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# Zacks Small-Cap Research

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## HeartCore Enterprises (NASDAQ: HTCR)

**HTCR: HeartCore reports 1st quarter 2024 results and updates investment community on current operations.**

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 (5/15/24) | $0.85 |
| **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** | **$0.36** |
| **One-Year Return (%)** | **-24.73** |
| **Beta** | **1.67** |
| **Average Daily Volume (sh)** | **66,249** |
| **Shares Outstanding (mil)** | **20.8** |
| **Market Capitalization ($mil)** | **$18.3** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **0** |
| **Insider Ownership (%)** | **76** |
| **Annual Cash Dividend** | **$0.08** |
| **Dividend Yield (%)** | **9.40** |
| **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 2024 Estimate** | **N/A** |
| **P/E using 2025 Estimate** | **5.7** |

| | |
|---|---|
| **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 A | $5.9 E | $6.5 E | $11.9 E | $29.3 E |
| 2025 | | | | | $35.6 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 | -$0.06 A | $0.00 E | $0.02 E | $0.05 E | $0.01 E |
| 2025 | | | | | $0.15 E |

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

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## WHATS NEW

1st Quarter 2024 Financial and Operating Results

On May 14, 2024, the company reported 1st quarter 2024 financial results which showed revenues in line with expectations and net profits below expectations due to the accounting treatment of the $9.0 million Go IPO warrant proceeds received in the quarter (explained below).

Revenues in the quarter were $5.0 million compared to $8.7 million in the 1st quarter of 2023. The decrease was primarily due to lower revenues from Go IPO consulting services as the company's two IPO consulting customers successfully listed on the Nasdaq in the same quarter last year. This was offset by increases in revenue from the sale of on-premises software, and customized software development and services. Gross profit decreased to $2.0 million (*40.3% gross margin*) compared to $5.6 million (*64.5% gross margin*) in the prior year period.

Operating expenses decreased to $2.7 million compared to $3.3 million in the same period last year. The decrease was primarily due to lower selling expenses and general and administrative expenses. Net loss was approximately ($1.5) million or $(0.06) per diluted share compared to a net income of $1.8 million or $0.10 per diluted share, in the same period last year.

The company also clarified the treatment of the $9.0 million in Go IPO client warrants that were sold in 2024. During the 1st quarter of 2024, $5.0 million in cash was received, with the remaining $4.0 million in cash received subsequent to the end of the quarter in April 2024. There were $3.36 million of referral fees paid on this transaction for sourcing this lead, so $5.64 million in net sales were received. However, due to specific accounting treatments and stipulations in the warrant agreement, HeartCore will not recognize the $9.0 million as revenue until the client becomes a publicly listed company, which is expected to occur later in 2024. The $9 million is currently classified as debt on the balance sheet.

As of March 31, 2024, the company had a cash balance of $1.2 million compared to $1.0 million on December 31, 2023. Total debt was $2.0 million. We estimate the company's cash position to be approximately $5.0 million subsequent to the end of the 1st quarter and prior to any capital allocation decisions associated with the cash balances.

HeartCore CEO Sumitaka Kanno Yamamoto stated*, "Looking forward to the remainder of the year, our focus remains on expanding our enterprise software business through ongoing cost reduction strategies and identifying synergistic opportunities with our subsidiaries and divisions to optimize operational efficiencies and capabilities. Building on the momentum of a profitable quarter within this arm, we remain committed to sustaining this trajectory throughout 2024 as we strive towards overall profitability. Additionally, our dedicated Go IPO team continues to uphold its white-glove approach, guiding our expanding pipeline of clients through the comprehensive IPO process. With an optimistic outlook on the IPO market, we anticipate announcing the completion of several IPOs this year and reaping the benefits of additional Go IPO warrants."*

HeartCore's Go IPO pipeline continues to remain strong, with three new client wins announced in 2024 which brings total client wins since the inception of this offering to 14. The company has received approximately $1.7 million in initial fees and received warrants between 2% and 3% from these new contract wins.

HeartCore CEO stated, "*Our Go IPO pipeline remains a key driver and catalyst to fuel our growth and expansion. We have several companies slated to go public this year, and we anticipate capitalizing on the financial benefits and opportunities presented post-IPO. Our outlook on the IPO market remains positive, and we are confident in our ability to continue drumming up interest in companies looking to go public."*

Recent News

- On April 15, 2024, the company announced that it had signed an agreement with Koei Shoji Co., Ltd. for its 14th Go IPO consulting service win. As compensation for its services, HeartCore expects to generate an aggregate of $500,000 in initial fees. Also, HeartCore has received a warrant to acquire 3% of Koei Shoji's common stock, on a fully diluted basis.

  HeartCore CEO stated, *"I am pleased to announce our 14th Go IPO contract win and third engagement of the year, a reflection of our effective marketing strategies to expand our consulting business across the Japanese markets. Despite a challenging 2023 IPO market, characterized by various uncontrollable macroeconomic and external headwinds that limited the potential of this business segment to fully blossom into our balance sheet, demand continues to remain lofty. Along with our marketing efforts, the depreciated yen against the dollar continues to attract many Japanese companies to pursue the U.S. equity markets. With a promising pipeline of Go IPO clients and deals, we look forward to reaping the financial rewards to bolster our revenue streams and facilitate further M&A opportunities within our software business."*

- 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 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 company 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 14 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 $300,000 as of March 31, 2024. The warrants that have been issued by remaining Go IPO clients are valued at $1.3 million as of the end of the 1st 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.

## Valuation and Estimates

We adjusted our 2024 revenue estimate to $29.3 million to account for the revenue recognition of the $9.0 million of Go IPO warrants received in the 1st half of 2024. We take a more conservative approach regarding earnings estimates due to the unpredictability associated with the receipt of receiving warrants and stock from Go IPO clients. Our 2024 EPS estimate is adjusted to $0.01. Or 2025 EPS estimate is now $0.15.

We maintain our target price of **$3.00** at this time. The annualized dividend rate is approximately **9.40%.**

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 that 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 $24.6 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 3/31/24, the company had $1.2 million in cash and equivalents and $1.6 in equity securities and 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.

## 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.

## 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.

## 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.

- 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.

- 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. 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.

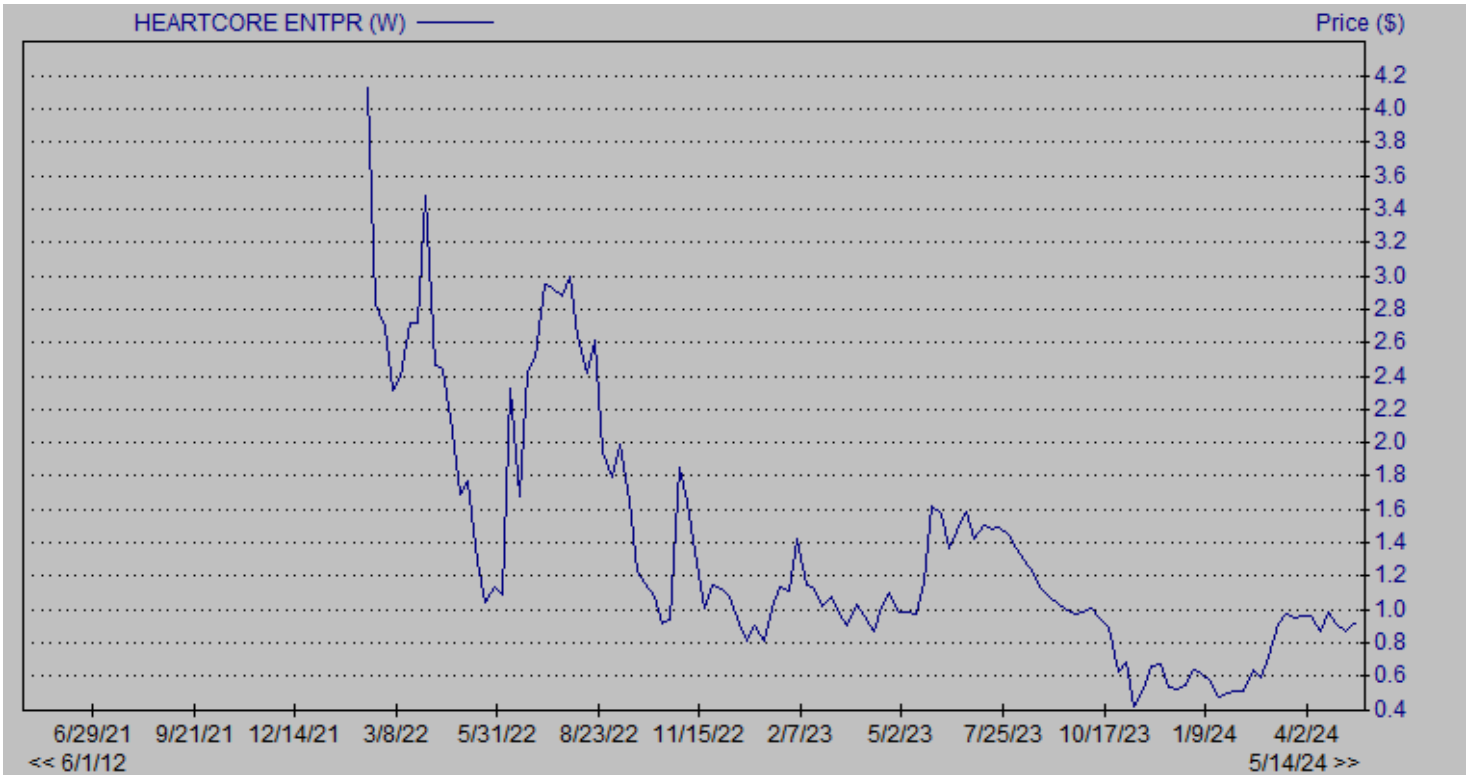
HeartCore has the potential to grow both revenues and earnings at very robust double-digit growth rates if it is able to execute on its strategic plans. Prudent tuck-in acquisitions will also play a role in future growth as the company attempts to capitalize on synergistic opportunities. The company's 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** | **29,303,664** | **35,574,565** |
| *Growth* | *19.9%* | *-18.5%* | *147.7%* | *34.1%* | *21.4%* |
| **Cost of Goods Sold** | **5,529,343** | **5,383,684** | **13,679,772** | **13,158,290** | **15,707,317** |
| *%* | *51.1%* | *61.1%* | *62.6%* | *44.9%* | *44.2%* |
| **Depreciation & Amort** | **105,394** | **83,333** | **98,644** | **752,340** | **789,957** |
| **Gross Profit** | **5,187,777** | **3,351,295** | **8,067,414** | **15,393,034** | **19,077,291** |
| *Margin* | *47.9%* | *38.0%* | *36.9%* | *52.5%* | *53.6%* |
| **Sales & Marketing Expenses** | **296,778** | **2,826,615** | **1,516,247** | **4,379,660** | **4,598,643** |
| *% of sales* | *2.7%* | *32.1%* | *6.9%* | *14.9%* | *12.9%* |
| **General & Administrative Expenses** | **4,321,241** | **6,579,734** | **9,067,006** | **8,985,926** | **9,075,785** |
| *% of sales* | *39.9%* | *74.6%* | *41.5%* | *30.7%* | *25.5%* |
| **Research & Development** | **510,740** | **641,025** | **1,019,141** | **413,671** | **372,304** |
| *% of sales* | *4.7%* | *7.3%* | *4.7%* | *1.4%* | *1.0%* |
| **Amortization** | **0** | **0** | **584,375** | **637,500** | **637,500** |
| *% of sales* | *0.0%* | *0.0%* | *2.7%* | *2.2%* | *1.8%* |
| **Operating Income** | **59,018** | **(6,696,079)** | **(4,119,355)** | **976,277** | **4,393,059** |
| *Margin* | *0.5%* | *-75.9%* | *-18.9%* | *3.3%* | *12.3%* |
| **EBITDA** | **164,412** | **(6,612,746)** | **(3,436,336)** | **2,366,117** | **5,820,516** |
| *Margin* | *1.5%* | *-75.0%* | *-15.7%* | *8.1%* | *16.4%* |
| **Other Expenses/(Income)** | **877** | **(54,495)** | **728,041** | **838,553** | **712,770** |
| *%* | *0.0%* | *-0.6%* | *3.3%* | *2.9%* | *2.0%* |
| **EBIT** | **58,141** | **(6,641,584)** | **(4,847,396)** | **137,724** | **3,680,289** |
| *%* | *0.5%* | *-75.3%* | *-22.2%* | *0.5%* | *10.3%* |
| **Total Interest Exp (net)** | **43,240** | **41,800** | **162,968** | **164,513** | **164,513** |
| *%* | *0.4%* | *0.5%* | *0.7%* | *0.6%* | *0.5%* |
| **Net Profit Before Tax** | **14,901** | **(6,683,384)** | **(5,010,364)** | **(26,789)** | **3,515,776** |
| *%* | *0.1%* | *-75.8%* | *-22.9%* | *-0.1%* | *9.9%* |
| **Income Tax** | **341,945** | **(5,918)** | **(133,664)** | **142,450** | **878,944** |
| *% Effective Rate* | *2294.8%* | *0.1%* | *2.7%* | *-531.8%* | *25.0%* |
| *% Cash Tax Rate* | *2294.8%* | *0.1%* | *2.7%* | *-531.8%* | *25.0%* |
| **Minority Interests** | **11,112** | **0** | **(686,810)** | **(385,136)** | **(442,906)** |
| **Net Profit** | **(338,156)** | **(6,677,466)** | **(4,189,890)** | **215,897** | **3,079,738** |
| *%* | *-3.1%* | *-75.7%* | *-19.2%* | *0.7%* | *8.7%* |
| Non-recurring income (expense) | | | | | |
| Average Diluted Shares Outstanding | 15,242,454 | 17,922,585 | 20,404,642 | 20,854,714 | 20,854,714 |
| Reported FD EPS | | | | | |
| **Zacks Cash EPS** | | | | | |
| **Zacks EPS** | **(0.02)** | **(0.37)** | **(0.21)** | **0.01** | **0.15** |

Source: Zacks analyst

## HISTORICAL STOCK PRICE


HEARTCORE ENTPR (W)
Price ($)
4.2
4.0
3.8
3.6
3.4
3.2
3.0
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
6/29/21
9/21/21
12/14/21
3/8/22
5/31/22
8/23/22
11/15/22
2/7/23
5/2/23
7/25/23
10/17/23
1/9/24
4/2/24
<< 6/1/12
5/14/24 >>

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