COMPANY ANALYSIS 25 January 2016

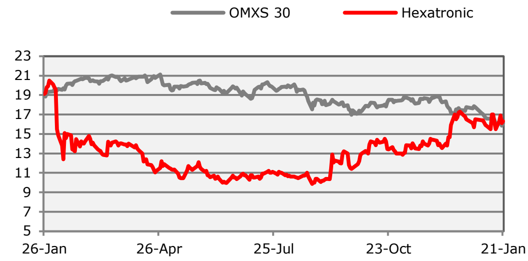
Summary

Hexatronic (HTRO)

Strong growth confirmed, still undervalued

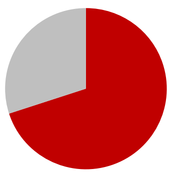
- Hexatronic's report for Q1 showed a substantial outperformance compared to our estimates. Net sales were 224 MSEK (53% growth of which 20% organic) and EBITDA reached 22 MSEK (est. 18 MSEK). On an adjusted basis, Hexatronic reported an EBITDA margin of 10.1% (last year 6.9%). The increase in volume is the main driver behind the margin expansion.
- We find it likely that the strong sales momentum will continue in the coming quarters. We find it positive that Hexatronic is expanding to future growth markets such as the USA and UK (new acquisition of OpticReach). We have adjusted our long-term growth estimates upwards somewhat because we see an attractive opportunity in these markets, where the fiber penetration is still very low.
- Our fair value estimate, in Base-case, is adjusted upwards to 23 SEK per share (18 SEK). We find the valuation of Hexatronic as attractive given the future growth prospects. Current levels imply an EV/EBIT 2015/16E of 9.3x when international peers trade at about 20-30x next year's EBIT. Hexatronic is still not priced as a growth company and we argue that this will change. We estimate a fair value range of 11-33 SEK per share.

List:	
Market Cap:	526 MSEK
Industry:	Telecommunication Equipment
CEO:	Henrik Larsson-Lyon
Chairman:	Göran Nordlund



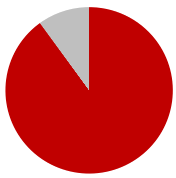
Redeye Rating (0 – 10 points)

Management



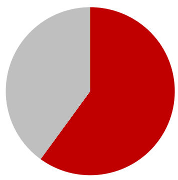
7.0 points

Ownership



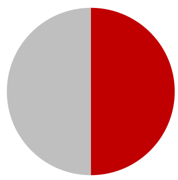
9.0 points

Profit outlook



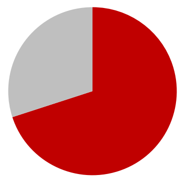
6.0 points

Profitability



5.0 points

Financial strength



7.0 points

Key Financials

	13/14	14/15	15/16E	16/17E	17/18E
Revenue, MSEK	497	630	806	920	1,049
Growth	*601%*	*27%*	*28%*	*14%*	*14%*
EBITDA	60	64	72	95	105
EBITDA margin	*12%*	*10%*	*9%*	*10%*	*10%*
EBIT	55	50	56	72	86
EBIT margin	*11%*	*8%*	*7%*	*8%*	*8%*
Pre-tax earnings	54	49	54	70	85
Net earnings	41	37	42	54	66
Net margin	*8%*	*6%*	*5%*	*6%*	*6%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	1.70	1.08	1.17	1.51	1.85
P/E adj.	11.2	10.1	13.5	10.5	8.6
EV/S	0.9	0.5	0.7	0.6	0.4
EV/EBITDA	7.2	5.3	7.6	5.4	4.5

Share information	
Share price (SEK)	15.9
Number of shares (m)	33.1*
Market Cap (MSEK)	526
Net debt (MSEK)	19
Free float (%)	30 %
Daily turnover ('000)	50

***adjusted for the OpticReach acquisition dilution**

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Redeye Rating: Background and definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicality, and 8 – Forthcoming binary events.

Impressive performance

Hexatronic Group reported net sales of 224 MSEK and EBITDA of 22 MSEK, which corresponds to a net sales growth of 53% and an EBITDA-margin of 9.6% for their first quarter of the split financial year of 2015/16.

Hexatronic Cables and Interconnect had an organic growth of almost 40%

Estimate vs. Outcome

MSEK	14/15 Q1	15/16 Q1E	15/16 Q1A	Diff
Net sale	**146**	**187**	**224**	**20%**
other income	0.4		1.3	
Revenues exkl acq.	*146*		176	
COGS	82	109	126	16%
Gross Profit	**65**	**79**	**99**	**26%**
SG&A	50	61	78	28%
EBITDA	**15**	**18**	**22**	**21%**
adj. EBITDA	*10*		*23*	
Net sale Growth %		28%	53%	
of which organic			20%	
Gross Profit margin %	44%	42%	44%	
EBITDA margin %	10.3%	9.5%	9.6%	
adj. EBITDA margin %	6.9%		10.1%	

Source: Hexatronic Group & Redeye Research

The growth was both organic and acquisition-driven; excluding the contribution of TD Fiberoptik, we see an organic growth of about 20%. We had estimated an organic growth in the region of 10%, so this was indeed a strong quarter and above our estimates. The main factors for the high growth are that the earlier market investments conducted during 2014/15 now starts to pay-off and new product launches have been very well received. Hexatronic Cables and Interconnect, the largest subsidiary of the group, had an organic growth of an almost incredible 40%; we don't believe this was due to any one-off effects but because of gained market share and new product launches, such as the new Viper cables.

The reported gross profit margin was a little higher than we had expected. We find it positive that the margin was higher than expected and on the same levels as the Q1 last year. If Hexatronic had been pricing their products at a discount to increase sales we would have expected to see a margin drop. Thus we do not find it is likely that the high growth in net sales comes from Hexatronic trying to gain market share by lowering their prices, but rather from an increased amount of sold products.

The SG&A was a bit higher than expected (estimate 33% of sales and actual 35%). The deviation to our estimate was mainly due to higher staff expenses. Hexatronic now has 246 people employed, compared to 201 at the end of Q4. Hexatronic is clearly staffing up to be able to handle even larger volumes, a sign of confidence according to us.

The main reason for the improvement in margin is the larger sales volume.

The reported EBITDA margin was strong and in-line with our estimate. During the period, Hexatronic also had extraordinary charges of 2.3 MSEK in conjunction with the listing on Nasdaq Stockholm Small Cap, they also had about 1.3 MSEK in none-operating income. Adjusted for these none operative/recurring effects, the EBITDA was 23 MSEK, which corresponds to an adjusted margin of 10.1%. During Q1 2014/15 last year the result was positively affected by the inventory discount of 4.6 MSEK (adjusted margin of 6.9%), so compared to last year we see a large improvement in the margin levels. The main reason for the improvement is the larger sales volume.

Growth investment, always pleasant

In November, Hexatronic announced that they have made an initial investment in a more advanced duct production line at the factory in Hudiksvall (Hexatronic Cables and Interconnect).

Micro duct

Source: Hexatronic

The company states that they see increased demand for their solution and products and will make a significant investment of about 15 MSEK to ramp up the production capacity. The line is planned to be operational by the spring of 2016 to meet the higher demand during the spring/summer period. In our view this is a very good sign as the company likely expects an increase in volume the coming quarters.

CEO shows confidence; heavy buying of shares

Increased holdings from the CEO

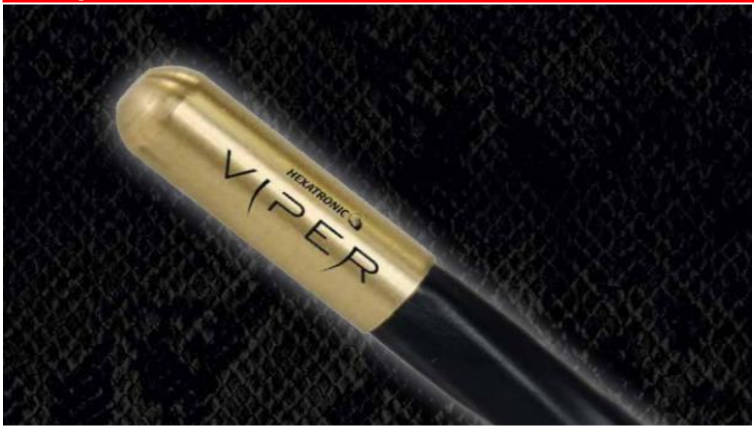
During the quarter the CEO of Hexatronic Group, Henrik Larsson Lyon, increased his holdings from 291 666 to 841 666 and increase of almost 190%. Mr Larsson Lyon now has shares valued at about 13.5 MSEK and some stock options. We see this as highly positive as the CEO, the one with most knowledge of the company, shows real confidence of the future prospect for Hexatronic.

New product launches enhance sales growth

Hexatronic states that, apart from general strong demand for fibre products, the high growth in net sales during the quarter is explained by large demand for some of their new product launches. We believe that the company primarily is referring to the new micro cable series Viper.

Qe see no reasons that the growth momentum would not continue during the coming quarters.

New product launches



Source: Hexatronic

Why has the demand for the new cable series been high? Mainly because the slim design generates superior blowing performance compared to standard cables. Viper Series micro cables can be blown beyond 2000 m, which is over 25% further than a standard cable, this enables lower installation costs by up to 25%. If partly, the high growth during the quarter was due to increased demand for their new products we see no reasons that the growth momentum would not continue during the coming quarters.

International acquisition

After the period ended, Hexatronic announced their first international acquisition. A company named OpticReach Ltd, active in the UK and sells optic system solutions and components. Hexatronic has a long relation to the company as OpticReach is a customer to some of the Group's subsidiaries. The company has about 11 employees and had sales during 2014/15 of about 20 MSEK with an EBITDA margin in the region of 14%. The fixed purchase price amounts to about 9.8 MSEK funded by 30% cash and 70% in newly issued shares. There is also an additional purchase price agreement that will amount to 70% and 30% of the next two fiscal years EBITDA more than 100 000 GBP (about 1.3 MSEK). A total of 419 546 shares will be issued at a subscription price of 16.40 SEK. In our valuation we have adjusted for the newly issued shares.

OpticReach acquisition (MSEK)

EV	Sales	EBITDA	EV/S	EV/EBITDA
9.8	20	2.8	0.5x	3.5x

Source: Hexatronic Group & Redeye Research

We see the acquisition as a start of something bigger

Hexatronic paid about 0.5x last year's net sales and 3.5x EBITDA. We see these multiples as low especially when the company sees substantial growth opportunities in the years to come. We see the acquisition as a start of something bigger. Hexatronic sees the UK as a potential growth region for many years to come due to the low fiber penetration (discussed more in the next section) and want to expand their business in the country.

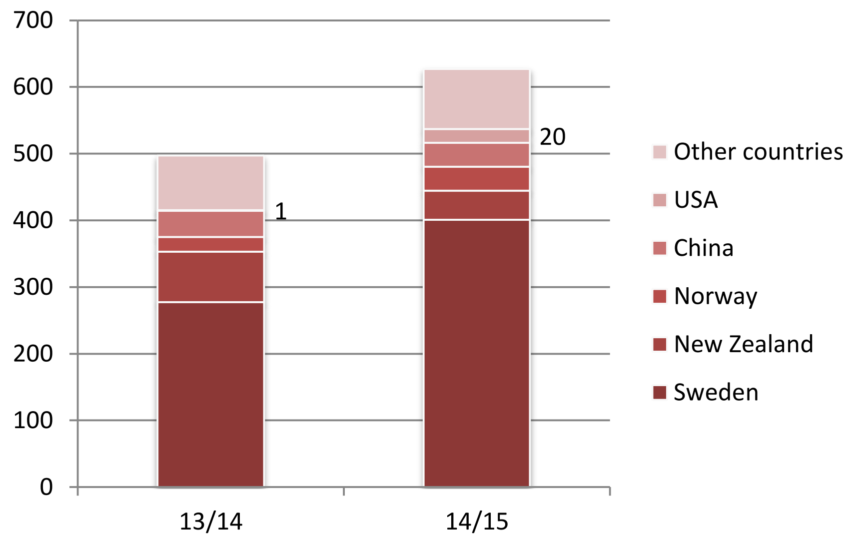
The future growth strategy

Hexatronic has an explicit goal of expanding to new exciting regions. During the last few months Hexatronic has established a subsidiary in the USA, China, announced a distribution agreement with Amherst Photonics in the USA and now acquired OpticReach in the UK.

Today, Hexatronic has most of its sales in the Nordic region. The company reports their regional mix from the annual report 2014/15. During the last year, net sales in the USA increased from 1 MSEK during 2013/14 to about 20 MSEK during 2014/15. We expect a relatively large increase in sales from the USA during the coming years and Hexatronic have stated that they expect the first positive effect on the profitability levels from Q3 (March-May 2016) and onwards from the subsidiary in the USA. Due to the cold weather in the Nordic region the investments in infrastructure more or less halts during the winter period. We find it positive for Hexatronic to focus on countries with more favourable weather conditions (with installation all around the year); this will smooth out the seasonality effect for the company and most likely create higher yearly margins with a better capacity utilization of the factory in Hudiksvall.

We find it positive for Hexatronic to focus on countries with more favourable weather conditions

Yearly Net sale per region



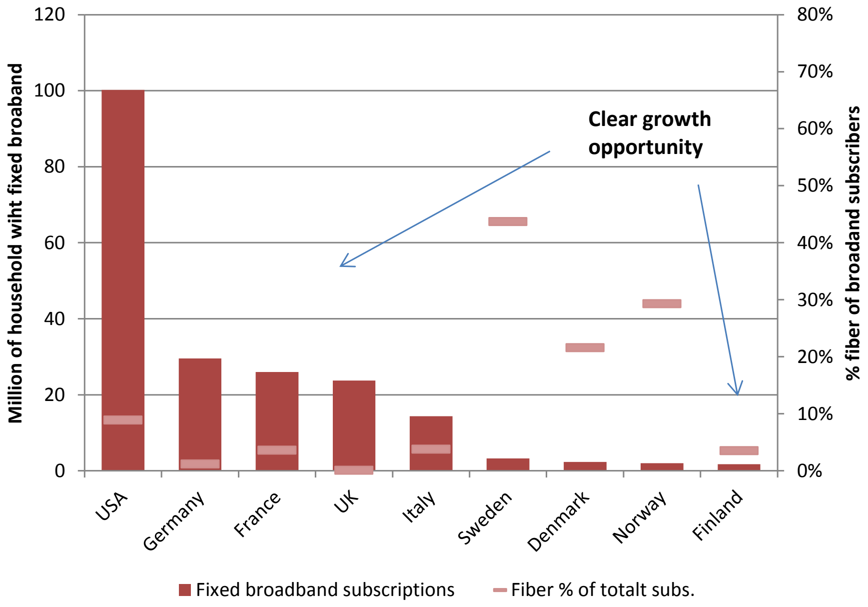
Source: Hexatronic Group

The Nordic markets are expected to grow substantially at about 10-12% on an annual basis during the next 5-8 years with large investments in fiber infrastructure. Even though the Nordic countries have some of the most developed fiber infrastructure in the world, the investment is expected to be substantial in the coming years. The overall household fiber penetration in large economies such as USA, France, Spain, UK and Canada is still very low. Here lies the long-term market opportunity for a player such as Hexatronic.

The markets of the larger European economies and the USA are substantially larger in size than the Nordic

The markets of the larger European economies and the USA are substantially larger in size than the Nordic. In the diagram below we show the number of fixed broadband subscribers by country in relation to the percentage of fiber penetration.

Fixed broaband subscribers (millions) and fiber penetration rate

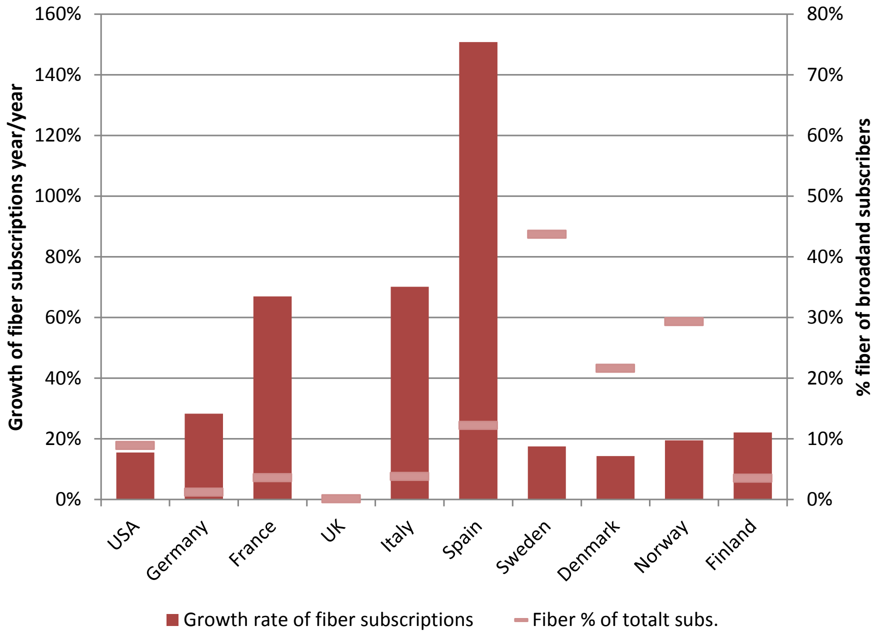


Source: OECD & Redeye Research

For example, in the USA, there are about 100 million fixed broadband subscribers, and of these approximately 9% is through real fiber connection. Compared to Sweden (Hexatronic's largest market today) where there are about 3.3 million subscribers and 44% of those use fiber. It is clear that the most significant growth opportunity lies in the major economies with a low fiber penetration rate. We expect that these countries also have to invest heavily in the fiber infrastructure in the coming two decades, due to the increased demand of data capacity by the consumers (structural growth). In the Nordic region, Finland stands out as a market where the there should be a significant opportunity for Hexatronic in the coming years. Today the company has established a sales office in Helsinki, and we expect further expansion in the country.

When analysing the growth of fiber subscriptions in the same countries we see significant growth rates in almost all the countries. In Spain, Italy, France, Germany and Finland the growth of fiber subscriptions reaches above 20% on a yearly basis. Sweden had an increase of about 18% which is still very high and most likely due to the large focus on fiber at the bigger telecom operators.

Yearly growth in fiber subscription (2014)

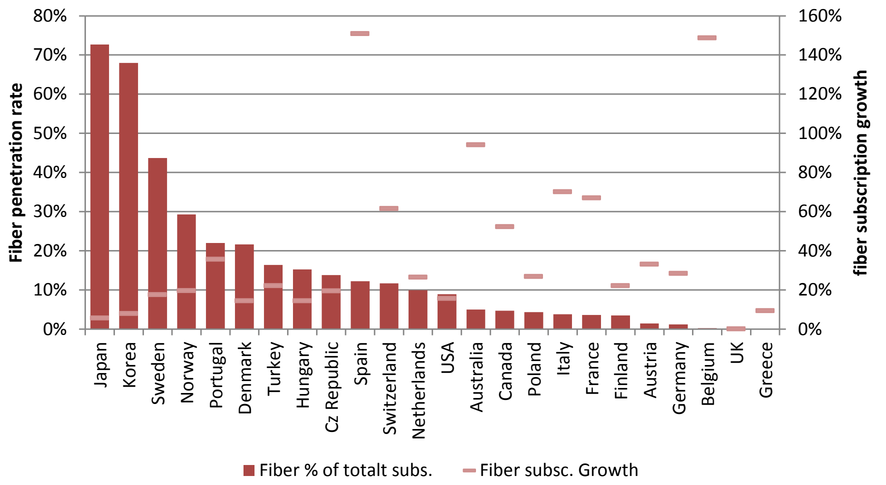


Source: OECD & Redeye Research

In the diagram below we can see a high correlation between the fiber penetration in the country and the growth rate of the subscriptions, despite the high penetration rates in Japan and Korea they still experience growth in the region of 5-8% on a yearly basis. This, according to us, bodes well for Hexatronic as the growth is still relatively high even at such a high fiber penetration rate.

In the diagram below we can see a high correlation between the fiber penetration in the country and the growth rate of the subscriptions

Fiber penetration rate and fiber growth



Source: OECD & Redeye Research

Next quarter estimates – A weaker quarter to come

As discussed earlier, Q1 (sept-nov) was a very strong quarter both on sales growth and profitability levels (adjusted margins). Q2 (dec-feb) is naturally the quarter with lowest sales levels due to weather conditions in the Nordic region. Hexatronic, compared to last year, also has a larger part of its revenue in the Nordic region. Hence, we expect to see a quarter with relatively low margins. The company now has a larger staff count, in comparison to last year, at the factory in Hudiksvall. With other words, Hexatronic now has more significant fixed/semi-fixed costs.

For the next quarter, we expect that the company will continue to experience organic growth, and they will also benefit from the acquisition of TD Fiberoptik and OpticReach. We expect revenues in the region of 162 MSEK. On a seasonality basis, as discussed earlier, we expect a relatively weak quarter for Hexatronic.

162 MSEK in revenue expected for the next quarter

Next quarter estimates

MSEK	14/15 Q2	15/16 Q2E
Revenues	**133**	**162**
EBITDA	**14**	**5**
EBIT	**10**	**1**
Revenue Growth		22%
EBITDA margin	10.2%	3.0%
EBIT margin	7.9%	0.7%

Source: Redeye Research

We expect an EBITDA of 5 MSEK, which corresponds to a margin of 3%. The margin will be weaker than during Q1 primarily because of the lower sales volume and that Hexatronic now has a larger part of fixed/semi-fixed costs will drive down the margins somewhat, as we expect the SG&A to be in-line with the levels during Q1. We take the lower margin during the coming quarter at ease, as we see the long-term growth rates and normalized margin levels of Hexatronic as most important for the case.

Full year revisions

We have revised our full year estimate for 2015/16E and 2016/17E upwards. We have adjusted our near-term growth estimates primarily because that the earlier market investments now start to show in the reported numbers, and the strong sales momentum during Q1 will continue throughout the year and the OpticReach acquisition will contribute to the sales levels.

We have revised our full year estimate for 2015/16E and 2016/17E upwards

Forecast adjustments		
MSEK	**15/16E**	**16/17E**
Revenues		
Old	**715**	**807**
New	**806**	**920**
% change	**12.8%**	**14.0%**
EBITDA		
Old	**68**	**80**
New	**76**	**93**
% change	**11%**	**17%**
EBIT		
Old	**56**	**67**
New	**60**	**71**
% change	**7%**	**5%**
EBITDA-margin		
Old	***9.5%***	***9.9%***
New	***9.4%***	***10.1%***

Source Redeye Research

Long-term, we see great growth prospect for Hexatronic with the aforementioned market trend and future needs of investment in fiber infrastructure. Given Hexatronic's strong focus on expanding to future growth market, we have also adjusted our more long-term growth assumptions upwards. We have also increased our EBITDA margin estimate from 2018/19 and beyond upwards as the expansion to markets that are less sensitive to weather conditions should increase the overall capacity utilization of the factory in Hudiksvall.

Hexatronic, income statement Base-case								
MSEK	**12/11**	**13/14**	**14/15**	**15/16E**	**16/17E**	**17/18E**	**18/19E**	**19/20E**
Revenues	71	497	630	806	920	1049	1154	1292
COGS	-47	-294	-338	-452	-518	-577	-634	-711
Gross Profit	**24**	**203**	**292**	**354**	**402**	**472**	**519**	**581**
SG&A	-20	-143	-230	-279	-309	-367	-392	-439
EBITDA	**4**	**60**	**63**	**76**	**93**	**105**	**127**	**142**
D&A	-1	-5	-14	-16	-23	-19	-19	-14
EBIT	**6**	**55**	**49**	**60**	**71**	**86**	**108**	**128**
Finans Net	-1	-1	-1	-2	-3	-1	0	1
Profit before tax	**5**	**54**	**47**	**57**	**68**	**85**	**108**	**129**
Tax	0	-13	-11	-13	-15	-19	-22	-28
Net profit	**5**	**41**	**36**	**45**	**53**	**66**	**86**	**101**
Growth rates and margins								
Revenue growth		601%	27%	28%	14%	14%	10%	12%
Gross profit margin	34%	41%	46%	44%	44%	45%	45%	45%
EBITDA-Margin	6%	12%	10%	9%	10%	10%	11%	11%
EBIT-Margin	8%	11%	8%	7%	8%	8%	9%	10%
CAPEX	1	10	52	32	18	19	21	19
NWC	18	119	138	202	230	252	288	323

Source: Redeye Research, Hexatronic Group

Our fair value is unchanged at 23 SEK per share in our Base-case

Valuation

Due to our upwards adjustment of future growth assumptions for Hexatronic, our fair value estimate, in Base-case, is increased to 23 SEK per share. In our valuation, we are using a dilution effect from the outstanding stock options. We estimate a CAGR of sales in the region of 12% between the years 2014/15-24 and an average EBITDA-margin of 10.7%. Our valuation implies and EV/EBITDA exit multiple of 8x and an ROIC in perpetuity close to our estimated WACC, which we find as a conservative assumption to make.

Base-case			
Assumtions:	**2014/15-24**	**DCF-Value**	
CAGR Sales	11.8%	WACC	10.3%
EBITDA-margin	10.7%	Present value of FCF	256
Average RONIC	11%	Present value of Terminal Value	557
Average Reinvestment rate	59%		
		EV	813
Terminal		Net debt	2
Terminal Growth of FCF	8.0%	**DCF-value**	**815**
Reinvestment rate in perpetuity	55%	**Value per share**	**23**
RONIC in perpetuity	10%	Todays share price	17
Implied EV/EBITDA Exit multipel	8x	**Margin of saftey**	**31%**

Source: Redeye Research

Our estimated fair value implies a potential/margin of safety of 31% from today's share price levels. We see a period of strong growth in the coming years and increasingly attractive long-term prospects due to the international expansion.

Still cheap compared to peers

Our Base-case fair value implies an EV/EBIT 2015/16E multiple of about 13x. Compared to international peers 13x is still quite conservative. The peer group consisting of fiber optical equipment companies trade at a median of EV/EBIT15E of 21X. Hexatronic should have a small-cap discount but not as large as today's valuation levels, we regard an EV/EBIT 15/16E of about 9x as low compared to the peer-group given the company's attractive future growth prospects.

Peer valuation, international fiber optical companies

Company	Country	EV (MSEK)	EV/SALES 15E	EV/EBIT 15E	Sales CAGR 14-16E	EBIT % 15E
Fiberhome Telecom Tech CO-A	China	33 782	2.0x	38.0x	27%	5%
Clearfield INC	US	1 402	2.8x	24.3x	10%	12%
O-net Communications Group	Hong Kong	1 587	1.3x	14.4x	45%	9%
Huber & Suhner AG-REG	Switzerland	6 237	1.0x	17.5x	6%	6%
Average		**10 752**	**1.8x**	**23.6x**	**22%**	**8%**
Median		**3 912**	**1.7x**	**20.9x**	**18%**	**7%**
Hexatronic Group	**Sweden**	**570**	**0.7x**	**9.3x**	**21%**	**8%**
at Base-case		***813***	***1.0x***	***13.3x***		

Source: Bloomberg & Redeye Research

The investment case of Hexatronic

As we have discussed before, Hexatronic is present in a growing industry, fiber optical communication equipment. The growth in the industry is affected by the fact that we today consume more and more data due to the usage of smartphones, streaming services like Netflix, IP-TV and clouding software/solutions. The increased data usage directly affects the need for investment in the fiber optical infrastructure in almost all the regions in the world.

Strong structural market growth drives the case

We find it likely that Hexatronic will be able to capitalize on the aforementioned market trends, as the company is one of the most dominant players in the Nordic region with a competitive product offering. As acquisition is a part of Hexatronic's growth strategy. We find it likely that Hexatronic wants to acquire companies outside of Nordic, primarily for their international customer base. A stronger international presence will be a key to nurse future growth when the large investments in the Nordic region start to mature.

Certification by Skanova opens up a large market

The main acquisition conducted by the company was when Hexatronic acquired Ericsson´s fiber optical cable factory in Hudiksvall (Sweden), which is the largest subsidiary of the group. The acquired customers were primarily other units in the Ericsson group. One of the key challenges, since the large acquisition, for the company, have been to reverse the sales force focus to customers outside the Ericsson group while also maintaining previous customers they have acquired through the acquisition. During 2014/15 Hexatronic invested in both sales and marketing and we find it likely that the company will reap the benefits from these investments in the coming years. Hexatronic offers products throughout the whole fiber infrastructure and sells these with a system based approach, compared to their competitors that mostly sell one based product solutions. We find that this system based selling is a competitive advantage and will likely enhance the growth and profitability prospects of the company. Almost all of Hexatronics products are now certified by Skanova (compared to the time of the acquisition), which is Sweden's largest wholesaler of network capacity and a subsidiary to TeliaSonera. The Skanova certification opens up a large part of the market that Hexatronic previously haven't been able to focus on; we see this as an untapped growth opportunity and likely one of the reasons of because of the strong growth during Q1.

Despite being presented in a growth industry with good prospect for future growth, having healthy margins, good return on capital and with a competent management team the valuation of Hexatronic indicates low expectations of future value creation. The primary reasons we see for the low embedded expectations is;

- **Short historical financial history** – We find it likely that most investors have a hard time to track and understand the financial history of the company. Hexatronic has completed a number of acquisitions during a quite short time-frame making it hard for investors, with limited time on their hands, to estimate sustainable profitability levels. We see this as an opportunity for a more savvy investor that digs through the numbers. In our view, current sustainable profitability levels are satisfying but also likely increasing due to top-line growth.

- **Small/nano-cap** – Hexatronic is still a small company. This, according to us, creates an opportunity as Hexatronic might be overlooked by the investment community, creating a more likely disparity between true fundamental value and market capitalization.

An opportunity for the savvy investor

- **Limited market communications** – Hexatronic has had an internal focus to manage the acquisitions and to structure the group that has led to a low degree of communications with the market. The poor communications have affected the valuation of the company negatively, in our view, in some situations when increased communication would have been desirable. We believe that management has learned from this experience and that they will enhance their communication with the market going forward.

All these effects increase the likelihood of mispricing, and opportunity for he savvy investor.

Fair value range

Hexatronic currently trades 32% of our Base-case. The share has had a strong run from the low level of around 10 SEK per share, but we find that today's share price still implies a good enough margin of safety to our estimates.

Case scenario valuation range

Case	Fair Value	Risk/Potential
Bull-case	33	90%
Base-case	23	32%
Bear-case	11	-37%

Source: Redeye Research

Bull-case assumptions

In our Bull-case we assume that the company can live up to their goal of about 20% annual growth during the next couple of years. In this scenario we estimate that the company will do good acquisitions and thus grow with a rate of around 20% and that the company can sustain their profitability levels and a higher terminal growth.

Bear-case assumptions

In our Bear-case we assume a slower future demand for fiber due to financial distress in the market thus reducing the investments done by the telecom operators and new entrants gaining market share, like Nexans and Draka expanding their offerings. Lower growth, profitability and no acquisitions this give rise to a lower ROIC and lower terminal growth rates.

Internal catalysts for value creation

Hexatronic has stated that they see some cost synergies between them and TD Fiberoptik. If these synergies can be capitalized on this will most likely lead to an improved gross margin going onward, which will increase the cash flows and thus also the value of the company.

Hexatronic's system based offering could lead to a higher market share as the company competes with a better service than their competitors. This could result in a high revenue growth and thus a higher valuation.

The system based offering could lead to higher market share

The growth of infrastructure investment in fiber will be substantially over the coming years. Due to the large need of higher internet capacity with the reason of changing consumer behavior. The overall market growth will likely increase the revenue levels of Hexatronic and also the growth rates.

External catalysts

The company aims to list their shares at the Nasdaq Stockholm Small cap. This will increase the possibility for institutional investors to buy the shares of the company. If a more institutional investor is likely to buy the shares of the company a higher valuation might be generated.

Listing on Nasdaq Stockholm could lead to higher valuation levels

Hexatronic, in its present shape, is a relatively new company. We find it likely that a future continued performance of the company will increase the investor awareness and thus enhance the valuation of the company.

Sensitivity analysis

In this sensitivity analysis, we have varied the variations during the forecast period. The analysis is based on percentage point changes in the EBITDA margin and growth rates.

Implied Share Price					
	EBITDA Margin (pp change)				
WACC	-2%	-1%	0%	+1%	+2%
9.3%	16	23	30	37	43
9.8%	14	21	26	32	38
10.3%	12	18	**23**	29	34
10.8%	11	16	21	26	31
11.3%	10	15	19	24	28

Source: Redeye Research

The valuation of Hexatronic is sensitive to changes in the EBITDA-margins; still an average level around 8% over the coming 10 years supports a share price in the region of today's levels about 12 SEK per share. But we find it crucial that the margin levels can be sustained around the company's goal of 10-11%.

We have also adjusted the assumed growth rates and WACC to see their effect on our fair value estimate.

Implied Share Price					
	Growth rate (pp change Y/Y)				
WACC	-8%	-4%	0%	+4%	+8%
9.3%	25	27	30	33	36
9.8%	22	24	26	29	32
10.3%	19	21	**23**	26	28
10.8%	18	19	21	23	25
11.3%	16	18	19	21	23

Source: Redeye Research

A high growth could lead to improvement of the valuation

Our model suggests that the company could have quite a large drop in the year on year growth rates and still support a valuation around today's share price levels. Today we estimate a growth around 10% during the period. Given the high growth fiber infrastructure industry, this might be somewhat conservative. If the company reaches the goal of 20% growth rate per year, this will imply a large revaluation of the share price.

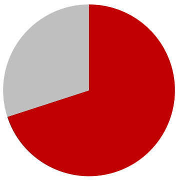
Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in the report

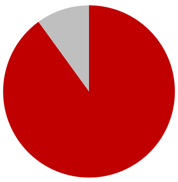
No rating changes.

Management 7.0p



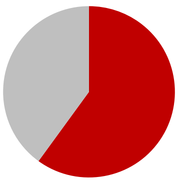
Hexatronic has a strong management team of entrepreneurial people with plenty of skin in the game. CEO and chairman have significant experience from the telecom industry. Staff at other key positions, that joined the group through last year's acquisitions, are also intact. The company has delivered so far on their financial goals but we would like to see further transparency on subsidiary/segment level as Hexatronics corporate structure becomes more and more complex.

Ownership 9.0p



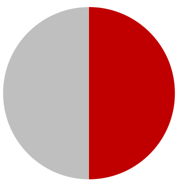
Top scores in almost all subcategories for our Ownership rating. The entire board and top management have large stakes in the company. Over 50 percent of the shares are held by active owners. The only thing missing in order to get a full score is a large institutional owner as one of the largest shareholders.

Profit outlook 6.0p



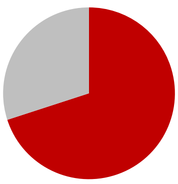
The rating for Growth Outlook is only average, in spite of good overall market prospects. The reason is mainly the competitive situation. Product differentiation appears to be difficult, thus price will always be an issue. Hexatronic is a small player compared to some of the dominant multinational companies. Surely that means growth opportunities but also challenges.

Profitability 5.0p



Our rating for profitability is not forward looking and historically, last 3-5 years, profitability has been mediocre. Last year the profitability in terms of margins and Return on Equity was very good (ROE of 66%). This increases our profitability rating for the company compared to before.

Financial strength 7.0p



In our view Hexatronic is very financial stable and scores high in most subcategories for Financial Strength. The TTM revenue is above 600 MSEK which increases our rating. Still Ericsson stands for a large part of the revenue and we see some risks for new rights issues given the strong focus on acquisitions, still if the acquisition is done at good prices and creates value this will not be an issue.

Income statement	13/14	14/15	15/16E	16/17E	17/18E
Net sales	497	630	806	920	1,049
Total operating costs	-437	-567	-734	-825	-944
EBITDA	**60**	**64**	**72**	**95**	**105**
Depreciation	-5	-14	-16	-21	-17
Amortization	0	0	0	-2	-2
Impairment charges	0	0	0	0	0
EBIT	**55**	**50**	**56**	**72**	**86**
Share in profits	0	0	0	0	0
Net financial items	-1	-1	-2	-3	-1
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	**54**	**49**	**54**	**70**	**85**
Tax	-13	-11	-12	-15	-19
Net earnings	**41**	**37**	**42**	**54**	**66**

Balance	13/14	14/15	15/16E	16/17E	17/18E
Assets					
Current assets					
Cash in banks	28	46	40	46	60
Receivables	141	137	202	230	252
Inventories	78	164	194	221	252
Other current assets	7	8	16	18	21
Current assets	**255**	**356**	**451**	**515**	**584**
Fixed assets					
Tangible assets	5	43	60	57	59
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	8	82	82	81	79
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
Total fixed assets	**13**	**126**	**142**	**138**	**138**
Deferred tax assets	0	0	0	0	0
Total (assets)	**268**	**482**	**594**	**653**	**723**
Liabilities					
Current liabilities					
Short-term debt	0	0	0	0	0
Accounts payable	54	73	113	129	147
O current liabilities	54	99	97	110	126
Current liabilities	**108**	**172**	**210**	**239**	**273**
Long-term debt	0	27	59	35	4
O long-term liabilities	32	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	**140**	**199**	**269**	**274**	**277**
Deferred tax liab	0	27	27	27	27
Provisions	19	7	7	7	7
Shareholders' equity	109	249	291	345	412
Minority interest (BS)	0	0	0	0	0
Minority & equity	**109**	**249**	**291**	**345**	**412**
Total liab & SE	**268**	**482**	**594**	**653**	**723**

Free cash flow	13/14	14/15	15/16E	16/17E	17/18E
Net sales	497	630	806	920	1,049
Total operating costs	-437	-567	-734	-825	-944
Depreciations total	-5	-14	-16	-23	-19
EBIT	**55**	**50**	**56**	**72**	**86**
Taxes on EBIT	-13	-11	-12	-16	-19
NOPLAT	**42**	**39**	**44**	**57**	**67**
Depreciation	5	14	16	23	19
Gross cash flow	**47**	**52**	**60**	**79**	**86**
Change in WC	-101	-19	-64	-28	-22
Gross CAPEX	-14	-126	-32	-18	-19
Free cash flow	**-67**	**-93**	**-36**	**32**	**45**

Capital structure	13/14	14/15	15/16E	16/17E	17/18E
Equity ratio	41%	52%	49%	53%	57%
Debt/equity ratio	0%	11%	20%	10%	1%
Net debt	-28	-19	19	-11	-56
Capital employed	81	230	310	334	356
Capital turnover rate	1.9	1.3	1.4	1.4	1.5

Growth	13/14	14/15	15/16E	16/17E	17/18E
Sales growth	601%	27%	28%	14%	14%
EPS growth (adj)	880%	-36%	8%	29%	22%

DCF valuation		Cash flow, MSEK	
WACC (%)	10.3 %	NPV FCF (2015-2017)	-1
		NPV FCF (2018-2024)	254
		NPV FCF (2025-)	558
		Non-operating assets	46
		Interest-bearing debt	-27
		Fair value estimate MSEK	830
Assumptions 2015-2021 (%)			
Average sales growth	11.5 %	**Fair value e. per share, SEK**	**23**
EBIT margin	8.9 %	Share price, SEK	15.9

Profitability	13/14	14/15	15/16E	16/17E	17/18E
ROE	67%	21%	16%	17%	18%
ROCE	83%	26%	18%	20%	22%
ROIC	181%	48%	19%	18%	20%
EBITDA margin	12%	10%	9%	10%	10%
EBIT margin	11%	8%	7%	8%	8%
Net margin	8%	6%	5%	6%	6%

Data per share	13/14	14/15	15/16E	16/17E	17/18E
EPS	1.70	1.08	1.17	1.51	1.85
EPS adj	1.70	1.08	1.17	1.51	1.85
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-1.16	-0.56	0.52	-0.32	-1.56
Total shares	24.34	34.53	35.88	35.88	35.88

Valuation	13/14	14/15	15/16E	16/17E	17/18E
EV	434.2	336.7	544.7	514.5	470.1
P/E	11.2	10.1	13.5	10.5	8.6
P/E diluted	11.2	10.1	13.5	10.5	8.6
P/Sales	0.9	0.6	0.7	0.6	0.5
EV/Sales	0.9	0.5	0.7	0.6	0.4
EV/EBITDA	7.2	5.3	7.6	5.4	4.5
EV/EBIT	7.9	6.7	9.7	7.1	5.5
P/BV	4.2	1.4	1.8	1.5	1.3

Share performance		Growth/year	13/15e
1 month	-3.6 %	Net sales	27.3 %
3 month	18.7 %	Operating profit adj	1.1 %
12 month	-17.6 %	EPS, just	-17.0 %
Since start of the year	-3.6 %	Equity	63.3 %

Shareholder structure %	Capital	Votes
Gert Nordin	17.6 %	17.6 %
Göran Nordlund	11.5 %	11.5 %
Jonas Nordlund	10.1 %	10.1 %
Erro Holding AB	8.1 %	8.1 %
Chirp AB	5.5 %	5.5 %
Avanza Pension	3.4 %	3.4 %
Vision Invest	3.3 %	3.3 %
Henrik Larsson Lyon	2.6 %	2.6 %

Share information	
Reuters code	
List	
Share price	15.9
Total shares, million	33.1
Market Cap, MSEK	525.9

Management & board	
CEO	Henrik Larsson-Lyon
CFO	
IR	
Chairman	Göran Nordlund

Financial information

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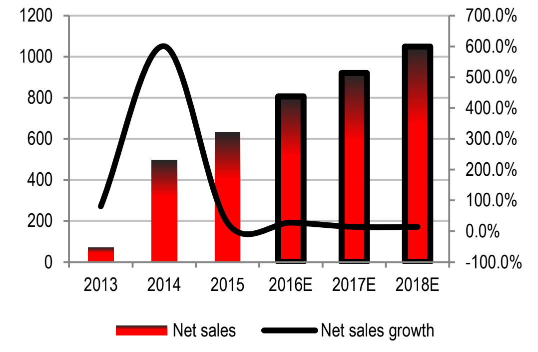
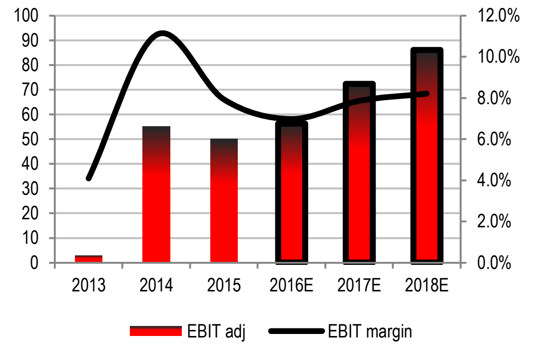
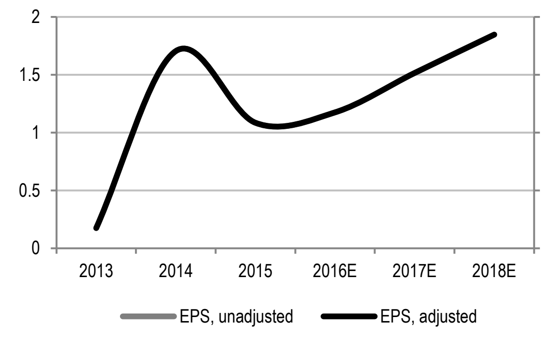
Revenue & Growth (%)



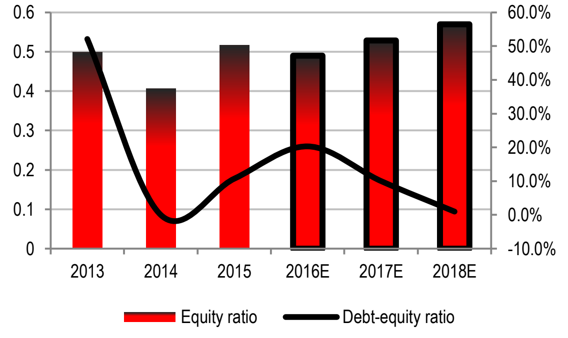
EBIT (adjusted) & Margin (%)



Earnings per share



Equity & debt-equity ratio (%)



Sales division

Geographical areas

Conflict of interests

Kristoffer. Lindström owns shares in the company : Yes
Henrik. Alveskog owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Company description

The Hexatronic group of companies are active in the optical fiber infrastructure market. They offer a complete line of products for passive and complementary active products for optical networks. Home market is Skandinavia and main costumers are large telecom operators such as Telia and Telenor. Partners like ABB and Ericsson give Hexatronic access to the world market.

DISCLAIMER

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Redeye Rating (2016-01-25)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	35	42	16	7	18
3,5p - 7,0p	65	50	84	33	36
0,0p - 3,0p	5	13	5	65	51
Company N	105	105	105	105	105

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