Pipeline delivering with top tier clients

HSC Technology Group (HSC) has secured a significant new agreement from VitalCALL (subsidiary of Chubb) to provide 5,000 personal emergency response systems (in addition to a non-binding order of an additional 15,000 units) and subscription services via the Talius Smart Care Platform. The deal is a strong endorsement of HSC's solutions. VitalCALL historically has been an industry leader and one of the largest providers of PER systems in Australia, after being the first to begin trade in PERs domestically more than 40 years ago.

Getting ahead of the 3G shutdown

For VitalCALL, HSC's solutions will support current and future clients mostly in NSW and VIC in retirement living, independent living and community care. The total order of 20k is expected to fulfill almost half of VitalCALL's device requirements in the next 18 months as it aims to get ahead of the upcoming 3G network shutdown, making ageing 3G reliant technology redundant. The shutdown was a primary catalyst for the deal and its related scale.

Subscriptions to drive recurring revenue

The deal is expected to provide HSC more than $1.6m in revenue for CY22 from the hardware alone based on the initial 5k order. This compares to $3.6m in total revenue for CY21. It is expected each of the units will convert to an additional subscription on a 1-1 basis, adding to annual recurring revenue which is ultimately key to HSC's long-term performance and returns. Upside to revenues remain should VitalCALL execute on its plan to order the additional 15k units. If implemented, more than 75% of the order is expected to be delivered in CY22.

Inventory management to streamline delivery

A primary risk to HSC of not receiving additional orders beyond the initially agreed 5k is poor execution of the initial delivery. A further risk involves possible delays given supply constraints due to the slower receipt of inventory stock from overseas, as the broader computer chip market globally remains tight. Management remains confident the rollout will be successful to help ensure fulfillment of the whole order. Careful management of inventory, including the receipt of advanced orders last year despite the slowdown should mitigate any risk of interruption from supply. Inventory received in advance to meet the strengthening pipeline was highlighted as a primary reason for the elevated cash burn late last year.

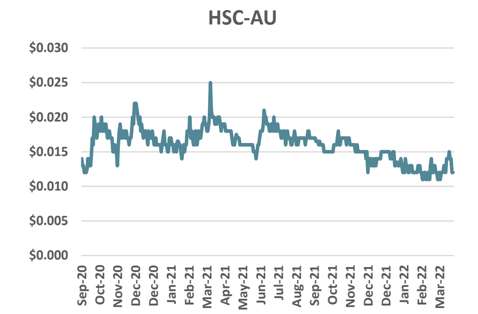
HSC TECHNOLOGY GROUP

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$0.012
Market cap	A$24m
Valuation (per share)	A$0.048

Ongoing	New contract wins with Aged Care providers
Ongoing	New products on R&D advancements

HSC Share Price (A$)



Source: FactSet.

Michael Youlden
michael.youlden@mstaccess.com.au

Valuation

Our base-case 12-month forward discounted cash flow valuation is $0.048. This implies significant upside from the current share price and assumes a further 13% dilution in issued shares from options and performance rights. Please see our initiation https://www.mstaccess.com.au and recent March update https://www.mstaccess.com.au for a more comprehensive view on the stock.

Exhibit 1 – HSC Technology Group company summary (year-end 31 December)

INVESTMENT FUNDAMENTALS		CY20A	CY21A	CY22E	CY23E	CY24E
Reported NPAT	$m	-2.4	-2.1	-0.5	1.8	4.7
Underlying NPAT	**$m**	**-1.6**	**-2.1**	**-0.5**	**1.8**	**4.7**
Reported EPS (diluted)	¢	-0.1	-0.1	0.0	0.1	0.2
Underlying EPS (diluted)	**¢**	**-0.1**	**-0.1**	**0.0**	**0.1**	**0.2**
Growth	%	-83%	3%	-75%	nm	163%
Underlying PER	**x**				13.0	5.2
Operating cash flow per share	¢	-0.1	-0.1	0.0	0.1	0.2
Free cash flow per share	¢	-0.1	-0.1	0.0	0.1	0.4
Price to free cash flow per share	**x**	**-27.3**	**-9.9**	**-409.5**	**11.2**	**2.5**
FCF yield	%	-4%	-10%	0%	9%	40%
Dividend	**¢**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Payout	%	0%	0%	0%	0%	0%
Yield	**%**	**0%**	**0%**	**0%**	**0%**	**0%**
Franking	%	0%	0%	0%	0%	0%
Enterprise value	**$m**	**25.7**	**19.9**	**20.2**	**16.8**	**6.9**
EV/Sales	x	8.1	5.4	2.3	1.2	0.3
EV/EBITDA	x	-27.9	-11.5	-51.7	9.1	1.5
EV/EBIT	x	-16.9	-9.8	-36.0	9.5	1.5
Price to book (NAV)	x	0.3	0.6	0.6	0.6	0.5
Price to NTA	x	0.5	0.8	0.8	0.7	0.7

KEY RATIOS		CY20A	CY21A	CY22E	CY23E	CY24E
EBITDA margin	%	-87.6	-140.9	-14.0	37.1	59.2
EBIT margin	%	-144.3	-164.8	-20.1	35.5	58.7
NPAT margin	%	-226.6	-168.2	-19.3	36.0	59.2
Underlying ROE	%	nm	nm	nm	21.8	25.0
Underlying ROA	%	nm	nm	nm	14.4	18.9
Net tangible assets per share	¢	0.3	0.2	0.1	0.4	0.8
Book value per share	¢	0.5	0.2	0.3	0.6	1.1
Net debt /(cash)	$m	-4.5	-1.8	-2.1	-7.3	-17.4
Interest cover (EBIT / net interest)	x	45.5	47.8	-23.1	67.3	114.2
Gearing (net debt / EBITDA)	x	4.8	1.0	5.3	nm	nm
Leverage (net debt / (net debt + equity)	x	-5.0	-1.1	-3.4	-8.4	-13.4

DUPONT ANALYSIS (on Underlying)		CY20A	CY21A	CY22E	CY23E	CY24E
Net Profit Margin	%	-226.6	-168.2	-19.3	36.0	59.2
Asset Turnover	x	0.2	0.3	0.5	0.4	0.3
Return on Assets	%	-34.1	-43.5	-9.8	14.4	18.9
Financial Leverage	x	1.3	1.4	2.0	1.5	1.3
Return on Equity	**%**	**-44.6**	**-59.6**	**-19.9**	**21.8**	**25.0**

KEY PERFORMANCE INDICATORS		CY20A	CY21A	CY22E	CY23E	CY24E
Number of subscribers/users		4,700	9,700	22,269	41,067	67,888
Market penetration		0.29%	0.56%	1.20%	2.06%	3.17%
Average Revenue Per User		$ 52	$ 52	$ 54	$ 55	$ 57
Software Revenue	$m	0.2	0.5	1.2	2.3	3.9
Growth			114%	128%	90%	70%
Hardware Revenue	$m	2.9	3.7	7.4	12.1	18.1
Growth			29%	101%	63%	50%

QTRLY DATA		1Q21	2Q21	3Q21	4Q21
Number of subscribers		6,300	7,400	8,100	9,700
New subscribers		1,600	1,100	700	1,600
Market penetration		0.38%	0.44%	0.47%	0.56%

Source: HSC reports, MST Access estimates

PROFIT AND LOSS		CY20A	CY21A	CY22E	CY23E	CY24E
Revenue	$m	3.2	3.7	8.7	14.4	22.0
Gross Revenue	$m	1.1	1.2	2.8	5.0	7.9
Operating Expenses	$m	-2.0	-3.0	-3.2	-3.1	-3.2
EBITDA	**$m**	**-0.9**	**-1.7**	**-0.4**	**1.8**	**4.7**
Depreciation & amortisation	$m	-0.6	-0.3	-0.2	-0.1	0.0
EBIT	**$m**	**-1.5**	**-2.0**	**-0.6**	**1.8**	**4.7**
Net interest	$m	0.0	0.0	0.0	0.0	0.0
Non-operating income	$m	-0.8	0.0	0.0	0.0	0.0
Tax expense	$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	**$m**	**-2.4**	**-2.1**	**-0.5**	**1.8**	**4.7**
Adjustments to underlying	$m	0.8	0.0	0.0	0.0	0.0
Underlying NPAT	**$m**	**-1.6**	**-2.1**	**-0.5**	**1.8**	**4.7**
Weighted average basic shares	m	1,495.3	1,929.7	1,998.2	2,110.7	2,212.7
Weighted average diluted shares	m	1,670.3	2,160.2	2,268.7	2,263.7	2,258.7

GROWTH PROFILE		CY20A	CY21A	CY22E	CY23E	CY24E
Revenue	%	178.8	15.7	135.6	65.9	53.3
Gross Revenue	%	52.5	16.7	127.1	78.1	154.8
EBIT	%	nm	nm	nm	nm	nm
Underlying NPAT	%	nm	nm	nm	nm	nm
Underlying EPS	%	nm	nm	nm	nm	nm
DPS	%	n/a	n/a	n/a	n/a	n/a

BALANCE SHEET		CY20A	CY21A	CY22E	CY23E	CY24E
Cash	$m	4.5	1.8	2.1	7.3	17.4
Receivables	$m	0.2	0.7	0.5	0.9	1.4
Other	$m	2.0	1.9	2.7	4.1	6.0
Current	$m	6.7	4.4	5.3	12.3	24.8
Property, plant & equip	$m	0.2	0.3	0.1	0.1	0.0
Goodwill and intangibles	$m	0.1	0.1	0.0	0.0	0.0
Other	$m	0.0	0.0	0.0	0.0	0.0
Non current	$m	0.3	0.3	0.2	0.1	0.0
Total assets	**$m**	**7.0**	**4.7**	**5.5**	**12.4**	**24.9**
Payables	$m	1.1	0.7	2.2	3.6	5.5
Borrowings	$m	0.0	0.0	0.0	0.0	0.0
Other	$m	0.5	0.6	0.6	0.6	0.6
Total liabilities	**$m**	**1.7**	**1.3**	**2.8**	**4.2**	**6.1**
Net assets	$m	5.4	3.5	2.7	8.2	18.7
Equity	$m	16.0	16.2	16.6	19.6	19.8
Retained earnings	$m	-10.6	-12.7	-13.9	-11.4	-1.1
Shareholder's equity	**$m**	**5.4**	**3.5**	**2.7**	**8.2**	**18.7**

CASH FLOW		CY20A	CY21A	CY22E	CY23E	CY24E
Net Income (Cashflow)	$m	-1.5	-2.0	-0.6	1.8	4.7
Depreciation & Amortization	$m	0.6	0.3	0.2	0.1	0.0
Change in Net Operating Assets	$m	0.6	0.0	0.3	0.4	0.5
Other Non-Cash Items, Total	$m	-0.9	-0.8	0.0	0.0	4.7
Operating cash flow	**$m**	**-1.2**	**-2.5**	**-0.1**	**2.2**	**9.9**
Capital expenditure	$m	0.0	0.0	0.0	0.0	0.0
Acquisitions/divestment/other	$m	0.1	0.0	0.0	0.0	0.0
Investing cash flow	**$m**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Equity	$m	2.9	0.0	0.4	3.0	0.2
Increase / (decrease) in borrowings	$m	0.0	0.0	0.0	0.0	0.0
Dividend/other	$m	-0.1	-0.1	0.0	0.0	0.0
Financing cash flow	**$m**	**2.8**	**-0.1**	**0.4**	**3.0**	**0.2**
Net cash flow	**$m**	**1.7**	**-2.7**	**0.3**	**5.2**	**10.1**
Free cash flow	**$m**	**-1.2**	**-2.5**	**-0.1**	**2.2**	**9.9**

Meeting VitalCALL's standards

The new contract is a strong endorsement of HSC's technology offering for aged care monitoring sensors and services, given VitalCall's due diligence, data and compliance requirements. VitalCall's standards are considered onerous, partly due to parent company Chubb's historical ownership by UTC (a US defence contractor). The standards set by VitalCALL/Chubb and HSC's ability to meet those standards demonstrates the strong standing of its technology solutions in the aged care industry. The deal sends a positive signal to other operators that HSC can be trusted and will meet necessary due diligence requirements.

Barriers to entry supports low churn

The process for reaching an agreement with VitalCALL took place over the last 6-8 months, though this timeline was extended somewhat due to Covid-19 related delays. The positive of being on the other side of this process with a deal agreed upon is the barriers to entry brought about by Chubb's onerous due diligence processes. The time and expense involved with signing a new product and supply agreement for clients generally means that the stickiness of the HSC's product and subscriptions is correspondingly high. This should continue to support HSC's low churn rate.

Greater penetration into aged care device technology

The contract adds to HSC's already significant client list including Telstra, Anglicare and ADT, and further cements HSC's standing as a leading provider in aged care technologies. The deal signals strong momentum in the pipeline for the rest of the year as the aged care sector regains strength post the Covid-19 related slowdown.

Relative to HSC's current 11-12k of active subscriptions, execution of the full order of 20k units has the potential to push active subscribers beyond 30k, a significant step change in growth for HSC. Further upside from the deal is possible from the provisioning of more sensors per each Talius Smart Care hub over time, with subscriptions based on the number of sensors used per client.

Currently, our forecast for CY22 includes hardware sales of 11.5k, with subscriptions reaching a total of 22.3k. We expect subscriptions to grow further to 41k by CY23 as the 3G replacement cycle accelerates. This estimate equates to a penetration rate of just over 2% from a market size of 2m devices by CY23. Full delivery of VitalCALL's order will help significantly in meeting these targets.

Risks to our forecasts and valuation

- The Australian aged care and disability industry is supported by government funding. There is a risk that the government cannot fund or chooses not to fund the industry. Alternatively, the government could improve funding specifically towards staffing that could see a slower take up of HSC's products as staff focus on "spot checks" rather than "continuous monitoring".
- Given the company has access to patient data through software, data leaks or compromises on privacy, could be reputationally damaging.
- Associated reputational risk if HSC's products are supplied in a facility with questionable practices.
- Introduction of unknown regulatory change, which impacts the industry and /or product certification.
- Industry digital adoption is slower than expected, which would see HSC's earnings pushed out and/or not eventuate.
- The 3G replacement cycle is pushed out beyond the 2024 deadline, which could see HSC's earnings from this revenue stream pushed out.
- A new or existing company brings to market a superior product, taking market share away from HSC's products.
- A pandemic, that could slow down adoption from the supply and demand side of the equation.
- The company is currently dependent upon manufacturers for their hardware. Supplier issues could have a knock effect to HSC, including shortages of stock, failure of the product and product recall.
- The company currently has a relationship with the CSIRO for the algorithm within their software. This relationship could be terminated, which would require HSC to look for alternative relationships.

- This is a small company, and the business is currently very dependent upon the CEO and key salesperson, Graham Russell. Russell has significant value tied up with the company, owning 7% of the company with an additional 2% in pending performance rights.
- Ongoing share dilution through the issuance of employee performance rights and the vesting of shares to the "First Milestone", which is to the previous shareholders of the company, HomeStay Care Pty Ltd.

Company Description

HSC provides the aged care and disability sectors in Australia with a suite of technology-enabled care solutions to improve the quality of life and quality of care for its users. HSC's technology is anchored in their Software as a Service (SaaS) data analytics platform Talius Smart Care, which combines smart sensors with AI machine learning (powered by CSIRO) to deliver automated actions. Talius Smart Care is the first care platform to provide both proactive and reactive features which help users maintain autonomy, whilst also improving the quality and speed of care they receive.

HSC continues to protect and connect the elderly and people with disabilities to healthcare technology that is integrated with leading third-party providers to ensure end-to-end solutions for Connected Health. The Company's scalable technology is focused towards a direct-to-business approach (B2B), providing HSC with larger and faster growth opportunities in the future.

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Level 13, 14 Martin Place, Sydney, NSW 2000
Main +61 2 8999 9988
www.mstfinancial.com.au