



HeartCore Enterprises, Inc.

Ticker: (NASDAQ:HTCR)

Initial Research Report

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as of April 21, 2022

Sector: Technology
Industry: Software Application
<https://www.heartcore.co.jp/>

Target Price \$5.00 - \$6.00

COMPANY BACKGROUND

Incorporated as a holding company in 2021, HeartCore Enterprises, Inc. (the "Company" or "HeartCore") (NASDAQ: HTCR) is a leading software development company based in Tokyo, Japan. The Company recently completed an IPO and a listing on the NASDAQ Capital Market ("NASDAQ"), and began trading on Feb. 10, 2022. HeartCore has a strong presence in the Japanese software market with diversified revenue and a strong customer base. Following a share exchange on July 16, 2021 with HeartCore Co Ltd., a Japanese company ("HeartCore Japan") established in 2009, the Company became the majority-owner of HeartCore Japan. Via HeartCore Japan, the Company is in the business of development and sales of comprehensive software in Japan, having quickly grown to become a market leader in its sector with over 800 enterprise customers.

The Company provides software through two business units. The first business unit includes a customer experience management business that has been in existence for 12 years.

The Company's customer experience management platform (the "CXM Platform") includes 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 experience. The Company also provides education, services and support to help customers be successful with its CXM Platform. The Company sells its CXM platform to mid-market business-to-business companies on a subscription basis.

The second business unit is a digital transformation business which provides customers with robotics process automation, process mining and task mining to accelerate the digital transformation of enterprises. The Company also has an ongoing technology innovation team to develop software that supports the narrow needs of large enterprise customers.

The Company's CXM Platform features a central database of lead and customer interactions and integrated applications designed to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers, as well as fulfill the needs of those customers so they become promoters of their respective businesses.

The Company's software is built to help companies run their operations in a fully automated manner. Their solutions are designed to remove the friction that exists between employees and departments by increasing operational transparency, fostering collaboration between departments, and allowing people to focus on the work that matters. As a result, HeartCore's software helps companies accelerate innovation, improve productivity, create competitive differentiation, and enrich the employee and customer experience. The Company continues to make significant investments in research and development to bolster its existing technology and enhance usability to improve its customers' productivity. With the completion of a \$15M IPO and a listing on the NASDAQ on Feb. 10, 2022, the Company is poised for rapid growth and expansion globally, with near term plans to enter the US and other Asian markets.



HeartCore - a Dynamic Content Management System

Key Statistics

Price 4/20/2022	2.39
52 Week High	6.19
52 Week Low	1.94
Avg. Vol (3month)(k)	759
Market Cap (Interday)M	45.22
Price/Sales	4.19
Common Shares Outstanding (M)	18.92
Float(M)	5.30
EPS(12m)	-0.02

Source: Yahoo Finance / NASDAQ

Recent Highlights

- April 11, 2022** - The Company announced the launch of its revamped digital marketing solution, Content Management System (CMS). This platform streamlines website operations allowing users to easily create, manage and modify content on websites without the need for specialized technical knowledge.
- April 6, 2022** - The Company announced the launch of Go IPO, its latest consulting service offering. Go IPO is an IPO consulting service for Japanese companies interested in listing on the NASDAQ Stock Market.
- February 14, 2022** - The Company announced the closing of its initial public offering of 3,000,000 shares of its common stock (the "Common Stock") at a public offering price of \$5.00 per share, for aggregate gross proceeds of \$15.0 million, before deducting underwriting discounts, commissions, and other offering expenses. The Company's Common Stock began trading on the Nasdaq Capital Market on February 10, 2022, under the symbol "HTCR".

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CORE MARKET

HeartCore is well positioned to take full advantage of a large and rapidly growing market for customer experience management and digital transformation software solutions with its CXM and DX product lines. According to a February 2022 report by Grand View Research, the global customer experience management software market size was valued at \$8.79 billion in 2021 and is expected to grow at a compound annual growth rate (CAGR) of 18.1% from 2022 to 2030. The same report indicates that the Asia Pacific region is expected to grow at an even higher rate. HeartCore is uniquely positioned to benefit from this growth due to its already well-established presence in the Japanese market. Similarly, MarketsandMarkets (marketsandmarkets.com) estimates that the global customer experience management market will grow from \$9.5 billion in 2021 to \$16.9 billion in 2026, a compound annual growth rate (CAGR) of 12.3%.

HeartCore's DX products enable intelligent process automation by allowing companies to significantly improve the productivity of their resources. Furthermore, the continuous growth of cloud-based applications and complex IT infrastructure is creating an environment with growing opportunities to deploy and benefit from automation. According to a July 2021 report by Verified Market Research, global intelligent process automation market size was valued at \$8.52 billion in 2020 and is projected to reach \$21.63 billion in size by 2028, growing at a compounded annual growth rate (CAGR) of 12.37% from 2021 to 2028. The Asia Pacific region should have the highest growth rate in the market according to the same report. According to a similar report released by Data Bridge Market Research in March, 2021, the global intelligent process automation market is projected to reach \$24.88 billion by 2028, growing at a compounded annual growth rate of 12.9%. The Company's revenue distribution is currently 75% to CXM and 25% to DX. We believe that HeartCore's software products may distinguish the Company in a rapidly expanding global digital marketplace.

Customers

HeartCore has been adding secure internet and web solutions to 819 large enterprise customers (as of September 30, 2021), of which 561 are paying premium service customers, including Toyota, Japan Airlines, SONY, Bank of Japan, Fuji Film, the Prime Minister of Japan Offices, Honda, Panasonic, and Hitachi. We estimate that the Company will report over \$10.8 million of revenue for the year ended December 31, 2021, which is up 20% for the entire year (2020: \$9,026,463). CMS enterprise customers generally have \$100M or more in annual sales, whereas data mining customers generally have \$1B or more in annual sales. Customers are found through seminars, partner sales, and referrals from existing customers.



A Sample of HeartCore's Customers

PRODUCTS AND SERVICES

The company operates under two primary business categories – Customer Experience Management (CXM) and Digital Transformation (DX). Their customer experience management platform (the "CXM Platform") includes 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 experience. The digital transformation business (DX) includes a complex set of products and systems designed to digitally transform enterprises through robotics process automation, process mining, and task mining.

Customer Experience Management (CXM)

Companies have been rapidly evolving in the way they interact with their customers in recent years. The approach has shifted from simple interactions to developing deeper engagement through personalized interaction. HeartCore's Customer Experience Management product, or CXM, is designed to transform the way a company interacts with its customers by first developing a deep understanding of its custom-



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ers, and thereafter enhancing the company’s sales, marketing, service, and content management systems. The CXM platform collects data on the customers through IP addresses, social media, as well as, the way users interact with the website. It then analyzes the data and segments it into customer groups based on factors such as demographics, behavior, and purchase history. The CXM platform is then able to show personalized content to each user in real time based on the user segmentation.

For example, it will show different images to attract customers in different age groups, or it can offer discount codes to potential customers who left an item in their cart.

Digital Content Strategies

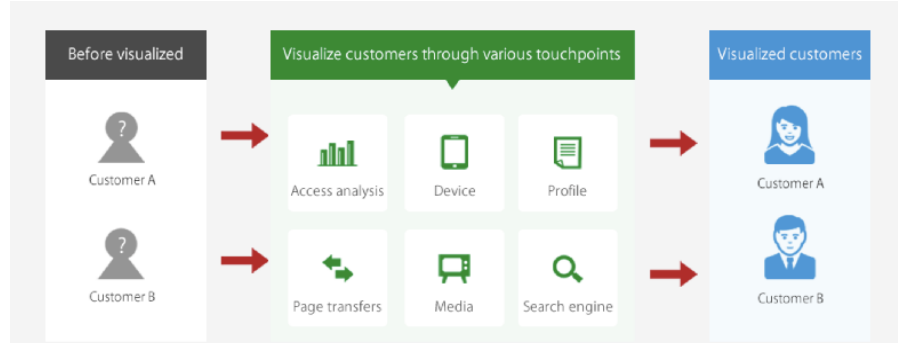
The CXM platform will also allow for A/B testing, also known as split testing, of different content strategies so that the marketers can continue improving the user experience. Furthermore, the system includes powerful artificial intelligence capabilities to completely automate the entire process of segmentation, behavior analysis, and AB testing, so that the marketers can focus on creating and improving content and let the system automatically determine what kind of content is effective for what kind of users. The digital asset management functionality can significantly improve the company’s online presence and enhance its communication. The system integrates across website content, social media, and email. The product information management functionality allows companies to manage product information and related files, as well as other digital assets through one central platform, so that teams can provide a better experience and improve product marketing and sales. The sales, marketing, and service functionality expands the core functionality to include features such as search engine optimization, marketing and email automation, sales automation, lead tracking and scoring, email templates, tracking, and much more. The platform also seamlessly integrates with external systems like e-commerce, inventory management, or Enterprise Resource Planning (ERP).

Customer Support

HeartCore offers many ancillary services to support the CXM platform and users. Its customers have access to a customer success manager or customer success team, which are responsible for the customers’ long-term success, retention and growth on the CXM Platform. Customer success managers and customer success teams address the unique needs and goals of the Company’s customers through a series of ongoing interactions and strategy calls on how to best engage and use the CXM Platform.

Usage of the platform offers many benefits to customers. It allows companies to grow faster and better because it introduces a data driven framework for understanding the customer. Business decisions are better because they are based on data, rather than hunches. The customer interaction process is streamlined and improved. Workload is reduced significantly due to the AI capabilities of the software. The platform includes an all-in-one, simple user interface. It is built to be flexible and scale with ease to assist businesses of different sizes, across various industries.

HeartCore’s (CXM Platform) enables you to visualize customers.



CXM Target Market

The company currently focuses on selling the CXM platform to mid-market B2B companies, which are defined as companies with between 100 to 5,000 employees. The CXM platform is offered as a free basic version, as well as a full service upgraded version sold on a subscription basis. The sales cycle from a lead to sale is usually six months and generates as much as \$300k to \$500k per year in revenue for HeartCore from its larger enterprise customers. This revenue can be broken down into a one-time implementation fee (which depends on size of the company and applications), as well as a licensing fee, equivalent to \$100k in the first year and 18% of the initial fee annually in the future, with a \$5k minimum annual fee. HeartCore has achieved a 95% retention rate among its paying customers. CXM customers

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include Toyota, SONY, Panasonic, the Bank of Japan, and many other top companies.

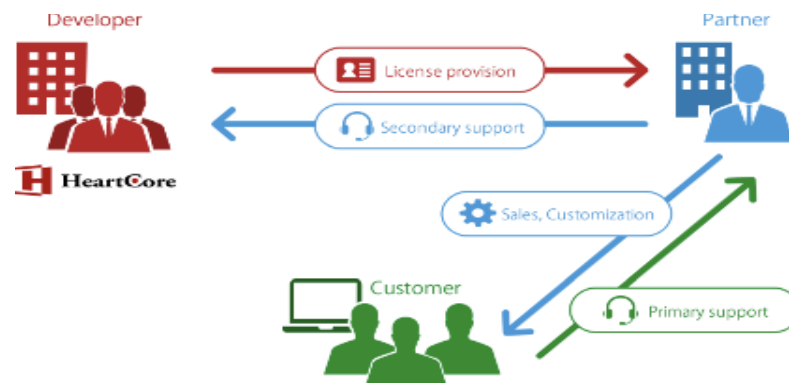
Digital Transformation (DX) Product Line

Companies are striving to improve productivity and accuracy of work by utilizing automation and machine learning. Robotic Process Automation, or RPA, is a technology that allows for the automation of defined sets of tasks. Examples include invoice processing, payroll, or account reconciliation. Task mining and process mining are technologies used to identify tasks and processes performed manually that are good candidates for automation, particularly processes that are common and repetitive.

The DX Product line includes:

- **HeartCore Robo.** HeartCore Robo is the Company's RPA technology solution. It is designed to automate routine repetitive work. RPA technology observes human digital actions and can create software robots that can learn and then execute rules-based business processes. The software allows employees to automate new and existing processes and is made to flexibly adapt to a wide variety of uses within an organization. The resulting software robots can then perform many manual, time-consuming and repetitive tasks automatically. HeartCore Robo makes it easy to start implementing this technology for automation purposes. The benefits include speed, accuracy and freeing up company resources. Employees can now dedicate much more of their time to higher-level cognitive tasks that propel the business forward.
- **Controlio.** Controlio is HeartCore's task mining technology solution. Controlio is a web-based cloud software system for employee monitoring. It tracks all digital activity, such as web and application usage, typing or file transfers. This allows customers to track productive and distractive activities, as well as view productivity scores, and identify potential bottlenecks. This information can then be used to identify opportunities to deploy HeartCore Robo's RPA technology. Additional features include constant screen recording, web filtering, and keylogging. Employee productivity can be optimized, and the recorded data can also be used to mitigate insider threats.
- **Apromore and myInvenio.** HeartCore has had two process mining solutions, Apromore and myInvenio. Process mining is a technology that investigates and analyzes large quantities of data stored in enterprise event logs. Similar to task mining, its goal is to understand and improve processes, with the ultimate goal of automating processes. The solutions can also be used to find and remove unnecessary processes, understand the variation in skill among employees, or reduce risks in employee management through compliance. The products are designed to be easy to use, flexible and scalable. The myInvenio product was recently sold to IBM, leading HeartCore to focus solely on growing the Apromore business. HeartCore combines RPA, task mining and process mining, with integrations across the products to make it easy to use an integrated solution. RPA technology sells for about \$5k per subscription annual license. Apromore process mining pricing is dependent on customer usage, whereas Controlio task mining is priced per desktop installation on a monthly subscription basis.

HeartCore works with partners for sales, customization & support.



Other Products

VR360. VR360 is a Virtual Realty (VR) space distribution service that uses VR technology to convert real space into virtual space. 3D images are converted into 360 degree virtual space.

MariaDB and MySQL are popular open-source relational database administration systems. HeartCore is a MariaDB Advanced Partner in Japan and in the Asia-Pacific Region. For MySQL, HeartCore provides support services such as licensing, installation support and consulting. The Company is planning to use some of the recent \$15M of IPO gross proceeds to develop new products as well as increase research and development efforts and acquire products from other companies.

COMPETITION

HeartCore operates in a highly competitive market with many large global players. Competition for both CXM and DXM customers is

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intense. HeartCore may have an advantage in the local Japanese market on account of its established, local brand. But competitors continue to emerge.

Key customer experience software competitors include:

- **Adobe, Inc. (NASDAQ: ADBE)** (Market Cap: \$196 B) (www.Adobe.com) is a multinational software company headquartered in San Jose, California. Adobe Experience Manager is Adobe's product that integrates content management systems and digital asset management and is a close competitor of HeartCore's CXM platform.
- **Qualtrics International, Inc. (NASDAQ: XM)** (Market Cap: \$16 B) (www.Qualtrics.com) is a US-based software company that provides solutions for customer experience management, employee engagement, market research, and more. The company has many prominent global customers and had \$1.08B in revenue in 2021.
- **Sitecore (private)** (www.Sitecore.com) is a global Danish software company. It provides customer experience management, digital asset management and other software products.
- **Acquire (private)** (www.Acquire.io) Founded in 2017 and based in San Francisco, with offices in the US, UK, and India, the company provides top level Digital CX platforms to leading companies around the world. It has over 200 employees worldwide and has been funded with \$11.8 million from Venture Capital funds.

Key Global Robotic Process Automation (RPA) competitors include:

- **UiPath, Inc. (NYSE: PATH)** (Market Cap: \$13.7 B) (www.Uipath.com) is a global RPA software company that was founded in Romania and is now headquartered in NYC.. The company's solutions are widely used. UiPath generated over \$810M in revenue last year and has over 3,000 employees.
- **Automation Anywhere (private)** (www.AutomationAnywhere.com) is a very high-profile developer of RPA software. It is headquartered in San Jose, California.
- **Blue Prism Group, plc (AIM: PRSM, OTC: BPRMF)** (Market Cap: \$1.6 B) (www.BluePrism.com) is a market leader in RPA software and is headquartered in the United Kingdom. The company generated \$217M in revenue in 2021 and has over 1,000 employees.

Key Management Personnel

Sumitaka Yamamoto, CEO, President & Chairman: Mr. Yamamoto has served as Chairman of the Board of Directors since August 16, 2021 and served as Chief Executive Officer and President and been a member of the Board of Directors since May 18, 2021. Mr. Yamamoto is also the founder of HeartCore Japan and has served as the Chief Executive Officer and member of the Board of Directors of HeartCore Japan since June 2009. After graduating from the Kansai Gaidai University in Japan, Mr. Yamamoto joined the Japan Air Force and became a pilot. He later worked at BroadVision.com in Japan, a global software vendor and former NASDAQ company, where he specialized in websites and software. Subsequently in 2009, Mr. Yamamoto founded HeartCore in order to help solve the biggest technological problems facing Japan's largest organizations. With over 20 years of experience in information technology and software programming, he developed critical solutions, which large enterprise customers depend on. Mr. Yamamoto received the "Top 100 Tech Innovators & Influencers" Award at the InterCon Las Vegas Conference in 2021.

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

Qizhi Gao, CFO: Mr. Gao has served as Chief Financial Officer since May 18, 2021. Mr. Gao has also served as the Chief Financial Officer of HeartCore Japan since May 2017. From December 2007 through April 2017, Mr. Gao served as the Group Leader, Finance & Accounting Department at Marubishi Corporation in Tokyo, Japan. Mr. Gao graduated with a bachelor's degree in computer accounting



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from Chuo College of Information and Accounting, Japan.

Hidekazu Miyata, CTO: Mr. Miyata has served as Chief Technical Officer since May 18, 2021. Mr. Miyata has also served as the head of the DX division of HeartCore Japan since June 2009, where he was involved in the development of its Content Management System. After graduating from college, Mr. Miyata worked for a software development company and has more than 20 years of software development experience.

Keisuke Kuno, VP – CX Division: Mr. Kuno has served as CX division Vice President since May 18, 2021. Since March 2010, Mr. Kuno has also served as the head of the CX division and member of the Board of Directors of HeartCore Japan. Mr. Kuno graduated with a bachelor's degree in business administration from Hosei University, Tokyo, Japan. After having played professional baseball, Mr. Kuno then worked as an IT sales representative. He joined HeartCore Japan in 2010 and has consistently worked in business development. He was promoted to his current position in 2020 and has helped the Company by significantly expanding revenue growth.

Ferdinand Groenewald, Independent Board Member: Mr. Groenewald has been an independent member of the Board of Directors since January 24, 2022. Since January 2, 2022, Mr. Groenewald has served as the Chief Accounting Officer of Muscle Maker, Inc., a Nasdaq listed company. From September 2018 to January 2, 2022, Mr. Groenewald served as the Chief Financial Officer of Muscle Maker, Inc. Mr. Groenewald is a certified public accountant with significant experience in finance and accounting. Mr. Groenewald holds a Bachelor of Science in accounting from the University of South Africa.

GROWTH STRATEGY

Currently, HeartCore's revenue is split between content management (CXM) - which accounts for approximately 75% - and digital transformation (DX) - which accounts for approximately 25%. HeartCore is seeing rapid growth in the digital transformation business and expects the revenue breakdown to reach a 50/50 split within a few years. This growth is going to come primarily from the process mining and task mining revenue components of the digital transformation business (ie. Controlio and Apomore). Revenue growth will also come from new lead generation, expanding the overall CXM product line, selling DX products to enterprise customers, strategic acquisitions of complimentary software products and technologies, expanding sales teams globally, as well as selling new products developed or acquired to existing customers.

HeartCore is currently in the process of developing a US marketing team and opening a US office in San Francisco. It plans to hire a US consulting firm to help build the sales team and then focus on developing relationships with enterprise clients to close sales of various HeartCore products and solutions. HeartCore seeks to accelerate its annual revenue growth rate beyond the approximately 20-25% year-over-year growth achieved in the past few years. It hopes to achieve over \$15 million in annual revenues by 2022 and over \$20 million in annual revenue by 2023. Given the estimated revenue projections, HeartCore believes it could be in a position to justify a valuation of over \$100 million dollars.

FINANCIALS (all expressed in US Dollars)

Recent IPO and Nasdaq listing: HeartCore Enterprises, Inc. completed its Initial Public Offering (IPO) and listed its shares under the symbol HTCR on the Nasdaq Capital Market where it began trading on February 10, 2022, with the offering formally closing on February 14, 2022. The Managing Underwriter was Boustead Securities, LLC. The IPO Offering was pursuant to an effective S-1 Registration Statement (Prospectus) which was amended and declared final and effective on February 9, 2022, which is on file with the SEC at www.SEC.gov. The Company issued 3,000,000 shares of its common stock at \$5.00 per share, for aggregate gross proceeds of \$15 million, and post-offering it had approximately 18.915 million shares outstanding. The net proceeds from the offering were approximately \$13.5 million after commissions and various offering expenses, set forth pursuant to the final prospectus. In December 2021 and January 2022, the Company completed a private placement offering which resulted in 400,000 shares being issued at \$2.50 per share, which shares are restricted for 6 months post the IPO date.

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Nine Months Ended September 30, 2021. In its S-1 filing, the Company reported record nine months results (reviewed). For the nine months ended September 30, 2021, HeartCore Total Revenues increased by 26.7% to \$8.446 million from \$6.664 million in the first nine months of the previous year. The Company's Gross Profit in the first nine months of 2021 increased to \$4.076 million from \$3.047 million in the same period a year earlier. The Gross Profit Margin for the nine months period increased to 48.3% from 45.7% vs. the comparable period last year. Income from Operations for the Nine Months Ended September 30, 2021 increased to \$541,816 from the \$450,848 reported in the prior comparable period last year. Net Income for the nine months ended September 30, 2021 was \$403,714 vs. \$387,760 in the comparable prior period last year. Earnings Per Share was \$.03 for the nine months ended September 30, 2021 vs. \$.03 EPS in the comparable period last year.

As of September 30, 2021, which was prior to the completion of the IPO, the Company had Cash of \$3.1 million, Total Assets of \$9.99 million, Total Liabilities of \$11.01 million, and a Shareholder's deficit of \$1.02 million. The pro-forma balance sheet numbers were dramatically improved with the completion of the IPO on February 14, 2022, with Net Proceeds of approximately \$13.5 million. Post IPO the company had over \$17 M in cash (pro forma).

Historical Annual Results (audited).

During the Year Ended December 31, 2020, the Company's Total Revenues increased to \$9.026 million compared to \$7.208 million, representing a growth rate of 25.2%. The Company's Gross Profit during the year ended 2020 was \$4.018 million, compared with \$2.661 million in the prior year. It reported Income from Operations of \$.258 million in 2020 vs. a Loss from Operations of \$1.266 million in the prior year. Net Income was \$.155 million in 2020, vs. a Net Loss of \$1.261 million in the prior year. Earnings Per Share was \$.01 in 2020 vs. Loss Per Share of (\$.10) in the prior year. During the year ended Dec. 31, 2021, the Company's total revenue increased to \$10.823 Million compared to \$9.026 Million in the previous year representing a growth rate of approximately 20%. Income from Operations was \$139,000 vs. \$267,000 in the prior year. Net loss was \$338,000 vs. income of \$151,000 in the prior year. Loss per share was .02 vs EPS of .01 cent in the prior year.

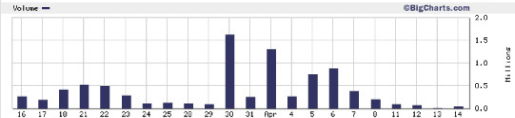
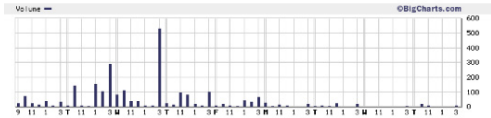
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All figures below are quoted in US Dollars and in Thousands

Income Statement	12/31/19	12/31/20	9M 9/30/21	Balance Sheet	12/31/19	12/31/20	as of 9M 3/30/21	Cash Flow Statement	12/31/19	12/31/20	9M 9/30/21
Revenue	\$ 7,208	9,026	8,446	Current Assets	\$ 1,932	4,275	4,990	Operating Cash Flow	(686)	745	1,239
Oper Loss/Income	\$ (1,266)	259	541	Total Assets	\$ 7,943	10,357	9,990	Investing Cash Flow	(464)	(401)	(151)
Net Loss/Income	\$ (1,223)	151	404	Total Liabilities	\$ 10,025	11,417	11,015	Financing Cash Flow	875	2,063	(816)
Earnings Per Share	\$ (0.10)	0.01	0.03	Total Shareholder's Deficit	\$ (2,082)	(1,060)	(1,025)	Cash at end of period	535	3,058	3,090

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Analysts whose efforts contributed to this report.

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