

Financial Services

HGBL - NASDAQ November 14, 2022

Closing Price 11/11/22	\$2.16
Rating:	Buy
12-Month Target Price:	\$4.00
52-Week Range:	\$1.02 - \$2.19
Market Cap (M):	79.5
Shares O/S (M):	36.9
Float:	81.2%
Avg. Daily Volume (000):	32.5
Debt (M):	\$1.1
Dividend:	\$0.00
Dividend Yield:	0.0%
Risk Profile:	High
Fiscal Year End:	December

Revenue ('000)

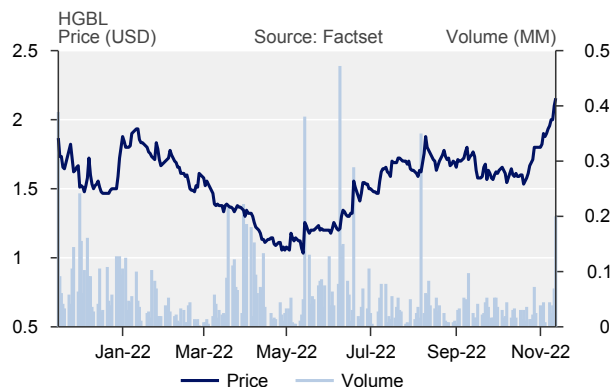
	2021A	2022E	2023E
1Q	7,101	9,357A	13,147
2Q	5,176	11,065A	13,396
3Q	5,991	12,661A	13,651
4Q	7,524	12,902	13,910
FY	25,792	45,985	54,105
<i>Prior</i>	—	41,235	47,938

Adjusted EBITDA ('000)

	2021A	2022E	2023E
1Q	1,480	1,114A	2,658
2Q	239	3,865A	2,716
3Q	740	3,777A	2,776
4Q	1,623	2,604	4,340
FY	4,082	11,360	12,490
<i>Prior</i>	—	9,010	11,582

GAAP EPS

	2021A	2022E	2023E
1Q	0.03	0.02A	0.05
2Q	0.02	0.07A	0.05
3Q	0.01	0.06A	0.05
4Q	0.03	0.05	0.08
FY	0.08	0.19	0.22
<i>Prior</i>	—	0.16	0.21



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Heritage Global Inc.

Buy

3Q22 Triple Beat on Momentum in All Lines of Business; Raise 2023 Estimates – Reiterate \$4 Price Target and Buy Rating

Summary

- **HGBL beat on revenue (by 38%), adjusted EBITDA (by 111%), and EPS (by \$0.02) aided by real estate sales, which we regard as recurring, but lumpy.**
- **Management is very bullish about all four of its revenue streams (see below). We raise our 2023 estimates, implying adjusted EBITDA growing 10% over our new 2022 estimate.**
- **We maintain our price target of \$4, which equates to a 2023E EV/EBITDA multiple of 11.5x (previously 12.4x) and is in line with that of best-comparable Liquidity Services (LQDT - NR).**

Details

3Q22 results. On 11/10, HGBL reported 3Q22 results with: 1) total revenue of \$12.7M vs. consensus (2 analysts) of \$9.2M; 2) adjusted EBITDA of \$3.8M vs. 'consensus' of \$1.8M; and 3) EPS of \$0.06 vs. 'consensus' of \$0.04. The beats resulted from strong contribution from all four revenue streams propelled by macroeconomic tailwinds.

HGBL has four revenue streams in two lines of business (in historical descending order of importance): 1) brokering charged-off consumer loans through its Heritage National Loan Exchange (NLEX) subsidiary; 2) disposing of surplus industrial assets (mainly plants, equipment, and machinery) through Heritage Global Partners and American Laboratory Trading, which it acquired in 2021; 3) acting as a lender to buyers of charged-off consumer loans through Heritage Global Capital; and 4) providing fee-based valuation services to lenders (mainly banks) regarding industrial equipment held as loan collateral through Heritage Global Valuations.

Drivers of 4Q22 and 2023 earnings include a heavy schedule of HGBL industrial auctions and a strong pipeline of charged-off consumer loans (some of which have already been acquired by Heritage Global Capital borrowers). Factors contributing to these drivers are: for financial assets, the end of government stimulus payments and an economic slowdown, creating more credit card debt and causing more defaults on consumer loans; and for industrial assets, increasing emphasis on ESG (environmental, social, governance), causing many corporations to now auction industrial assets (for repurposing by buyers) instead of sending them to landfills. We expect the momentum evidenced in 2Q22/3Q22 to be carried over into 4Q22 and 2023.

Raising 2023 estimates: revenue by 12.9%; adjusted EBITDA by 7.8%; and EPS by \$0.01. These estimates are basically an extrapolation of 3Q22 results, plus a real estate gain in 4Q23 from two industrial plants that HGBL bought in 2Q22. The reason that we are raising revenue estimates more than profitability estimates is that our gross margin expectations were too optimistic in our prior estimates. See grids at left and also page 2 for our updated earnings model.

Maintain \$4 price target. HGBL shares currently trade at a 2023E EV/EBITDA multiple of 6.3x vs. 11.5x for best peer Liquidity Services (LQDT - NR, market cap: \$640M). In our view, this is not at all justified. We believe HGBL should trade at a premium to Liquidity Services, and not at a huge discount, given HGBL's stronger record of profitability. At our price target of \$4, HGBL's 2023E EV/EBITDA multiple of 11.5x (previously 12.4x) would be in line with that of Liquidity Services. We note that Liquidity Services' 2023E EV/EBITDA multiple has declined from 12.4x at the time of our previous valuation.

Reiterate Buy rating, as our 2023 outlook for growth in revenue (up 18%) and adjusted EBITDA (up 10%) remains strong. In the next four quarters, we expect appreciation to our \$4 price target to result in a return of 85%.

HERITAGE GLOBAL INC. (HGBL)

Income Statement

(\$ in thousands)

	1Q21A	2Q21A	3Q21A	4Q21A	1Q22A	2Q22A	3Q22A	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E	2021A	2022E	2023E
Services Revenue	5,030	4,168	4,822	5,934	4,168	4,595	7,349								
Asset Sales	2,071	1,008	1,169	1,590	5,189	6,470	5,312								
Total Revenues	7,101	5,176	5,991	7,524	9,357	11,065	12,661	12,902	13,147	13,396	13,651	13,910	25,792	45,985	54,105
Cost of Services Revenue	1,175	960	1,100	1,264	754	910	2,051								
Cost of Asset Sales	820	375	675	1,059	3,402	5,631	3,015								
Gross Profit	5,106	3,841	4,216	5,201	5,201	4,524	7,595	8,128	8,282	8,440	8,600	8,764	18,364	25,448	34,086
Gross Profit Margin	71.9%	74.2%	70.4%	69.1%	55.6%	40.9%	60.0%	63.0%	63.0%	63.0%	63.0%	63.0%	71.2%	55.3%	63.0%
Stock-Based Compensation	143	68	102	95	106	108	170	170	170	170	170	170	408	554	680
Selling, General and Administrative	3626	3603	3392	3582	4169	4831	5523	5523	5623	5723	5823	5923	14203	20046	23092
Depreciation and Amortization	91	98	105	166	133	133	134	134	134	134	134	134	460	534	536
Other/Non-Recurring	200	0	0	0	0	0	0	0	0	0	0	0	200	0	0
Total Other Operating Expenses	4,060	3,769	3,599	3,843	4,408	5,072	5,827	5,827	5,927	6,027	6,127	6,227	15271	21134	24308
Earnings of Equity Method Investments	0	1	(84)	4	82	4,172	1,706	0	0	0	0	1,500	-79	5960	1500
Net Operating Income (NOI)	1,046	73	533	1,362	875	3,624	3,474	2,301	2,355	2,413	2,473	4,037	3,014	10,274	11,278
Interest and Other Expense	-3	-9	6	28	38	37	21	43	43	43	43	43	22	139	172
Income Before Taxes	1,049	82	527	1,334	837	3,587	3,453	2,258	2,312	2,370	2,430	3,994	2,992	10,135	11,106
Income Taxes	17	-505	53	374	192	1009	1153	565	578	592	608	998	(61)	2,919	2,777
Taxes as % of Income Before Taxes	1.6%	-615.9%	10.1%	28.0%	22.9%	28.1%	33.4%	25.0%	25.0%	25.0%	25.0%	25.0%	-2.0%	29%	25%
Net Income	1,032	587	474	960	645	2,578	2,300	1,694	1,734	1,777	1,823	2,995	3,053	7,217	8,330
Add: Interest Expense	-3	-9	6	28	38	37	21	43	43	43	43	43	22	139	172
Add: Income Taxes	17	-505	53	374	192	1009	1153	565	578	592	608	998	-61	2,919	2,777
Add: Depreciation and Amortization	91	98	105	166	133	133	133	133	133	133	133	133	460	532	532
Add: Stock-Based Compensation	143	68	102	95	106	108	170	170	170	170	170	170	408	554	680
Add: Non-Recurring	200	0	0	0	0	0	0	0	0	0	0	0	200	0	0
Adjusted EBITDA	1,480	239	740	1,623	1,114	3,865	3,777	2,604	2,658	2,716	2,776	4,340	4,082	11,360	12,490
Shares Outstanding (EOP)	35,647	36,284	36,575	36,575	36,678	36,734	36,932	36,932	36,932	36,932	36,932	36,932	36,575	36,932	36,932
Shares Outstanding (Average)	37,533	36,972	37,090	37,141	36,749	37,000	37,221	37,221	37,221	37,221	37,221	37,221	37,184	37,048	37,221
GAAP EPS	0.03	0.02	0.01	0.03	0.02	0.07	0.06	0.05	0.05	0.05	0.05	0.08	0.08	0.19	0.22
Dividends per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted EBITDA Per Share	0.04	0.01	0.02	0.04	0.03	0.10	0.10	0.07	0.07	0.07	0.07	0.12	0.11	0.31	0.34

Source: Company reports and Maxim Group estimates

DISCLOSURES

Heritage Global Inc. Rating History as of 11/11/2022

powered by: BlueMatrix



Maxim Group LLC Ratings Distribution

As of: 11/13/22

		% of Coverage Universe with Rating	% of Rating for which Firm Provided Banking Services in the Last 12 months
Buy	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to outperform its relevant index over the next 12 months.	85%	41%
Hold	Fundamental metrics are currently at, or approaching, industry averages. Therefore, we expect this stock to neither outperform nor underperform its relevant index over the next 12 months.	15%	58%
Sell	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to underperform its relevant index over the next 12 months.	0%	0%

*See valuation section for company specific relevant indices

I, Michael Diana, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

Maxim Group makes a market in Heritage Global Inc.

Maxim Group expects to receive or intends to seek compensation for investment banking services from Heritage Global Inc. in the next 3 months.

HGBL: For Heritage Global Inc., we use the Russell 2000 Index (RUT) as the relevant index.

Valuation Methods

HGBL: We value Heritage Global Inc. based on relative valuation, using multiples of estimated EBITDA.

Price Target and Investment Risks

HGBL: Aside from general market and other economic risks, risks particular to our price target and rating for Heritage Global Inc. include: (1) competition; (2) risks as principal (inventory risk and credit risk); (3) funding/equity dilution.

RISK RATINGS

Risk ratings take into account both fundamental criteria and price volatility.

Speculative – Fundamental Criteria: This is a risk rating assigned to early-stage companies with minimal to no revenues, lack of earnings, balance sheet concerns, and/or a short operating history. Accordingly, fundamental risk is expected to be significantly above the industry. **Price Volatility:** Because of the inherent fundamental criteria of the companies falling within this risk category, the price volatility is expected to be significant with the possibility that the investment could eventually be worthless. Speculative stocks may not be suitable for a significant class of individual investors.

High – Fundamental Criteria: This is a risk rating assigned to companies having below-average revenue and earnings visibility, negative cash flow, and low market cap or public float. Accordingly, fundamental risk is expected to be above the industry. **Price Volatility:** The price volatility of companies falling within this category is expected to be above the industry. High-risk stocks may not be suitable for a significant class of individual investors.

Medium – Fundamental Criteria: This is a risk rating assigned to companies that may have average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to approximate the industry average.

Low – Fundamental Criteria: This is a risk rating assigned to companies that may have above-average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to be below the industry.

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