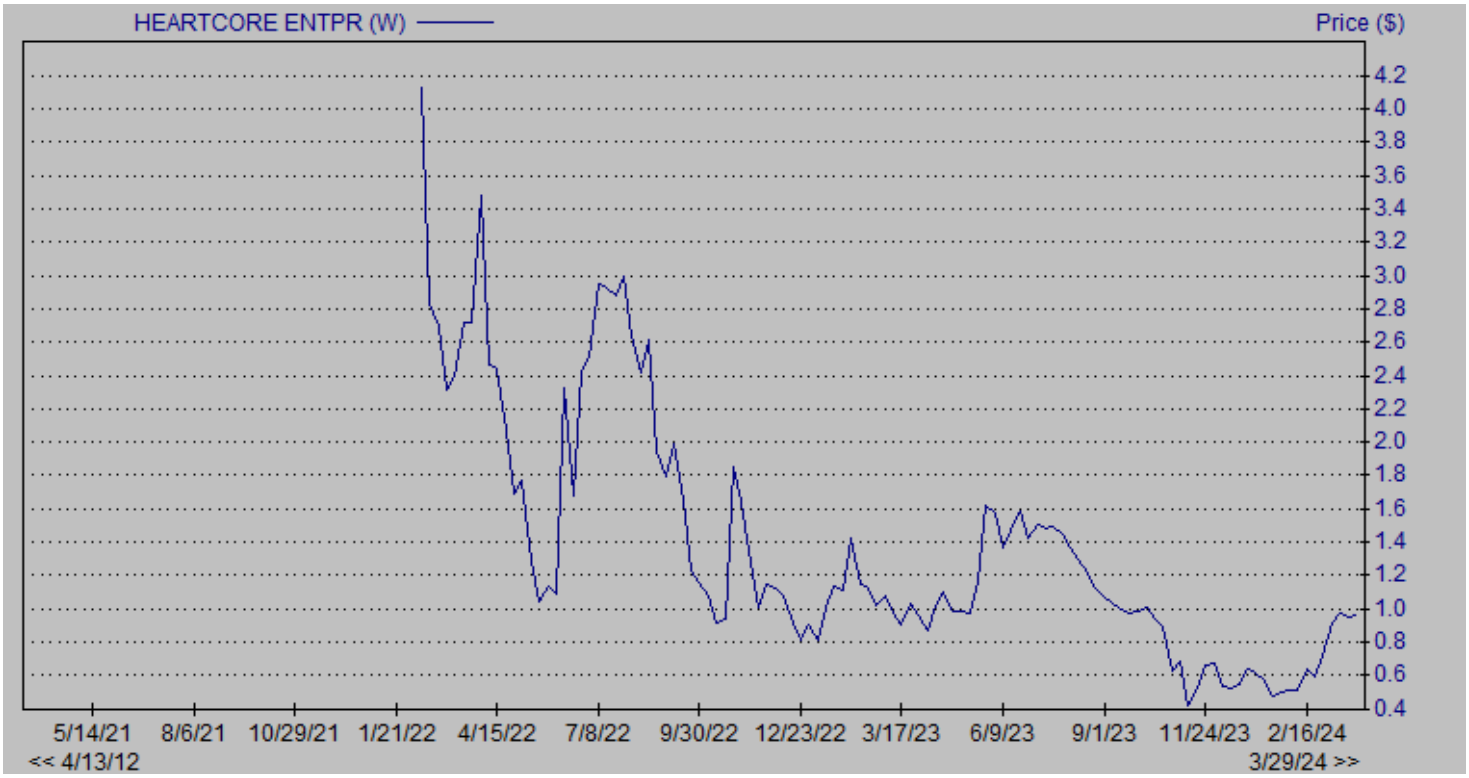
| Income Statement | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 |
|---|---|---|---|---|---|
| **Net Sales** | **10,822,514** | **8,818,312** | **21,845,830** | **23,663,664** | **26,937,978** |
| *Growth* | *19.9%* | *-18.5%* | *147.7%* | *8.3%* | *13.8%* |
| **Cost of Goods Sold** | **5,529,343** | **5,383,684** | **13,679,772** | **8,398,130** | **9,358,135** |
| *%* | *51.1%* | *61.1%* | *62.6%* | *35.5%* | *34.7%* |
| **Depreciation & Amort** | **105,394** | **83,333** | **98,644** | **756,412** | **794,233** |
| **Gross Profit** | **5,187,777** | **3,351,295** | **8,067,414** | **14,509,122** | **16,785,610** |
| *Margin* | *47.9%* | *38.0%* | *36.9%* | *61.3%* | *62.3%* |
| **Sales & Marketing Expenses** | **296,778** | **2,826,615** | **1,516,247** | **1,865,137** | **1,958,394** |
| *% of sales* | *2.7%* | *32.1%* | *6.9%* | *7.9%* | *7.3%* |
| **General & Administrative Expenses** | **4,321,241** | **6,579,734** | **9,067,006** | **10,020,722** | **10,120,929** |
| *% of sales* | *39.9%* | *74.6%* | *41.5%* | *42.3%* | *37.6%* |
| **Research & Development** | **510,740** | **641,025** | **1,019,141** | **894,276** | **804,849** |
| *% of sales* | *4.7%* | *7.3%* | *4.7%* | *3.8%* | *3.0%* |
| **Amortization** | **0** | **0** | **584,375** | **637,500** | **637,500** |
| *% of sales* | *0.0%* | *0.0%* | *2.7%* | *2.7%* | *2.4%* |
| **Operating Income** | **59,018** | **(6,696,079)** | **(4,119,355)** | **1,091,487** | **3,263,939** |
| *Margin* | *0.5%* | *-75.9%* | *-18.9%* | *4.6%* | *12.1%* |
| **EBITDA** | **164,412** | **(6,612,746)** | **(3,436,336)** | **2,485,399** | **4,695,671** |
| *Margin* | *1.5%* | *-75.0%* | *-15.7%* | *10.5%* | *17.4%* |
| **Other Expenses/(Income)** | **877** | **(54,495)** | **728,041** | **(9,000,000)** | **(7,650,000)** |
| *%* | *0.0%* | *-0.6%* | *3.3%* | *-38.0%* | *-28.4%* |
| **EBIT** | **58,141** | **(6,641,584)** | **(4,847,396)** | **10,091,487** | **10,913,939** |
| *%* | *0.5%* | *-75.3%* | *-22.2%* | *42.6%* | *40.5%* |
| **Total Interest Exp (net)** | **43,240** | **41,800** | **162,968** | **170,471** | **170,471** |
| *%* | *0.4%* | *0.5%* | *0.7%* | *0.7%* | *0.6%* |
| **Net Profit Before Tax** | **14,901** | **(6,683,384)** | **(5,010,364)** | **9,921,016** | **10,743,468** |
| *%* | *0.1%* | *-75.8%* | *-22.9%* | *41.9%* | *39.9%* |
| **Income Tax** | **341,945** | **(5,918)** | **(133,664)** | **2,480,254** | **2,685,867** |
| *% Effective Rate* | *2294.8%* | *0.1%* | *2.7%* | *25.0%* | *25.0%* |
| *% Cash Tax Rate* | *2294.8%* | *0.1%* | *2.7%* | *25.0%* | *25.0%* |
| **Minority Interests** | **11,112** | **0** | **(686,810)** | **(560,514)** | **(644,591)** |
| **Net Profit** | **(338,156)** | **(6,677,466)** | **(4,189,890)** | **8,001,276** | **8,702,192** |
| *%* | *-3.1%* | *-75.7%* | *-19.2%* | *33.8%* | *32.3%* |
| Non-recurring income (expense) | | | | | |
| Average Diluted Shares Outstanding | 15,242,454 | 17,922,585 | 20,404,642 | 20,842,690 | 20,842,690 |
| Reported FD EPS | | | | | |
| **Zacks Cash EPS** | | | | | |
| **Zacks EPS** | **(0.02)** | **(0.37)** | **(0.21)** | **0.38** | **0.42** |

Source: Zacks analyst




Source: HeartCore Investor Presentation

## HISTORICAL STOCK PRICE



# DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Tom Kerr, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.