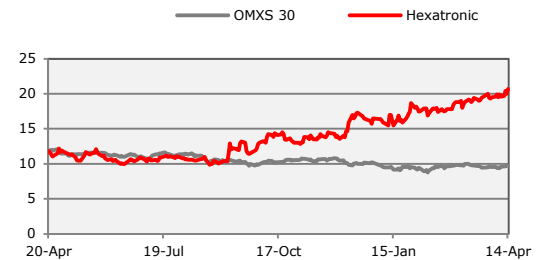


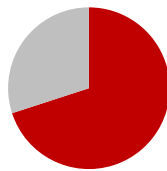
**Summary**
**Hexatronic (HTRO)**
**The peak season approaches**

- Hexatronic's report for the second quarter of the split financial year of 2015/16 was largely in-line with our estimates. The company reported net sales of SEK 173m and EBITDA of SEK 2m. We had anticipated a quarter with low margins, due to the seasonal pattern of infrastructure installations in the Nordic market.
- The peak season approaches. We expect to see strong growth, both organic and acquisition driven, with EBITDA margins north of 12% in the coming quarter. Hexatronic continues to invest in personnel and market activity abroad. Long-term we believe an increased international presence will generate higher sustainable margins throughout the fiscal year, due to more optimal capacity utilization of Hexatronic's producing units.
- We have adjusted our long-term margin assumption slightly upwards; this generates a new higher estimate fair value, in Base-case, of 25 (23) SEK per share. Despite a strong share price performance, over the last couple of months Hexatronic still trades at about half the valuation levels of international fiber peers, signaling a definite valuation potential.

List: 741 MSEK  
 Market Cap: 741 MSEK  
 Industry: Telecommunication Equipment  
 CEO: Henrik Larsson-Lyon  
 Chairman: Göran Nordlund

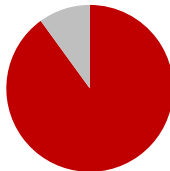

**Redeye Rating (0 - 10 points)**

Management



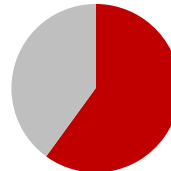
7.0 points

Ownership



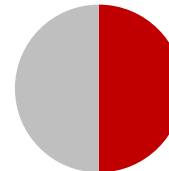
9.0 points

Profit outlook



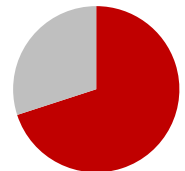
6.0 points

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	828	954	1,087
Growth	601%	27%	31%	15%	14%
EBITDA	60	64	68	102	125
EBITDA margin	12%	10%	8%	11%	12%
EBIT	55	50	49	77	100
EBIT margin	11%	8%	6%	8%	9%
Pre-tax earnings	54	49	46	74	98
Net earnings	41	37	36	58	76
Net margin	8%	6%	4%	6%	7%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	1.70	1.08	0.97	1.58	2.09
P/E adj.	11.2	10.1	22.6	13.9	10.5
EV/S	0.9	0.5	0.9	0.8	0.6
EV/EBITDA	7.2	5.3	11.4	7.2	5.4

**Share information**

Share price (SEK)	22.0
Number of shares (m)	33.7
Market Cap (MSEK)	741
Net debt (MSEK)	29
Free float (%)	30 %
Daily turnover ('000)	300

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**Important information:** All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

## 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 – Cyclicity, and 8 – Forthcoming binary events.

## Winter takes its toll

### Overall conclusions

Hexatronic's report for the second quarter for the split financial year of 2015/16 was largely in-line with our estimates. The company reported a somewhat stronger sales growth but slightly weaker margins than we had expected. A weak result (because of the winter period) was something we had anticipated and do not find alarming. At the beginning of March (start of Q3), the order backlog was 40% higher than during the same period last year, which indicates that the next quarter will be strong regarding both sales and earnings. We have revised our long-term margins assumptions upwards as we believe that the international expansion will lead to a more optimized capacity utilization of Hexatronic's producing units in the years to come.

*A weak result was something we had anticipated and do not find alarming*

### Quarterly comments

Q2 (Dec-Feb) is naturally the quarter with lowest sales levels due to weather conditions in the Nordic region, and this was also apparent in the reported figures. Hexatronic reported net sales of SEK 173m (33% growth) compared to our estimate of SEK 162m. Roughly 3% of the growth was organic. HC&I (Hudiksvall) continues to gain market share and grew with 31% on an annual basis. Sales to OEMs were weak during the period and dampened the sales growth; the company noticed rising order bookings at the end of the quarter, which should indicate a more normal level during Q3. To clarify; OEM sales is deliveries within The Blue Shift, but also to some extent Proximion.

*Q2 (Dec-Feb) is naturally the quarter with lowest sales levels due to weather conditions in the Nordic region*

Estimate vs. Outcome				
MSEK	14/15 Q2	15/16 Q2E	15/16 Q2A	Diff
<b>Net sale</b>	<b>130</b>	<b>162</b>	<b>173</b>	<b>7%</b>
other income	2.9		2.5	
Revenues excl acq.			134	
COGS	65	91	102	13%
<b>Gross Profit</b>	<b>67</b>	<b>71</b>	<b>73</b>	<b>2%</b>
SG&A	54	66	71	6%
<b>EBITDA</b>	<b>14</b>	<b>5</b>	<b>2</b>	<b>n.m.</b>
adj. EBITDA	8		0.4	
Net sale Growth %		25%	33%	
of which organic			3%	
Gross Profit margin %	52%	44%	42%	
EBITDA margin %	10.4%	3.0%	1.3%	
adj. EBITDA margin %	6.2%		0.2%	

Source: Hexatronic Group & Redeye Research

The gross margin was a little lower than expected. The primary reason for the deviation was a less favorable sales mix and fewer submarine cable orders than last year. The margin difference is not alarming, according to us, and we expect normalized margins in the region of 44% on the gross level going onwards.

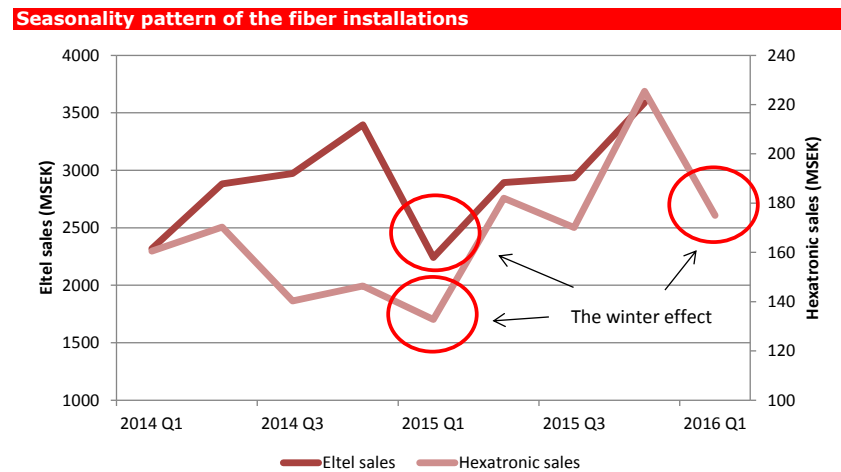
SG&A was largely in-line with our estimates and amounted to 41% of net sales. Hexatronic has invested heavily in personnel to be able to handle the larger volumes during the summer period; this creates an increased part of fixed/semi-fixed compared to last year. The new cost structure dampens the margins when the capacity utilization is lower, during the winter period for instance, and enhances them during high season. Hexatronic also continues to invest in market activity to fuel future growth. As an example; the USA initiative does not currently bear its costs but is an important long-term investment to make.

### The seasonality effect explained

As discussed earlier the lower sales and margin levels during the quarter was expected, but for most investors this margin volatility might be difficult to grasp. In this section, we try to educate the readers about the seasonality effects in Hexatronic and how it affects the profitability levels.

*The seasonality pattern of fiber installations can be exemplified by studying Eltel Networks sales levels*

The seasonality pattern of fiber installations can be exemplified by studying Eltel Networks sales levels. Eltel is a public company and one of the largest players in the Nordics within electricity and telecommunication installation. Eltel stated in a [press release](#) that winter this year was exceptionally cold, which have reduced the installation activity, and guiding for a softer upcoming Q1 report. These weather conditions also affect Hexatronic as they are a supplier of equipment for fiber installation.

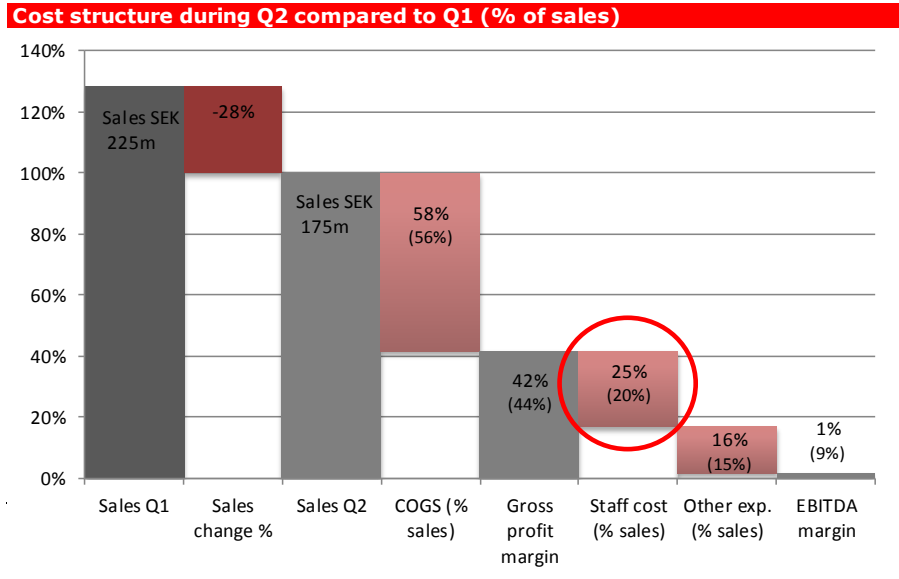


Source: Redeye Research

The seasonality effect is rather apparent in the diagram above, with reduced volumes during the winter period because of a lower installation rate.

The combination of a now larger staff count and the lower sales volumes in the quarter renders lower margins, as Hexatronic’s fixed/semi-fixed costs have increased. When we analysis the Q2 numbers further it is apparent that biggest contributing factor to the margin drop was a higher staff expense compared to sales then during Q1. In Q2 staff expenses amounted to roughly 25% of sales while in Q1, staff costs were about 20% of sales. In the waterfall diagram below we illustrate the cost levels during Q2 with Q1 figures in brackets, and have highlited the largest deviation factor.

*The biggest contributing factor to the margin drop was a higher staff expense compared to sales then during Q1*



Source: Redeye Research

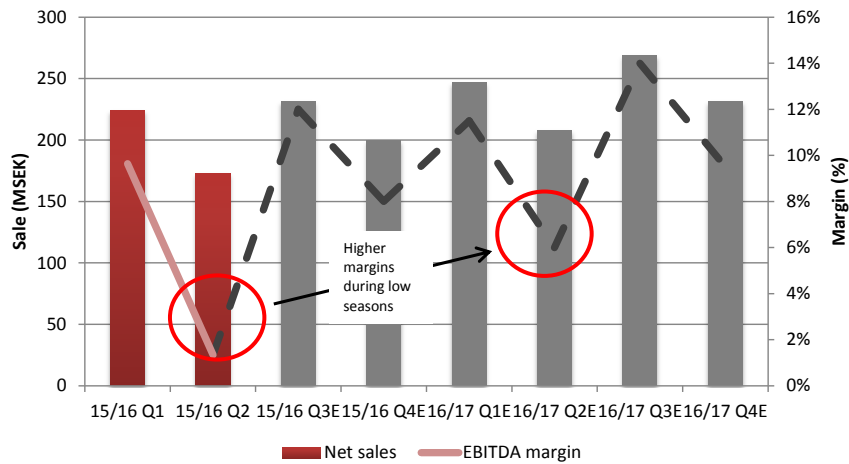
Higher sales volumes lead to stronger margins as the fixed/semi-fixed costs of Hexatronic is relatively large. An increased revenue share to regions with warmer climate should lead to better capacity utilization of the producing units of Hexatronic, i.e. higher margins during the low season in the Nordics. Further discussion about Hexatronic’s geographic expansion plans follows on the next page.

**International expansion leads to better capacity utilization**

As discussed earlier Hexatronic today invests in new markets such as the USA and the UK, and these markets are not affected by the same seasonality pattern as the Nordics. We argue that this will lead to a better capacity utilization of the producing units of Hudiksvall generating to higher margins during the “low season.” In the diagram below we illustrate our quarterly estimates of sale and margins levels. We expect to see an increase in sales over the coming quarters, partially due to a geographic expansion.

*Sales to new regions will lead to better yearly margins*

**Effect of international growth on margins**



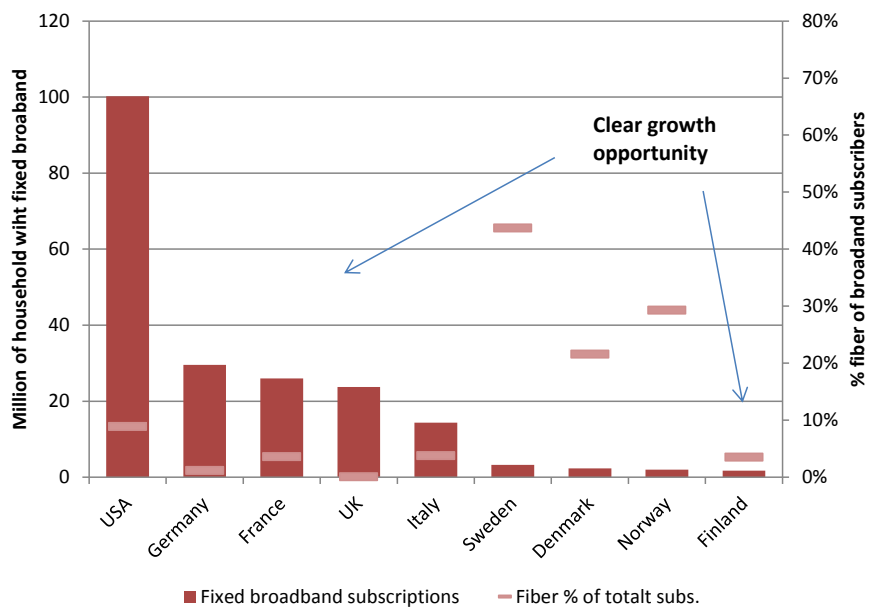
Source: Redeye Research

Hexatronic has an explicit goal of expanding to new regions. During the last few months the company has established a subsidiary in the USA, China, announced a distribution agreement with Amherst Photonics in the USA and acquired OpticReach in the UK. The focus on new growth regions is rather distinct.

Today, Hexatronic has most of its sales in the Nordic region. We expect, as discussed earlier, a relatively significant increase in sales from the new geographic regions during the coming years. More specifically and as an example; during next year’s Q2, we expect to see higher sales from outside the Nordics and as a result higher EBITDA margin in the region of 5-7%.

The growth opportunities for Hexatronic in new markets with a low penetration rate of fiber subscribers such as the USA, UK, Germany and Finland is substantial, illustrated in the diagram below.

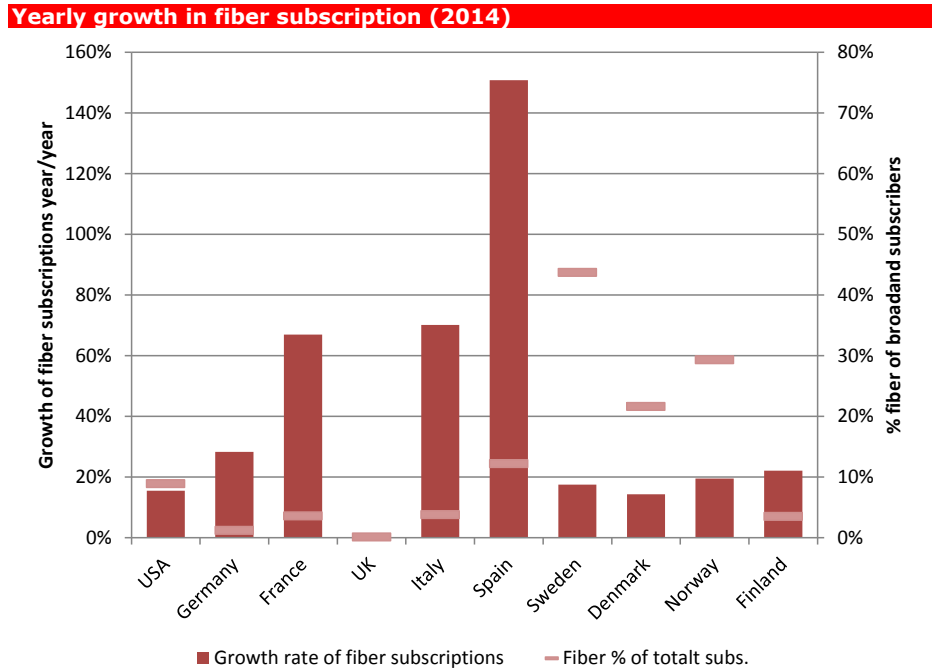
**Fixed broadband subscribers (millions) and fiber penetration rate**



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 where there are about 3.3 million subscribers and 44% of those use fiber. The opportunity for Hexatronic in these markets should be apparent for most readers.

When analyzing the growth of fiber subscriptions in the same countries we see significant growth rates in almost all countries. In Spain, Italy, France, Germany and Finland the growth rate 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 tier 1 telecom operators.



Source: OECD & Redeye Research

The Nordic markets are expected to grow at about 11-15% on an annual basis during the next 5-8 years with significant investments in fiber infrastructure. In the more undeveloped countries, we expect to see growth rates exceeding 25% on an annually basis the next ten year period as the overall household fiber penetration in large economies such as USA, France, Spain, UK and Canada is still very low.



### Q3 estimates – A strong quarter to come

In the report, Hexatronic stated that the order intake, at the beginning of March, was 40% higher compared to the same period last year. The orders in Hexatronic are delivered with a relatively short timeframe, and the high order intake should be a good indicator of a strong Q3 to come.

For the next quarter, we expect that the company will continue to experience organic growth driven by OEM deliveries on a more normalized level, continued strong performance of HC&I and the acquisition of OpticReach. We expect revenues in the region of 232 MSEK, i.e. 25% growth year over year.

*232 MSEK in revenue expected for the next quarter*

<b>Next quarter estimates</b>		
	<b>14/15</b>	<b>15/16</b>
<b>MSEK</b>	<b>Q3</b>	<b>Q3E</b>
<b>Revenues</b>	<b>185</b>	<b>232</b>
<b>EBITDA</b>	<b>20</b>	<b>28</b>
<b>EBIT</b>	<b>17</b>	<b>23</b>
Revenue Growth		25%
EBITDA margin	10.9%	12.0%
EBIT margin	9.0%	10.0%

Source: Redeye Research

The operational leverage will take effect because of the higher sales volumes. We estimate an EBITDA of 28 MSEK, which corresponds to a margin of 12%. We see a likely gross margin in the region of 44% and SG&A to be relatively flat, in absolute numbers, compared to Q1 and Q2.

### Full year revisions

We have revised our full year estimate for 15/16E slightly downwards, and 16/17E-17/18E upwards. Our adjustment is primarily of our long-term margin estimates. We expect to see a clear ramp-up of international revenue the coming years leading to a better capacity utilization of the producing units of Hexatronic, and generating higher sustainable margins.

Forecast adjustments			
MSEK	15/16E	16/17E	17/18E
<b>Revenues</b>			
Old	806	920	1 049
New	828	954	1 087
% change	2.7%	3.7%	3.7%
<b>EBITDA</b>			
Old	76	93	105
New	68	102	125
% change	-11%	10%	19%
<b>EBITDA-margin</b>			
Old	9.4%	10.1%	10.0%
New	8.2%	10.7%	11.5%

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

Source Redeye Research

Long-term, we see strong growth prospects for Hexatronic with the aforementioned market trend and future needs of investment in fiber infrastructure.

Hexatronic, income statement								
Base-case								
MSEK	12/11	13/14	14/15	15/16E	16/17E	17/18E	18/19E	19/20E
<b>Revenues</b>	<b>71</b>	<b>497</b>	<b>630</b>	<b>828</b>	<b>954</b>	<b>1087</b>	<b>1196</b>	<b>1340</b>
COGS	-47	-294	-338	-470	-537	-598	-658	-737
<b>Gross Profit</b>	<b>24</b>	<b>203</b>	<b>292</b>	<b>358</b>	<b>417</b>	<b>489</b>	<b>538</b>	<b>603</b>
SG&A	-20	-143	-229	-290	-315	-364	-412	-442
<b>EBITDA</b>	<b>4</b>	<b>60</b>	<b>64</b>	<b>68</b>	<b>102</b>	<b>125</b>	<b>126</b>	<b>161</b>
D&A	-1	-5	-14	-18	-25	-25	-24	-16
<b>EBIT</b>	<b>3</b>	<b>55</b>	<b>50</b>	<b>49</b>	<b>77</b>	<b>100</b>	<b>102</b>	<b>145</b>
Finans Net	-1	-1	-1	-3	-3	-2	1	1
<b>Profit before tax</b>	<b>2</b>	<b>54</b>	<b>49</b>	<b>46</b>	<b>74</b>	<b>98</b>	<b>103</b>	<b>146</b>
Tax	0	-13	-11	-10	-17	-22	-23	-32
<b>Net profit</b>	<b>2</b>	<b>41</b>	<b>37</b>	<b>36</b>	<b>58</b>	<b>76</b>	<b>80</b>	<b>113</b>
<b>Growth rates and margins</b>								
Revenue growth		601%	27%	31%	15%	14%	10%	12%
Gross profit margin	34%	41%	46%	43%	44%	45%	45%	45%
EBITDA-Margin	6%	12%	10%	8%	11%	12%	11%	12%
EBIT-Margin	4%	11%	8%	6%	8%	9%	9%	11%
CAPEX	1	10	52	33	19	20	22	20
NWC	18	119	138	207	238	261	287	322

Source: Redeye Research, Hexatronic Group

## Valuation

*Our fair value is unchanged at 25 SEK per share in our Base-case*

Due to our upwards adjustment of future margin levels for Hexatronic, our fair value estimate, in Base-case, is increased to 25 (23) SEK per share. In our valuation, we are using a dilution effect from the outstanding stock options. We believe that Hexatronic will experience significant growth in many years to come driven by the structural growth of the market for fiber infrastructure. We expect that the company will expand to new growth regions, and therefore reach higher sustainable margins of about 12%. We estimate a CAGR of sales in the region of 12% between the years 2014/15-24 and an average EBITDA-margin of 11.5% during the period. Our valuation implies and EV/EBITDA exit multiple of 6x and an ROIC in perpetuity close to our estimated WACC, which we find as a conservative assumption to make.

Base-case			
Assumptions:	2014/15-24	DCF-Value	
CAGR Sales	12.2%	WACC	10.3%
EBITDA-margin	11.5%	Present value of FCF	325
Average RONIC	24%	Present value of Terminal Value	571
Average Reinvestment rate	61%		
<b>Terminal</b>		EV	896
Terminal Growth of FCF	5.5%	Net debt	2
Reinvestment rate in perpetuity	53%	<b>DCF-value</b>	<b>898</b>
RONIC in perpetuity	10%	<b>Value per share</b>	<b>25</b>
Implied EV/EBITDA Exit multipel	6x	Today's share price	23
		<b>Margin of saftey</b>	<b>8%</b>

Source: Redeye Research

Our estimated fair value implies a potential/margin of safety of 8% 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.

### Clear valuation discrepancy to international peers

Our Base-case fair value implies an EV/EBIT 2015/16E multiple of about 18x. Compared to international peers 18x is still quite conservative. The peer group consisting of fiber optical equipment companies trade at a median of EV/EBIT16E of 25X. 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 15x as cheap compared to the peer-group, given the company's attractive future growth prospects.

Peer valuation, international fiber optical companies						
Company	Currency	EV	EV/SALES 16E	EV/EBIT 16E	Sales CAGR 15-18E	EBIT % 16E
Fiberhome Telecom Tech CO-A	CNY	28 106	1.8x	31.0x	25%	6%
Clearfield INC	USD	192	2.9x	33.7x	13%	9%
O-net Communications Group	HKD	1 972	1.3x	17.0x	26%	8%
Huber & Suhner AG-REG	CHF	827	1.1x	18.5x	3%	6%
<b>Average</b>		<b>7 774</b>	<b>1.8x</b>	<b>25.0x</b>	<b>17%</b>	<b>7%</b>
<b>Median</b>		<b>1 400</b>	<b>1.6x</b>	<b>24.7x</b>	<b>19%</b>	<b>7%</b>
<b>Hexatronic Group at Base-case</b>	<b>Sweden</b>	<b>747</b> 896	<b>0.9x</b> 1.1x	<b>15.2x</b> 18.2x	<b>20%</b>	<b>6%</b>

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.

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 Hexatronic's 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.

*Certification by Skanova opens up a large market*

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.
- **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.

*An opportunity for the savvy investor*

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

**Hexatronic: Fair value range**

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Hexatronic currently trades 8% of our Base-case. The share has had a strong run from the low level of around 10 SEK per share.

**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 behaviour. 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.

## Summary Redeye Rating

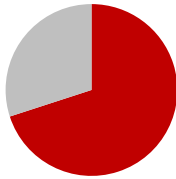
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The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

### Rating changes in the report

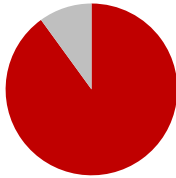
No changes.

Management 7.0p



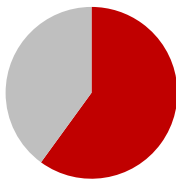
Hexatronic has a strong management team of entrepreneurial people with plenty of skin in the game. CEO and chairman have significant experience from the telecom industry. Staff at other key positions, that joined the group through last year's acquisitions, are also intact. The company has delivered so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



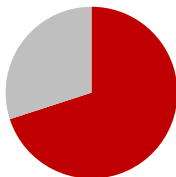
The rating for Growth Outlook is only average, in spite of good overall market prospects. The reason is mainly the competitive situation. Product differentiation appears to be difficult, thus price will always be an issue. Hexatronic is a small player compared to some of the dominant multinational companies. 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	828	954	1,087
Total operating costs	-437	-567	-760	-852	-962
<b>EBITDA</b>	<b>60</b>	<b>64</b>	<b>68</b>	<b>102</b>	<b>125</b>
Depreciation	-5	-14	-18	-23	-24
Amortization	0	0	0	-2	-2
Impairment charges	0	0	0	0	0
<b>EBIT</b>	<b>55</b>	<b>50</b>	<b>49</b>	<b>77</b>	<b>100</b>
Share in profits	0	0	0	0	0
Net financial items	-1	-1	-3	-3	-2
Exchange rate dif.	0	0	0	0	0
<b>Pre-tax profit</b>	<b>54</b>	<b>49</b>	<b>46</b>	<b>74</b>	<b>98</b>
Tax	-13	-11	-10	-17	-22
<b>Net earnings</b>	<b>41</b>	<b>37</b>	<b>36</b>	<b>58</b>	<b>76</b>

Balance	13/14	14/15	15/16E	16/17E	17/18E
<b>Assets</b>					
<i>Current assets</i>					
Cash in banks	28	46	41	48	67
Receivables	141	137	207	238	261
Inventories	78	164	199	229	261
Other current assets	7	8	17	19	22
<b>Current assets</b>	<b>255</b>	<b>356</b>	<b>464</b>	<b>534</b>	<b>610</b>
<i>Fixed assets</i>					
Tangible assets	5	43	58	54	50
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
<b>Total fixed assets</b>	<b>13</b>	<b>126</b>	<b>141</b>	<b>135</b>	<b>129</b>
Deferred tax assets	0	0	0	0	0
<b>Total (assets)</b>	<b>268</b>	<b>482</b>	<b>604</b>	<b>669</b>	<b>739</b>

Liabilities	13/14	14/15	15/16E	16/17E	17/18E
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	54	73	116	134	152
O current liabilities	54	99	99	114	130
<b>Current liabilities</b>	<b>108</b>	<b>172</b>	<b>215</b>	<b>248</b>	<b>283</b>
Long-term debt	0	27	70	45	4
O long-term liabilities	32	0	0	0	0
Convertibles	0	0	0	0	0
<b>Total Liabilities</b>	<b>140</b>	<b>199</b>	<b>286</b>	<b>293</b>	<b>287</b>
Deferred tax liab	0	27	27	27	27
Provisions	19	7	7	7	7
Shareholders' equity	109	249	284	342	418
Minority interest (BS)	0	0	0	0	0
<b>Minority &amp; equity</b>	<b>109</b>	<b>249</b>	<b>284</b>	<b>342</b>	<b>418</b>
<b>Total liab &amp; SE</b>	<b>268</b>	<b>482</b>	<b>604</b>	<b>669</b>	<b>739</b>

Free cash flow	13/14	14/15	15/16E	16/17E	17/18E
Net sales	497	630	828	954	1,087
Total operating costs	-437	-567	-760	-852	-962
Depreciations total	-5	-14	-18	-25	-25
<b>EBIT</b>	<b>55</b>	<b>50</b>	<b>49</b>	<b>77</b>	<b>100</b>
Taxes on EBIT	-13	-11	-11	-17	-22
<b>NOPLAT</b>	<b>42</b>	<b>39</b>	<b>38</b>	<b>60</b>	<b>78</b>
Depreciation	5	14	18	25	25
<b>Gross cash flow</b>	<b>47</b>	<b>52</b>	<b>57</b>	<b>85</b>	<b>103</b>
Change in WC	-101	-19	-69	-31	-23
Gross CAPEX	-14	-126	-33	-19	-20
<b>Free cash flow</b>	<b>-67</b>	<b>-93</b>	<b>-46</b>	<b>34</b>	<b>61</b>

Capital structure	13/14	14/15	15/16E	16/17E	17/18E
Equity ratio	41%	52%	47%	51%	57%
Debt/equity ratio	0%	11%	25%	13%	1%
Net debt	-28	-19	29	-3	-63
Capital employed	81	230	313	339	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%	31%	15%	14%
EPS growth (adj)	880%	-37%	-10%	63%	32%

DCF valuation	10.3 %	Cash flow, MSEK	
WACC (%)	10.3 %	NPV FCF (2016-2018)	3
		NPV FCF (2019-2025)	321
		NPV FCF (2026-)	571
		Non-operating assets	46
		Interest-bearing debt	-27
		Fair value estimate MSEK	915
Assumptions 2016-2022 (%)		<b>Fair value e. per share, SEK</b>	<b>25</b>
Average sales growth	11.7 %	Share price, SEK	22.0
EBIT margin	9.4 %		

Profitability	13/14	14/15	15/16E	16/17E	17/18E
ROE	67%	21%	13%	18%	20%
ROCE	83%	26%	16%	21%	25%
ROIC	181%	48%	17%	19%	23%
EBITDA margin	12%	10%	8%	11%	12%
EBIT margin	11%	8%	6%	8%	9%
Net margin	8%	6%	4%	6%	7%

Data per share	13/14	14/15	15/16E	16/17E	17/18E
EPS	1.70	1.08	0.97	1.58	2.09
EPS adj	1.70	1.08	0.97	1.58	2.09
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-1.16	-0.56	0.79	-0.09	-1.71
Total shares	24.34	34.60	36.48	36.48	36.48

Valuation	13/14	14/15	15/16E	16/17E	17/18E
EV	434.2	336.7	769.9	737.7	678.3
P/E	11.2	10.1	22.6	13.9	10.5
P/E diluted	11.2	10.1	22.6	13.9	10.5
P/Sales	0.9	0.6	1.0	0.8	0.7
EV/Sales	0.9	0.5	0.9	0.8	0.6
EV/EBITDA	7.2	5.3	11.4	7.2	5.4
EV/EBIT	7.9	6.7	15.7	9.6	6.8
P/BV	4.2	1.4	2.6	2.2	1.8

Share performance	13.4 %	Growth/year	14/16e
1 month	13.4 %	Net sales	29.0 %
3 month	35.0 %	Operating profit adj	-5.5 %
12 month	85.7 %	EPS, just	-24.4 %
Since start of the year	33.3 %	Equity	61.4 %

Shareholder structure %	Capital	Votes
Gert Nordin	17.6 %	17.6 %
Göran Nordlund	11.5 %	11.5 %
Jonas Nordlund	10.1 %	10.1 %
Errö 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	22.0
Total shares, million	33.7
Market Cap, MSEK	740.9

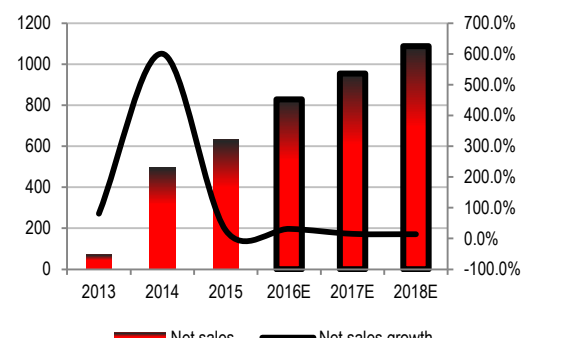
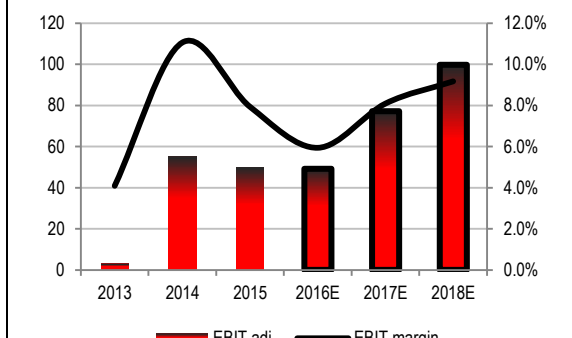
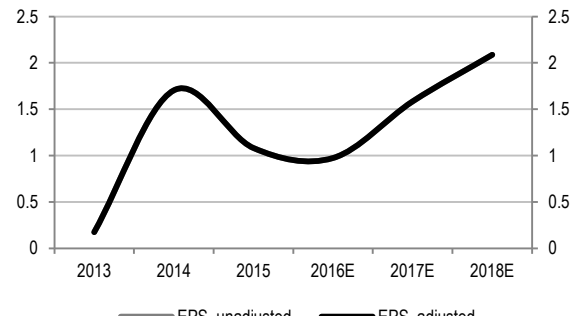
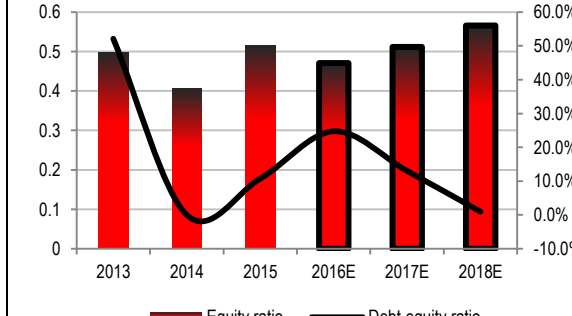
Management & board	
CEO	Henrik Larsson-Lyon
CFO	
IR	
Chairman	Göran Nordlund

Financial information	

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Revenue & Growth (%)	EBIT (adjusted) & Margin (%)
 <p>Net sales (bars) and Net sales growth (line) from 2013 to 2018E. Net sales shows a steady increase from approximately 100 in 2013 to 1100 in 2018E. Net sales growth peaks at over 600% in 2014 and remains positive through 2018E.</p>	 <p>EBIT adj (bars) and EBIT margin (line) from 2013 to 2018E. EBIT adj increases from near zero in 2013 to 100 in 2018E. EBIT margin peaks at approximately 11% in 2014 and stabilizes around 10% by 2018E.</p>
Earnings per share	Equity & debt-equity ratio (%)
 <p>EPS, unadjusted (line) and EPS, adjusted (line) from 2013 to 2018E. Both metrics show an overall upward trend, with adjusted EPS reaching approximately 2.1 by 2018E.</p>	 <p>Equity ratio (bars) and Debt-equity ratio (line) from 2013 to 2018E. The equity ratio fluctuates between 0.4 and 0.6, while the debt-equity ratio shows a general downward trend from approximately 55% in 2013 to 10% in 2018E.</p>
Sales division	Geographical areas
Conflict of interests	Company description
<p><b>Kristoffer. Lindström owns shares in the company : Yes</b>  <b>Henrik. Alveskog owns shares in the company : No</b></p> <p>Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.</p>	<p>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.</p>

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**Redeye Rating (2016-04-19)**

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	38	41	19	7	17
3,5p - 7,0p	66	56	86	33	38
0,0p - 3,0p	5	12	4	69	54
Company N	109	109	109	109	109

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