HeartCore Enterprises, Inc.

NR
Risk Rating: H
Price: $0.73

(HTCR) (NASDAQ)

Initiating Coverage On HeartCore Enterprises, Inc.

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Key Statistics

Market Cap (Mil)	$15
Enterprise Value (Mil)	$20
52-Week Range	0.36-1.25
5-Year EPS CAGR	NM
Avg. Daily Trading Volume	27,000
Shares Out (Mil)	20.864
Float Shares (Mil)	5.134
Insider Ownership	75%
Institutional Holdings	25%
Date of IPO	02/11/22
Price of IPO	$5.06
FCF Per Share (2025E)	NM
FCF Yield (2025E)	NM
Net Cash Per Share (2025E)	$0.09
Price to Book Value	10.2x
Return on Equity (2025E)	NM
Total Debt to Capital	74%
Interest Coverage Ratio	NM
Russell 2000	2,230
Russell 2000 – Last 12 Months	25.1%
HTCR – Last 12 Months	-24.0%

Auditor – MaloneBailey, LLP

COMPANY DESCRIPTION

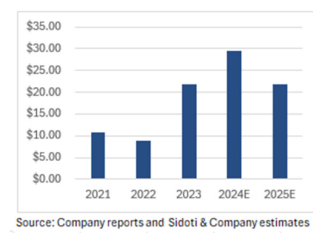
HeartCore Enterprises, Inc. (HTCR), headquartered in Japan, provides expertise in Software-as-a-Service (SaaS) solutions to large enterprises and government clients both locally and globally. The company has a customer experience management platform & a digital transformation business. The company also provides consulting services to companies based in Japan to help them list on U.S. exchanges. To date, the company has signed fourteen clients, four of which have completed initial offerings.

EPS ESTIMATES

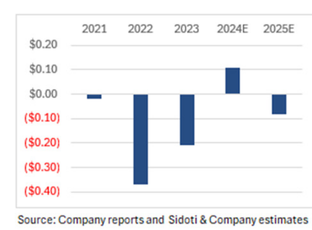
	2022	2023	2024E	2025E
Mar.	($0.09)	$ 0.10	($0.06)	($0.03)
June	(0.09)	(0.04)	(0.09)	(0.07)
Sep.	(0.11)	(0.11)	(0.30)	0.01
Dec.	(0.08)	(0.14)	(0.03)	0.01
EPS	**($0.37)**	**($0.21)**	**$0.11**	**($0.08)**
P/E			**NM**	**NM**

Price Chart

Rev. (Mil.)



GAAP EPS



SUMMARY

We are optimistic HeartCore's (HTCR) software revenue will grow double digits in 2024 and 2025. 71% of HeartCore's 2023 revenue came from its software businesses, which includes the customer experience management platform, digital transformation, and Sigmaways. As of June 30th, the company had 969 enterprise customers, with about 73% as paying customers. We believe the non-paying customers provide an opportunity for the company to re-engage formerly-paying clients, as the economic conditions in Japan improve. We believe HTCR's acquisition of Sigmaways will help it to enter the U.S. market, which will enhance the company's long-term growth prospects.

HeartCore has diversified its business and revenue streams via acquisitions and partnerships. HeartCore has diversified its revenue base, broadening out from its CXM platform to include contributions from Sigmaways and its Go IPO consulting segment, which we see as an opportunity to drive cash flow. Sigmaways contributed 40% of 2023 revenue and the Go IPO business contributed 28%. HeartCore has also recently entered into partnerships with Hitachi Systems and INCUDATA to enhance its product offerings, focusing on cybersecurity and personalized content delivery. These partnerships should support customer retention and new customer acquisition.

HTCR's Go IPO business supports the company's acquisitive plans to further grow its software business. HeartCore is aggressively pursuing tuck-in acquisitions to diversify its revenue streams and inorganically grow its software business. This strategy is made possible by the robust cash generation from the consulting unit. In 3Q:24, HeartCore received $17 million of gross proceeds from the sale of warrants obtained through IPO consulting contracts, which we estimate will be used to fund further acquisitions. HeartCore has six additional Go IPO clients that have yet to begin trading on the U.S. markets. We anticipate that the proceeds from these upcoming listings will further strengthen HeartCore's cash position.

We view HTCR as having a higher risk profile given the nature of its business; but this risk also comes with potentially higher rewards. HeartCore's revenue is highly influenced by exchange rates, with 60% of revenue generated by its Japanese subsidiary. While the yen's recent strength is expected to benefit the company in 3Q24, fluctuations have and likely will create headwinds. HTCR does not currently hedge against currency risk. Additionally, the company operates in the highly competitive and fragmented digital transformation market, which could impact its ability to sustain growth in its software franchise. The surge in companies seeking Nasdaq listings has slowed significantly in 2024. As with any capital markets-related business, this operating environment is highly cyclical by nature. Also, HTCR's long-term success with Go IPO is inherently tied to its ability to secure relationships with enterprises that are themselves successful and season well in the public markets.

Company Overview

HeartCore Enterprises, Inc. (HTCR), headquartered in Japan, provides expertise in Software-as-a-Service (SaaS) solutions and data analytics to large enterprise and government clients both locally and globally. Its core product for the last fourteen years has been its customer experience management (CXM) platform, which is designed to help organizations manage digital interactions, gain insights, improve customer engagement, and improve overall customer experience.

In addition to its CXM platform, HeartCore operates a digital transformation (DX) division that offers services such as robotic process automation (RPA), task mining, and process mining. As of December 2023, HeartCore had 973 clients globally, including 949 in Japan, with 73% as paying customers. HTCR's software client base includes companies like Japan Airlines, Hitachi, Ricoh, Yokohama, Brother, and SMK.

Recently, HeartCore diversified its business by launching "Go IPO", a consulting service that helps Japanese companies list on U.S. securities exchanges, providing another key revenue stream. To date, the company has signed fourteen clients, with four completing their initial public offerings on Nasdaq. Over the past two years, management further diversified its revenue stream by acquiring a majority stake in Sigmaways, a U.S.-based software engineering company, creating an opportunity for the company to penetrate the U.S. market. Additionally, HTCR introduced its artificial intelligence (AI) software development division, laying the groundwork for future innovations in AI and content marketing solutions.

In 2023, HeartCore's diversified revenue base was comprised of: (1) the CXM platform (26% of 2023 revenue); (2) the DX platform (5%); (3) Sigmaways (40%); (4) Go IPO (28%); and (5) Other (1%). This compares to the narrower composition in 2021 when the CXM platform contributed 82% of total revenue and the DX platform contributed 16%. We believe HTCR will continue to expand its software business inorganically, with the cash for inorganic growth coming from the Go IPO business. For 2024, we estimate a roughly 60-40 split between HTCR's software business and its consulting business.

Investment Positives

Artificial intelligence (AI) and augmented reality are expected to drive strong growth in the customer experience management market. According to SNS Insider, the global CXM market is expected to grow at a compound annual growth rate (CAGR) of 15.2% from 2024 to 2032, increasing to $47.8 billion in 2032 from $13.4 billion in 2023. The market is evolving rapidly, influenced by digital transformation, changing consumer behaviors, and a growing need for customer-focused strategies. We believe HeartCore is well-positioned to benefit from these trends, as its HeartCore CMS software has been the top-ranked solution in Japan for eight consecutive years. In April 2024, HeartCore formed an AI software development division in collaboration with its wholly-owned subsidiary Sigmaways, to create AI-based software solutions for new and existing clients across the U.S. and Japan.

Customers are increasingly looking for personalized and seamless experiences across different channels, creating opportunities for innovation. The use of technologies like AI, machine learning, and predictive analysis supports proactive customer engagement. As more interaction channels (social media, mobile apps, websites, etc.) emerge, integrated CXM solutions are becoming essential to ensure consistent and positive experiences. Additionally, data-driven decision-making helps companies better understand customer preferences, enabling them to refine their strategies and strengthen customer relationships. According to a survey conducted by CallMiner, "87% of companies believe implementing GenAI is a key strategy for their customer service and customer experience teams."

In healthcare, the recent emergence of e-health apps and smart fitness devices is pushing companies to adopt strategies that enhance customer experience, which further pushes the CXM ecosystem. HeartCore's AI division has partnered with Heart-Tech Health to improve its health platform, making it more effective in helping women detect heart problems early and offering personalized wellness advice. The company's AI division is also working on creating a software solution for startups that will help them figure out if they are ready for investment and provide feedback on the company's strengths and areas for improvement, making them more attractive investment opportunities. We believe the rise of AI will drive strong growth in HeartCore's software business. The company is already laying a strong foundation by taking steps to be ahead of the curve.

Growing Japanese startup culture should drive demand for HTCR's Go IPO business. Japanese startups are increasingly considering U.S. stock exchanges like Nasdaq for their initial public offerings. This shift largely reflects the tendency of Japanese investors to be more risk-averse and less open to investing in newer technology compared to U.S. institutional investors. U.S.-based investors have also shown greater interest in Japanese IPOs, as they seek alternatives to Chinese companies amid ongoing geopolitical tensions between the U.S. and China. As of June 2024, only eight Japanese companies were listed on Nasdaq. However, a Bloomberg survey indicated that bankers and entrepreneurs expect another 10 to 20 companies to prepare for Nasdaq listings in the near future. We believe one of the reasons Japanese startups have not prioritized listing on Nasdaq until now, is because it has been increasingly convenient for foreign investors to invest through the Tokyo stock exchange. However, we believe the benefits of listing on Nasdaq outweigh the drawbacks.

HeartCore has signed contracts with 14 companies aiming to go public in the U.S. markets. Notably, 11 of these agreements were secured in the 2022-23 timeframe following HeartCore's own listing on Nasdaq. Four of these companies have completed listing, including one in 3Q:24. HeartCore's Go IPO business emerged as an opportunity after the company went public. In Japan, there are widespread myths about the costs and time involved in listing on Nasdaq. We believe HeartCore’s CEO Sumitaka Kanno is taking steps to change this notion through his experience. HTCR’s consulting service team provides help in hiring qualified auditors and attorneys to translate financial documents to “U.S. GAAP” and IFRS standards, offers document translation, supports S-1/F-1 filings, and provides consulting for other related services. The company charges an average of $500,000 in upfront consulting fees for each IPO client and receives warrants to acquire 1-4% of the client's share of capital following a successful Nasdaq listing. Go IPO generated 28% of HeartCore’s revenue in 2023.

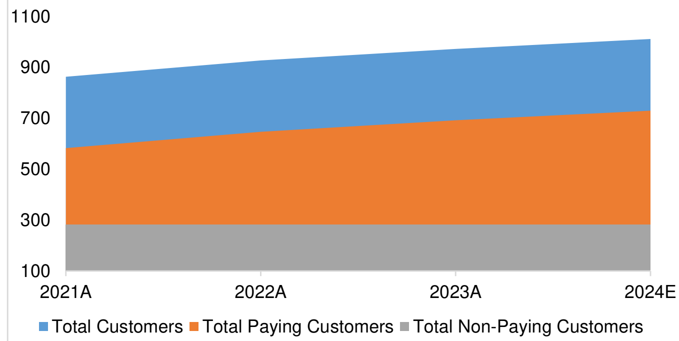
GO IPO Deals

Deals	Company Name	Agreement Date	Service Fee	Warrants	Cash Value	IPO Status	IPO Date
1	Moveaction Co., Ltd.	3/31/2022	$460,000	4%		Cancelled	
2	A.L.I Technologies Inc.	4/13/2022	$400,000	1%	$0.5M	Trading	2/6/2023
3	SYLA Holdings Co.Ltd.	5/13/2022	$500,000	2%	$4.1M	Trading	3/31/2023
4	Metros Development Co., Ltd.	10/20/2022	$500,000	3%		In progress	
5	SBC Medical Group	11/18/2022	$900,000	2.7%	$17M	Trading	9/25/2024
6	Genesis Healthcare Co.	12/2/2022	Audit Only			Completed	
7	BloomZ	1/11/2023	$500,000	4%	$2.08M	Trading	7/24/2024
8	Libera Gaming Operations, Inc.	3/13/2023	$600,000	3%		In progress	
9	ICheck Co., Ltd.	3/13/2023	$600,000	3%		Cancelled	
10	rYojbaba Inc.	4/4/2023	$500,000	3%		In progress	
11	GATES GROUP Inc.	10/2/2023	$600,000	3%		In progress	
12	Jyo Co., Ltd	2/23/2024	$700,000	2%		In progress	
13	PharmaBio Corporation	3/15/2024	$800,000	3%		Cancelled	
14	Koei Shoji Co. Ltd	4/11/2024	$500,000	3%		In progress	

Source: Company Website, SEC filings

HTCR’s paying customer base continues to scale. As of December 2023, HeartCore had 973 clients globally, including 949 in Japan; 73% of these Japanese customers were paying customers. We estimate the total customer count will increase to 1,011 in 2024, reflecting a CAGR of over 5% since 2021. The Japanese market is primarily driving this growth, while the international market remains flat. Over the past two years, the total customer count has increased 13%, but the paying customer count has shown even stronger growth by increasing 19% over the same period. This highlights the company’s success in converting users into paying customers. The company has also been successful in keeping its non-paying customer count almost flat. HTCR’s results reflect its focus on converting free users to paying customers, capitalizing on Japan’s growing demand for digital transformation, and improved economic conditions. We believe HTCR’s customer count outside Japan will start to increase during 2025 as the acquisition of Sigmaways should drive global expansion.

Software Business Customers Profile: Paying vs. Non-Paying



Source: Company Reports

HeartCore’s cash balance opens up possibilities for mergers and acquisitions. HTCR expects to receive up to $19 million in gross proceeds from the sale of equity warrants, increasing its cash on hand to approximately $9 million from $3.8 million at the end of 2Q:24. The $19 million includes $17 million of warrants from SBC Medical and $2 million from BloomZ, both of which went public in 3Q:24. With companies going public and increased cash & cash equivalents, we expect cash usage will be primarily targeted toward mergers and acquisitions to expand the company’s product offerings, gain access to new markets, and/or acquire valuable technologies, talent or intellectual property. We believe management is already in contact with various companies for possible transactions.

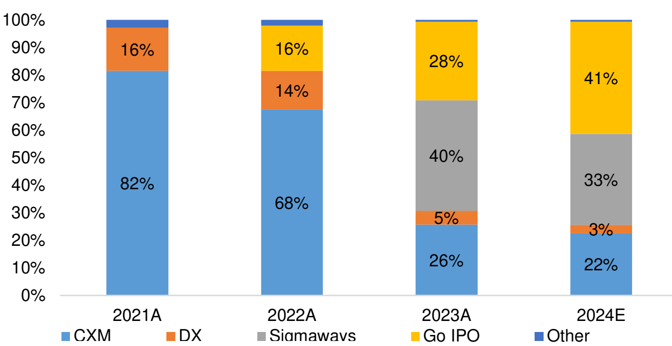
Most recently, in February 2023, HeartCore completed the acquisition of Sigmaways by acquiring a 51% stake in the company for 2 million HTCR shares, $1 million in cash, and $1.9 million of warrants. Sigmaways is a software engineering company providing digital transformation services. The company generated $8.8 million in revenue in 2023, down 32% from $12.9 million in 2022. Despite the year-over-year decline, we believe this acquisition will be beneficial in the long run, due to the company’s focus on long-term contracts and its impressive client base, which includes Mastercard, Walmart Labs, Live Nation, and Ikea. Sigmaways contributed 40% of the total HeartCore revenue in 2023.

HTCR maintains a diversified revenue base and is growing its partnerships. In 2024, we estimate each segment will contribute the following percentage to HTCR’s total revenue: (1) the CXM platform 22%; (2) the DX platform 33%; (3) Sigmaways 33%; (4) Go IPO 41%; and (5) Other 1%. As recently as 2021, HTCR’s CXM platform contributed 82% of total revenue and the DX platform 16%. We believe HTCR’s greater level of diversification helps reduce risk and improves long-term stability.

HeartCore has partnered with Hitachi Systems to provide a software package combining HTCR’s CMS platform with Hitachi’s GRED Web Security Assessment Cloud. This partnership is a strategic move to enhance the company’s product offerings, improve customer retention, and potentially increase revenue streams by attracting new clients seeking to integrate cybersecurity solutions. Recently, the company also partnered with INCUDATA to deliver personalized content, further strengthening customer relationships by driving their digital transformation efforts.

Overall, we believe these partnerships could improve HTCR's customer acquisition and drive future profitability.

Segments as a % of Total Revenue

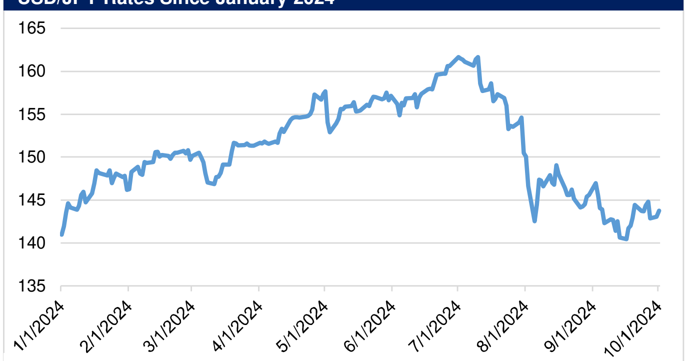


Source: Company Reports, Estimates

Investment Concerns

HTCR's revenue is highly sensitive to changes in the USD/JPY exchange rate. 60% of HTCR's revenue is generated by its Japanese subsidiary, where the functional currency is the yen. The USD/JPY exchange rate experienced notable volatility year to date, increasing 13% to a peak of 161 in June from 141 in January. The rise in exchange rate created currency headwinds for HeartCore, resulting in an over 800 bps impact to 2Q:24 revenue alone. However, in 3Q:24, the dollar weakened by 12%, with the exchange rate dropping to around 142. This decline in the USD/JPY exchange rate is expected to benefit HeartCore when it reports its 3Q:24 results. Currently, management does not hedge against currency fluctuations. We believe the company will consider implementation of hedging strategies in the long term as its business continues to expand. A smaller percentage of revenue contributed through Sigmaways is also impacted by currency fluctuations in Europe and Canada, but the effect on overall revenue is minimal.

USD/JPY Rates Since January 2024



Source: FactSet

There is uncertainty associated with HTCR's consulting segment (i.e., Go IPO). We believe the recent rise in the Japanese companies listing on the Nasdaq may be short-lived, as the growth and profitability of these ventures remain largely unproven. With only a few Japanese startups recently listing on the U.S. markets, the long-term success of these listings is still uncertain. While HeartCore saw a surge in companies signing up for public listings in 2022-23, signing 11 deals over that period, momentum has slowed significantly in 2024, with only 3 companies signed YTD. A.L.I. Technologies, one of the companies that HTCR helped take public, faced challenges following its SPAC deal and filed for bankruptcy within a year of going public. We believe that for HeartCore to attract new clients, companies that are going public or are already public will need to set successful precedents.

HTCR's revenue ramp is dependent on renewals in a highly fragmented market. HeartCore is exposed to a risk from declining subscription renewal rates in its software segments, which could impact future revenue and operating results. Customers are not obliged to renew their contracts, most of which last a year or less. Additionally, customers can also opt for lower-tier subscriptions, reduce their number of users, or shorten their contracts; all of these would also impact the company's future revenue. HeartCore also faces competition from both established and emerging players in the digital transformation business as the sector is highly fragmented and quickly evolving. This competition adds further uncertainty to the company's ability to maintain or grow its market share.

Financial Outlook

Revenue

HeartCore's revenue fell 34% year over year in the first half of 2024, driven primarily by an 88% decrease in consulting segment revenue partially offset by 4% growth across the software business. The sharp decline in the Go IPO business was due to two clients going public in 1Q:23, while no clients did so in the first half of 2024. Additionally, HeartCore was impacted by a weaker yen compared to the U.S. dollar in 1H24, with the USD/JPY average increasing by 13% to 152 in 1H24 from 135 in 1H23.

We estimate total revenue for 2H24 will grow by 155% year over year to about $20 million, with the company expected to receive about $15 million in net proceeds from warrants tied to SBC Medical and BloomZ. We estimate the software business will grow in the double digits, driven by higher contract renewals and new customer signings, along with expansion into the U.S. market, supported by Sigmaways' established customer base. We estimate the impact of currency translation will be reduced, as the Japanese yen has strengthened against the U.S. dollar into the last quarter of the year. For 2025, we forecast total revenue will decline by 26% year over year to $22 million, primarily due to the uncertainty surrounding the consulting segment. However, we expect double-digit growth in the software business to continue as HeartCore signs new customers and upsells its existing clients. Specific to our estimates for HTCR's Go IPO business, we estimate one additional company going public by the end of 2024. Our model does not include any revenue from unannounced acquisitions.

Margins

We estimate HeartCore's gross margin will improve in 2024, increasing to 53% from 37% in 2023. This expansion is primarily driven by the receipt of warrants from Go IPO deals, which are nearly pure profit. Typically, the initial fees from the Go IPO contracts cover associated service costs, with no direct profit. HeartCore maintains strong gross profit margins of around 80% in the software segment.

In the first half of 2023, operating expenses decreased by 20% year over year to $5 million from $6.3 million. This reflects management's efforts to streamline costs and improve operational efficiency. We estimate these measures will help the company achieve an operating margin of 45% in 3Q:24, given the cash influx from the warrants. While we do not believe this operating margin is sustainable over the upcoming quarters, we do expect to see the benefits of cost efficiency materialize in 2H25.

Balance Sheet and Cash Flow

HeartCore has a clean and conservative balance sheet with low leverage. As of June 30, 2024, HeartCore had $1.9 million of debt, $3.8 million of cash on hand and $1.4 million in net receivables on its balance sheet. Software companies tend to maintain higher levels of cash given their high-margin, subscription-based models. HTCR has additional cash generation capacity from its consulting business. We expect the company to use its financial resources to deploy additional capital towards the expansion of its software business.

Management highlights a capex-light model, focusing on cash-generating projects including investing in software companies. After three years of cash outflow, we project about $3.2 million in free cash flow (FCF) generation in 2024. We expect HeartCore to continue to reinvest funds organically and inorganically. The company has declared two dividends of $417,000 apiece, or $0.02 per share, so far in 2024, representing an annualized yield of approximately 10%.

Management Team and Board Members

HeartCore's leadership brings a well-rounded mix of technical expertise, strategic insight, and financial management experience. The team's diverse backgrounds, including recent additions following the Sigmaways acquisition, position the company for future growth while ensuring effective governance. The blend of long-serving leaders and new members offers good balance.

Management Team and Board Members

Executive	Position	Prior Expereince
Sumitaka Yamamoto	Chairman of Board & CEO	Prior to finding HeartCore in 2009, Sumitaka worked as a website and software specialist at BroadVision. With over 20 years of IT experience, he was recognized as one of the "Top 100 Tech Innovators & Influencers" at InterCon Las Vegas in 2021.
Kimio Hosaka	COO & Director	Prior to joining HeartCore in 2009, Hosaka served as an engineer and manager at All Nippon Airways Systems and Electronic Data Systems. He has over 20 years of IT experience.
Qizhi Gao	CFO	Prior to joing HeartCore in 2017, Gao was a finance and accounting group leader at Marubeni Corp. and has 16 years of experience in the field.
Hidekazu Miyata	CTO	Prior to joining HeartCore in 2009,Miyata was a software developer at Electronic Data Systems and has over 20 years of experience in software development.
Keisuke Kuno	VP, CX Division	Since joining HeartCore in 2010, Kuno has supported the business development division and has held the current position since 2020.
Prakash Sadasivam	Chief Strategy Office & Director	He joined HeartCore in 2023 through the Sigmaways acquisition. As the founder and a technology entrepreneur at Sigmaways, Prakash has been an official member of the Forbes Technology Council since 2020.
Heather Neville	Independent Director	Heather joined the HeartCore board in 2023. She currently works in HR at Sony Interactive Entertainment and previously held roles in Business Planning and Operations at eBay and StubHub.
Ferdinand Groenewald	Director	Before joining the HeartCore board in 2022, he served as Chief Accounting Officer and Chief Financial Officer at Muscle Maker Inc. He has over 20 years of experience in finance and accounting.
Koji Sato	Director	Sato joined HeartCore's board in 2023. He is the Founding and Managing Partner of GIIP Advisory in NYC, a firm that has been helping Japanese companies manage their U.S. business operations since 2009.

Source: Company Website

Risks

HeartCore's revenue is highly influenced by exchange rates, with 60% generated by its Japanese subsidiary. The lack of hedging against currency risk adds uncertainty.

HeartCore faces the risk of declining subscription renewals, with customers potentially opting for shorter contracts or low-tier services.

The company operates in a highly competitive and fragmented digital transformation market, which could impact its ability to sustain growth.

The surge in companies seeking the Nasdaq listings has slowed significantly in 2024. The failure of Japanese companies in the U.S. markets could raise concerns about the long-term success of the Go IPO segment and its ability to attract new clients.

HeartCore Enterprises

Income Statement	Quaterly Earnings												Annual Earnings				
US$ in thousands	31-Mar 1Q23A	30-Jun 2Q23A	30-Sep 3Q23A	31-Dec 4Q23A	31-Mar 1Q24A	30-Jun 2Q24A	30-Sep 3Q24E	31-Dec 4Q24E	31-Mar 1Q25E	30-Jun 2Q25E	30-Sep 3Q25E	31-Dec 4Q25E	31-Dec 2022A	31-Dec 2023A	31-Dec 2024E	31-Dec 2025E	'22-'25 CAGR
Revenue	**$ 8,734**	**$ 5,095**	**$ 4,689**	**$ 3,327**	**$ 5,047**	**$ 4,066**	**$ 15,256**	**$ 5,158**	**$ 5,440**	**$ 5,008**	**$ 5,796**	**$ 5,636**	**$ 8,818**	**$ 21,846**	**$ 29,527**	**$ 21,880**	**35%**
Cost of sales	3,101	3,587	3,860	3,230	3,015	3,261	4,577	2,837	3,264	3,256	3,014	2,987	5,467	13,778	13,689	12,520	
Gross profit	**5,633**	**1,508**	**829**	**97**	**2,032**	**806**	**10,679**	**2,321**	**2,176**	**1,753**	**2,782**	**2,649**	**3,351**	**8,067**	**15,838**	**9,360**	
Sales and marketing expenses	569	488	274	186	220	179	381	155	163	150	174	169	2,827	1,516	935	656	
General and administrative expenses	2,685	2,448	2,172	2,346	2,406	2,022	2,746	2,321	2,176	2,504	1,739	1,691	6,580	9,651	9,496	8,110	
Research and development expenses	80	40	170	730	89	111	763	88	109	100	116	113	641	1,019	1,051	438	
Total operating expenses	3,333	2,976	2,616	3,261	2,715	2,313	3,890	2,564	2,448	2,755	2,029	1,973	10,047	12,187	11,482	9,204	-3%
Operating Profit/ (Loss)	**2,300**	**-1,467**	**-1,788**	**-3,164**	**-683**	**-1,507**	**6,789**	**-242**	**-272**	**-1,002**	**753**	**676**	**-6,696**	**-4,119**	**4,356**	**156**	
Change in fair value of investments in marketabl	0	-229	-272	-115	-234	-196	-196	-196	-196	-196	-196	-196	0	-616	-823	-785	
Changes in fair value of investments in warrants	193	-27	-461	-207	-679	-559	-559	-559	-559	-559	-559	-559	0	-501	-2,355	-2,235	
Interest income	32	19	14	6	3	2	2	2	2	2	2	2	67	71	9	8	
Interest expenses	-40	-43	-43	-38	-37	-37	-37	-37	-37	-37	-37	-37	-42	-163	-148	-148	
Government grants	0	0	0	77	0	0	0	0	0	0	0	0	0	77	0	0	
Other income	14	110	53	190	97	38	38	38	38	38	38	38	57	366	211	151	
Other expenses	-29	-7	-26	-62	-25	-24	-24	-24	-24	-24	-24	-24	-70	-125	-97	-95	
Total other income (expenses)	170	-178	-734	-149	-875	-776	-776	-776	-776	-776	-776	-776	13	-891	-3,203	-3,104	
Earnings before Tax	**2,469**	**-1,645**	**-2,522**	**-3,313**	**-1,558**	**-2,283**	**6,013**	**-1,019**	**-1,048**	**-1,778**	**-23**	**-100**	**-6,683**	**-5,010**	**1,153**	**-2,948**	
Income tax expense (benefit)	661	-622	19	-193	-80	-72	-72	-72	-72	-72	-72	-72	-6	-134	-297	-289	
Income tax rate	27%	NA	NA	NA	NA	NA							NA	NA			
Net Income (Loss)	**1,808**	**-1,023**	**-2,541**	**-3,121**	**-1,478**	**-2,211**	**6,085**	**-946**	**-976**	**-1,706**	**50**	**-28**	**-6,677**	**-4,877**	**1,450**	**-2,660**	
Net loss attributable to non-controlling interests	-74	-111	-234	-268	-145	-260	-260	-260	-260	-260	-260	-260	0	-687	-925	-1,040	
Net Income (Loss) attributable to HTCR	**$ 1,882**	**$ (912)**	**$ (2,307)**	**$ (2,853)**	**$ (1,333)**	**$ (1,951)**	**$ 6,345**	**$ (686)**	**$ (716)**	**$(1,446)**	**$ 310**	**$ 232**	**$ (6,677)**	**$ (4,190)**	**$ 2,374**	**$ (1,620)**	
EPS attributable to HTCR	**$ 0.10**	**$ (0.04)**	**$ (0.11)**	**$ (0.14)**	**$ (0.06)**	**$ (0.09)**	**$ 0.30**	**$ (0.03)**	**$ (0.03)**	**$ (0.07)**	**$ 0.01**	**$ 0.01**	**$ (0.37)**	**$ (0.21)**	**$ 0.11**	**$ (0.08)**	
Diluted S/O	19,066	20,843	20,843	20,867	20,855	20,864	20,864	20,864	20,864	20,864	20,864	20,864	17,923	20,405	20,862	20,864	
Margin Analysis																	
Gross Margin	64%	30%	18%	3%	40%	20%	70%	45%	40%	35%	48%	47%	38%	37%	54%	43%	
Operating Margin	26%	NA	NA	NA	NA	NA	45%	NA	NA	NA	13%	12%	NA	NA	15%	1%	
Pretax Margin	28%	NA	NA	NA	NA	NA	39%	NA	NA	NA	NA	NA	NA	NA	4%	NA	
Net Margin	22%	NA	NA	NA	NA	NA	42%	NA	NA	NA	5%	4%	NA	NA	8%	NA	
As a % of Revenue																	
Cost of sales	36%	70%	82%	97%	60%	80%	30%	55%	60%	65%	52%	53%					
Sales & marketing expenses	7%	10%	6%	6%	4%	4%	3%	3%	3%	3%	3%	3%	32%	7%	3%	3%	
General & admin expenses	31%	48%	46%	71%	48%	50%	18%	45%	40%	50%	30%	30%	75%	44%	32%	37%	
Research & development expenses	1%	1%	4%	22%	2%	3%	5%	2%	2%	2%	2%	2%	7%	5%	4%	2%	
Y/Y Growth																	
Revenue	284%	91%	150%	66%	-42%	-20%	225%	55%	8%	23%	-62%	9%	-19%	148%	35%	-26%	
Cost of sales	194%	168%	150%	111%	-3%	-9%	19%	-12%	8%	0%	-34%	5%	-3%	152%	-1%	-9%	
Gross profit	361%	13%	152%	-79%	-64%	-47%	1189%	2287%	7%	118%	-74%	14%	-35%	141%	96%	-41%	
Sales and marketing expenses	176%	-33%	-64%	-83%	-61%	-63%	39%	-17%	-26%	-16%	-54%	9%	852%	-46%	-38%	-30%	
General and administrative expenses	9%	32%	44%	214%	-10%	-17%	26%	-1%	-10%	24%	-37%	-27%	52%	47%	-2%	-15%	
Research and development expenses	-26%	-91%	192%	1175%	12%	181%	349%	-88%	22%	-10%	-85%	29%	26%	59%	3%	-58%	
Total operating expenses	20%	-1%	12%	69%	-19%	-22%	49%	-21%	-10%	19%	-48%	-23%	96%	21%	-6%	-20%	

HeartCore Enterprises

Cash Flow Statement

US$ in thousands	31-Mar 1Q23A	30-Jun 2Q23A	30-Sep 3Q23A	31-Dec 4Q23A	31-Mar 1Q24A	30-Jun 2Q24A	30-Sep 3Q24E	31-Dec 4Q24E	31-Mar 1Q25E	30-Jun 2Q25E	30-Sep 3Q25E	31-Dec 4Q25E	31-Dec 2022A	31-Dec 2023A	31-Dec 2024E	31-Dec 2025E
Cash flows from operating activities																
Net income (loss)	1,808	-1,023	-2,541	-3,121	-1,478	-2,211	6,085	-946	-976	-1,706	50	-28	-6,677	-4,877	1,450	-2,660
Depreciation and amortization expenses	123	183	189	188	188	187	187	187	187	187	187	187	83	683	749	747
Gain/Loss on disposal of property and equipr	0	0	-5	0	0	2	2	2	2	2	2	2	0	-5	6	8
Amortization of debt issuance costs	1	1	1	1	1	1							5	4	2	0
Changes in assets and liabilities:													0	0	0	0
Accounts receivable	-67	-529	274	-16	-523	-25	-610	730	-2,411	2,228	765	-234	297	-338	-429	349
Prepaid expenses	0	1	186	172	-3,258	3,416	-2,225	2,492	-469	574	-551	112	62	359	425	-335
Other assets	78	-55	-47	-110	-19	11	0	0	0	0	0	0	-201	-134	-8	0
Accounts payable and accrued expenses	-94	86	606	-64	296	-1	418	-722	222	158	-108	-553	-71	533	-10	-280
Accrued payroll and other employee costs	-179	179	7	145	-150	-129	287	-348	85	-2	102	-455	150	152	-339	-269
Due to related party	3	2	3	-6	-1	0	0	0	0	0	0	0	-1	1	-1	0
Operating lease liabilities	-73	-74	-84	-96	-90	-93	0	0	0	0	0	0	-284	-328	-183	0
Income tax payables	679	-572	-6	61	-2	-150	228	-87	21	0	-72	-31	-7	162	-12	-82
Deferred revenue	-168	979	-610	353	-300	465	844	-1,916	-47	164	197	-40	239	553	-908	274
Other liabilities	70	46	-33	-20	5,061	-4,502							-196	64	559	0
Net cash from operating activities	**-$1,048**	**-$321**	**-$1,089**	**-$1,874**	**$741**	**-$2,202**	**$5,215**	**-$609**	**-$3,386**	**$1,606**	**$572**	**-$1,039**	**-$4,809**	**-$4,331**	**$3,145**	**-$2,247**
Cash flows from investing activities																
Purchases of property and equipment	-9	-171	-336	-10	0	-4	-50	-50	-50	-50	-50	-50	-57	-526	-104	-200
Proceeds from disposal of PPE	0	0	25	0	0	-35							0	25	-35	0
Repayment of loan provided to related party	12	12	11	11	11	10							45	45	21	0
Payment for acquisition of subsidiary, net of	-725	0	0	0	0	0							0	-725	0	0
Net cash from investing activities	**-$722**	**-$459**	**-$600**	**$1**	**$11**	**$5,261**	**-$50**	**-$50**	**-$50**	**-$50**	**-$50**	**-$50**	**-$12**	**-$1,781**	**$5,172**	**-$200**
Cash flows from financing activities																
Payments for finance leases	-6	-6	-5	-6	-4	-4							-34	-22	-9	0
Proceeds from short-term & long-term debt	0	0	219	491	68	0							258	710	68	0
Repayment of short-term and long-term debt	-265	-147	-173	-127	-207	-74							-811	-711	-281	0
Repayment of insurance premium financing	-37	-113	-118	-122	-15	-45							-389	-389	-60	0
Net proceeds from factoring arrangement	174	155	-112	346	0	0							0	563	0	0
Net repayment of factoring arrangement	0	0	0	0	-383	141							0	0	-242	0
Distribution of dividends	0	0	0	0	0	-417	-417	-417	-417	-417	-417	-417	0	0	-1,252	-1,669
Net cash from financing activities	**-$134**	**-$110**	**-$188**	**$568**	**-$475**	**-$399**	**-$417**	**-$417**	**-$417**	**-$417**	**-$417**	**-$417**	**$8,915**	**$136**	**-$1,709**	**-$1,669**
Effect of exchange rate changes	-63	-82	-162	117	-71	-72							-54	-189	-143	0
Net change in cash and cash equivalents	**-$1,967**	**-$971**	**-$2,039**	**-$1,187**	**$207**	**$2,587**	**$4,748**	**-$1,076**	**-$3,853**	**$1,139**	**$105**	**-$1,507**	**$4,040**	**-$6,165**	**$6,465**	**-$4,117**
Cash and cash equivalents - beginning o	**$7,177**	**$5,210**	**$4,239**	**$2,200**	**$1,012**	**$1,219**	**$3,806**	**$8,554**	**$7,478**	**$3,625**	**$4,763**	**$4,868**	**$3,137**	**$7,177**	**$1,012**	**$7,478**
Cash and cash equivalents - end of the p	**$5,210**	**$4,239**	**$2,200**	**$1,012**	**$1,219**	**$3,806**	**$8,554**	**$7,478**	**$3,625**	**$4,763**	**$4,868**	**$3,361**	**$7,177**	**$1,012**	**$7,478**	**$3,361**
FCF	-$915	$33	-$564	-$1,676	$929	-$2,011	$5,452	-$372	-$3,149	$1,843	$809	-$803	-$4,668	-$3,122	$3,998	-$1,300
FCF per share	-$0.05	$0.00	-$0.03	-$0.08	$0.04	-$0.10	$0.26	-$0.02	-$0.15	$0.09	$0.04	-$0.04	-$0.26	-$0.15	$0.19	-$0.06

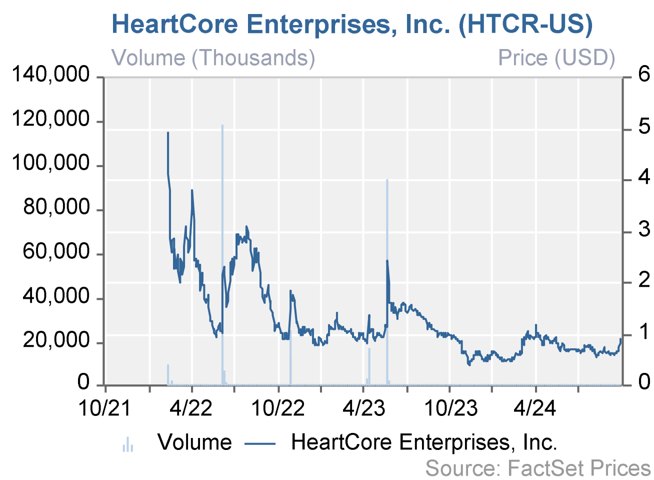
HeartCore Enterprises

Balance Sheet

US$ in thousands	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	1Q23A	**2Q23A**	**3Q23A**	**4Q23A**	**1Q24A**	**2Q24A**	**3Q24E**	**4Q24E**	**1Q25E**	**2Q25E**	**3Q25E**	**4Q25E**	**2022A**	**2023A**	**2024E**	**2025E**
Current assets																
Cash and cash equivalents	$ 5,210	$ 4,239	$ 2,200	$ 1,012	$ 1,219	$ 3,806	$ 8,554	$ 7,478	$ 3,625	$ 4,763	$ 4,868	$ 3,361	$ 7,177	$ 1,012	$ 7,478	$ 3,361
Accounts receivable	2,380	2,812	2,562	2,624	3,086	2,441	3,051	2,321	4,733	2,504	1,739	1,973	551	2,624	2,321	1,973
Investments in marketable securities	438	1,029	757	642	408	435	915	1032	544	1002	290	338	0	642	1,032	338
Prepaid expenses	920	879	683	537	3,942	3,877	6102	3611	4080	3506	4057	3945	538	537	3,611	3,945
Current-portion of long term note receiv	0	0	100	100	100	100	100	100	100	100	100	100	0	100	100	100
Due from related party	48	44	42	45	42	40	40	40	40	40	40	40	48	45	40	40
Other current assets	32	79	111	235	223	199	199	199	199	199	199	199	220	235	199	199
Total current assets	**$9,027**	**$9,382**	**$6,756**	**$5,495**	**$9,021**	**$10,900**	**$18,963**	**$14,781**	**$13,321**	**$12,115**	**$11,293**	**$9,957**	**$8,535**	**$5,495**	**$14,781**	**$9,957**
Non-current assets																
Property & equipment, net	215	331	753	764	689	641	404	167	-70	-307	-544	-780	204	764	167	-780
Operating lease right-of-use assets	2,550	2,276	2,414	2,468	2,272	2,106	2,106	2,106	2,106	2,106	2,106	2,106	2,645	2,468	2,106	2,106
Intangible asset, net	4,994	4,834	4,675	4,516	4,356	4,197	4,197	4,197	4,197	4,197	4,197	4,197	0	4,516	4,197	4,197
Goodwill	3,276	3,276	3,276	3,276	3,276	3,276	3,276	3,276	3,276	3,276	3,276	3,276	0	3,276	3,276	3,276
Long-term investment in equity securitie	0	0	0	0	300	300	300	300	300	300	300	300	0	0	300	300
Long-term investments in warrants	3,765	2,918	2,457	2,004	1,325	543	543	543	543	543	543	543	0	2,004	543	543
Long-term note receivable	0	0	200	200	200	200	200	200	200	200	200	200	0	200	200	200
Total non-current assets	**$15,643**	**$14,414**	**$14,520**	**$14,129**	**$13,309**	**$13,176**	**$12,299**	**$12,062**	**$11,825**	**$11,588**	**$11,352**	**$11,115**	**$3,603**	**$14,129**	**$12,062**	**$11,115**
Total assets	**$24,670**	**$23,796**	**$21,276**	**$19,624**	**$22,330**	**$24,076**	**$31,262**	**$26,843**	**$25,146**	**$23,703**	**$22,645**	**$21,072**	**$12,139**	**$19,624**	**$26,843**	**$21,072**
Current liabilities																
Accounts payable and accrued expense:	1,160	1,194	1,780	1,757	2,016	1,779	2,197	1,475	1,697	1,856	1,748	1,195	498	1,757	1,475	1,195
Accrued payroll and other employee cos	417	562	558	723	551	628	915	567	653	651	753	299	360	723	567	299
Current portion of long-term debts	641	548	525	372	447	509	509	509	509	509	0	0	698	372	509	0
Insurance premium financing	353	240	122	0	158	112	112	112	112	112	112	112	0	0	112	112
Factoring liability	174	329	217	563	179	321	321	321	321	321	321	321	0	563	321	321
Operating lease liabilities, current	288	262	365	397	375	358	358	358	358	358	358	358	292	397	358	358
Finance lease liabilities, current	14	7	17	17	17	16	16	16	16	16	16	16	19	17	16	16
Income tax payables	682	110	104	163	150	1	229	142	163	163	90	60	3	163	142	60
Deferred revenue	1,530	2,375	1,741	2,166	1,792	2,207	3,051	1,135	1,088	1,252	1,449	1,409	1,725	2,166	1,135	1,409
Other current liabilities	225	262	222	216	5,268	9,261	5,000	5,000	5,000	5,000	5,000	5,000	53	216	5,000	5,000
Total current liabilities	**$5,486**	**$5,894**	**$5,660**	**$6,512**	**$11,018**	**$15,193**	**$12,709**	**$9,636**	**$9,918**	**$10,238**	**$9,849**	**$8,770**	**$3,648**	**$6,512**	**$9,636**	**$8,770**
Non-current liabilities																
Long-term debts	1,491	1,324	1,352	1,770	1,524	1,404	1,404	1,404	1,404	1,404	1,404	1,404	1,124	1,770	1,404	1,404
Operating lease liabilities, non-current	2,314	2,066	2,114	2,135	1,960	1,805	1,805	1,805	1,805	1,805	1,805	1,805	2,421	2,135	1,805	1,805
Deferred tax liabilities	1,398	1,354	1,309	1,264	1,220	1,175	1,175	1,175	1,175	1,175	1,175	1,175	0	1,264	1,175	1,175
Other non-current liabilities	136	125	198	209	192	685	685	685	685	685	685	685	138	209	685	685
Total non-current liabilities	**$5,339**	**$4,869**	**$5,041**	**$5,445**	**$4,954**	**$5,121**	**$5,121**	**$5,121**	**$5,121**	**$5,121**	**$5,121**	**$5,121**	**$3,683**	**$5,445**	**$5,121**	**$5,121**
Total liabilities	**$10,824**	**$10,763**	**$10,701**	**$11,957**	**$15,972**	**$20,314**	**$17,830**	**$14,757**	**$15,039**	**$15,359**	**$14,970**	**$13,891**	**$7,331**	**$11,957**	**$14,757**	**$13,891**
Equity																
Total Shareholders' Equity	**$13,846**	**$13,033**	**$10,574**	**$7,667**	**$6,358**	**$3,762**	**$13,432**	**$12,086**	**$10,107**	**$8,344**	**$7,675**	**$7,181**	**$4,808**	**$7,667**	**$12,086**	**$7,181**
Total liabilities and equity	**$24,670**	**$23,796**	**$21,276**	**$19,624**	**$22,330**	**$24,076**	**$31,262**	**$26,843**	**$25,146**	**$23,703**	**$22,645**	**$21,072**	**$12,139**	**$19,624**	**$26,843**	**$21,072**
Net Cash	3,719	2,914	848	-894	-371	2,403	7,150	6,074	2,221	3,360	3,464	1,958	6,054	-894	6,074	1,958
Net Cash per share	0.20	0.14	0.04	-0.04	-0.02	0.12	0.34	0.29	0.11	0.16	0.17	0.09	0.34	-0.04	0.29	0.09

Required Disclosures

HeartCore Enterprises, Inc. (HTCR-$0.73) NR Risk Rating: H



(IF A COMPANY SPONSORED RESEARCH ("CSR") REPORT, ALSO REFER TO ADDITIONAL CSR-SPECIFIC DISCLOSURES PROVIDED BELOW[1])

Rating System

Sidoti's Equity Research rating system consists of BUY and NEUTRAL recommendations, as well as a NOT RATED classification. We do not assign these BUY or NEUTRAL ratings for companies covered under our Company Sponsored Research program. Companies (or equity securities) covered by our CSR program are classified as NOT RATED (NR) and are only assigned a HIGH (H) or MODERATE (M) risk rating. Unless otherwise noted in a report, Sidoti ratings should be interpreted as follows:

Rating	Industry	Interpretation
BUY	All, except Utilities	Capital appreciation of at least 25% over the next 12 months
NEUTRAL	All, except Utilities	Capital appreciation of less than 25% over the next 12 months
BUY	Utilities(a)	Capital appreciation of at least 15% over the next 12 months
NEUTRAL	Utilities(a)	Capital appreciation of less than 15% over the next 12 months
HIGH (RISK)	All in CSR program	Companies/equities with among others, one or more of the following characteristics: • significant potential for loss of principal; • significant share price volatility; • limited revenue or cash flow and/or high unpredictability associated with revenue and cash flow; • short and/or unprofitable operating history; • potentially significant issues regarding operational and/or financial success; • problematic financial, liquidity, legal, regulatory or political issues; • upcoming need for additional capital when availability is questionable;

[1] Lighthouse Equity Research, an affiliate of Sidoti & Company, LLC is part the broker-dealer's CSR program)

		• significant related party transactions which could lead to a conflict of interest; • any other factor that the analyst believes could materially and adversely impact the subject company and/or the value of its securities.
MODERATE (RISK)	All in CSR program	Companies which have many of the same risks as described under the HIGH risk rating, but which risks are mitigated (on a relative basis and in the opinion of the analyst) due to, among others, one or more of the following: • more stable and predictable revenue, profits and cash flow; • more established operating history; • more favorable operating or business environment • lower potential for financial, liquidity, regulatory or political issues; or • less onerous upcoming capital needs.

(a) those with at least 75% of operations derived from regulated state and federal businesses

Percentage of Covered Companies with Each Rating and
<u>Realization of Investment Banking Income from Covered Companies Over the Past 12 Months</u>:

With reference to the information described in the header immediately above please refer to the table below, which is as of, and reflects information immediately prior to, the publication of this report:

Rating	# of Companies	% (b)	Realized Investment Banking Income (# of companies with rating)	Realized Investment Banking Income (% of companies with rating)
BUY	36	25%	3	8.3%
NEUTRAL(a)	15	10.4%	0	0.0%
NOT RATED	1	0.7%	0	0.0%
NR -CSRs Moderate Risk (c)	83	57.6%	2	5.6%
NR -CSRs High Risk (c)	8	5.6%	0	0.0%
TOTAL	144	100%	5	3.5%

(a) Of the NEUTRALS 9 trade above our price target.
(b) Numbers may not add due to rounding or because of a pending drop of coverage.
(c) 90.2% of our CSRs are moderate risk, while 8.7% are high risk.

<u>Certain Risks</u>

A universal risk to all our price targets is that the analyst's estimates or forecasts may not be met. Past performance should not be construed as indicative of future performance. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the subject company's SEC filings available in electronic format through SEC Edgar filings at www.sec.gov.

<u>Certain information Regarding Analyst Compensation</u>

Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking activities, brokerage activities, from issuers participating in Sidoti's Company Sponsored Research program, from covered (and non-covered) companies paying to attend our affiliate's conferences or compensating Sidoti for arranging Non-Deal Road Show (NDR) meetings, but compensation is not directly related to any of these revenue streams. As noted below such factors present a potential conflict of interest.

Appendix

Required Disclosures

Factors that May Influence Continuation of Coverage and Related Potential Conflicts of Interest

Sidoti research analysts generally do not cover (or continue to cover) those companies where Sidoti does not deem coverage to be profitable. In determining whether coverage is profitable, Sidoti considers among other things, (a) an estimate of invoice payments received from its institutional investor clients as it relates to a covered company; (b) whether management of a covered company participates in a Sidoti affiliate's-sponsored conferences and/or non-deal roadshows (Sidoti's affiliate receives a fee from the issuer if the issuer presents at a conference and may receive a fee from the issuer if it schedules an NDR; The affiliate thereafter covers a portion of Sidoti's expenses pursuant to an expense sharing agreement, which amount is determined based on affiliate revenue versus Sidoti revenue); and (c) whether a covered company has in the past or is inclined to include Sidoti in an investment banking transaction as a co-manager or otherwise. A possible effect of factors (b) and (c) above may be that continued coverage decisions are based, in part, on the willingness of management of covered companies to participate in, and compensate Sidoti's affiliate for, such conferences and NDR meetings, as well as Sidoti's inclusion in investment banking transactions. This approach could be viewed as presenting potential conflicts of interest.

Sidoti and Analyst Ownership of Securities Described Herein and Other Analyst Restrictions

Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household or any account in which they otherwise hold a beneficial interest to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities.

Sidoti Investment Banking Revenue Realized from the Subject Company in the Last 12 Month

Sidoti has non-research employees that will seek compensation for investment banking services from the company covered hereunder. As of the date hereof, Sidoti may expect to receive or may intend to seek investment banking compensation from any of its covered companies, including the subject company covered herein, within the next 3 months (additional detail, if any, is provided in a special disclosure below). Investment banking services, as defined under FINRA Rule 2241, includes, among other things, acting as an underwriter in or as a member of the selling group in a securities underwriting. Sidoti's role in most investment banking transactions can be viewed on this company's filings at www.sec.gov. The table below sets forth instances where Sidoti has received investment banking revenue from the company covered hereunder in the last twelve months, if any:

Date	Role	Transaction	Security

Sidoti Non-Investment Revenue Realized from the Subject Company in the Last 12 Months

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Conferences	NDR Days
March 2023	
June 2023	

Additional Disclosures Specific to the Subject Company of this Report Including the Pursuit or Expectation of Investment Banking Revenue in the Next Three Months

None.

Appendix

Required Disclosures

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Source(s)

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