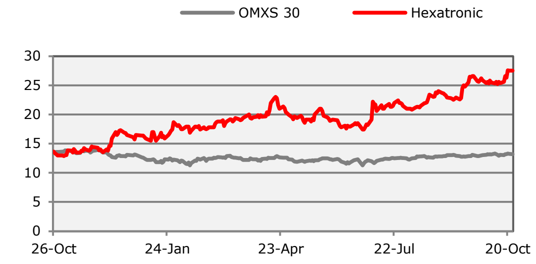
Summary

Hexatronic (HTRO.ST)

Revaluation warranted

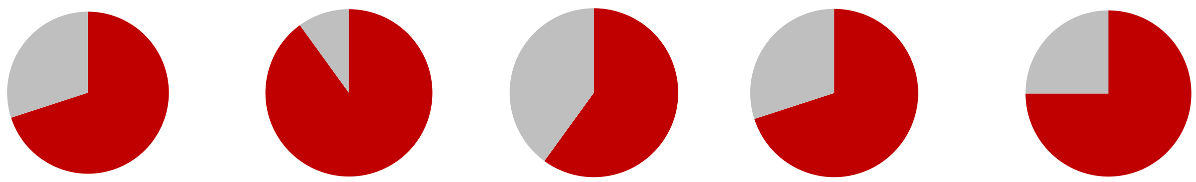
- Hexatronic produced yet another record result during the last quarter of the split financial year 2015/16. When we summarize the full year, we see a company with net sales close to SEK 900m and EBITDA of roughly SEK 80m. Hexatronic grew annual sales by 42%; the organic growth amounted to approximately 20%, i.e. SEK 112m.
- Q4 was the **sixth quarter** in a row where Hexatronic beat our growth assumptions. We continue to see a strong organic development; this warrants an increase in our growth projections. In our view, the attractive prospects justify a revaluation of the share. We continue to argue that the market is yet to value Hexatronic as a growth company, but that it will.
- The financials continue to improve, which leads to an increased Redeye Rating. Our new rating and estimate adjustments generate an increased estimated fair value, in Base-case, of **40** (27) SEK per share. Our fair value range is also narrowed and now ranges from 18-57 SEK per share.

List:	
Market Cap:	994 MSEK
Industry:	Telecommunication Equipment
CEO:	Henrik Larsson-Lyon
Chairman:	Goran Nordlund



Redeye Rating (0 – 10 points)

Management | Ownership | Profit outlook | Profitability | Financial strength



7.0 points | 9.0 points | 6.0 points | 7.0 points | 7.5 points

Key Financials

	14/15	15/16	16/17E	17/18E	18/19E
Revenue, MSEK	627	891	1,097	1,330	1,569
Growth	*26%*	*42%*	*23%*	*21%*	*18%*
EBITDA	64	81	117	153	181
EBITDA margin	*10%*	*9%*	*11%*	*11%*	*12%*
EBIT	50	63	95	118	143
EBIT margin	*8%*	*7%*	*9%*	*9%*	*9%*
Pre-tax earnings	49	55	78	98	129
Net earnings	37	42	61	76	100
Net margin	*6%*	*5%*	*6%*	*6%*	*6%*
Dividend/Share	0.00	0.00	0.28	0.00	0.00
EPS adj.	1.11	1.25	1.67	2.09	2.75
P/E adj.	9.8	17.9	17.3	13.9	10.5
EV/S	0.5	0.8	0.9	0.8	0.7
EV/EBITDA	5.3	9.2	8.6	6.7	5.7

Share information	
Share price (SEK)	28.9
Number of shares (m)	34.4
Market Cap (MSEK)	994
Net debt (MSEK)	9
Free float (%)	50 %
Daily turnover ('000)	50

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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

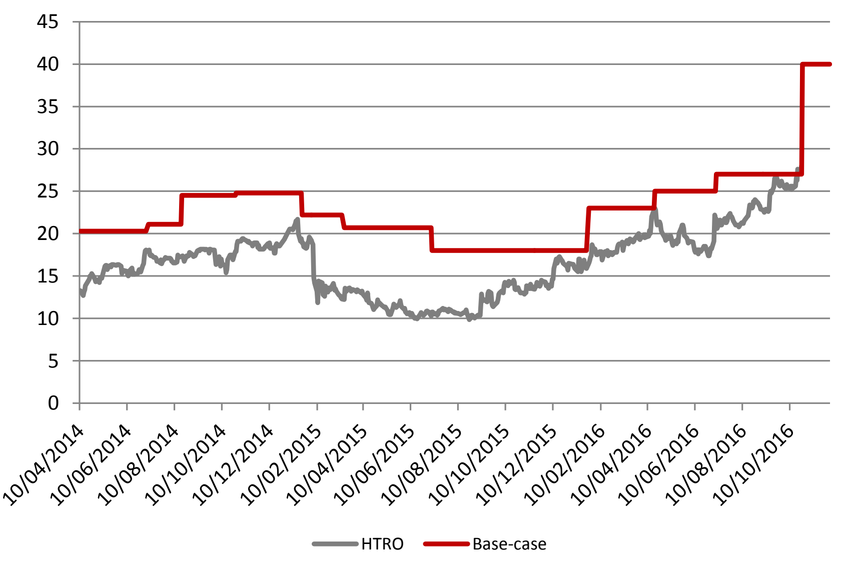
Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment 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.

Looking in the rear window; valuation

*The increased forecast and higher rating leads to a new estimate fair value in our **Base-case of 40** (27) SEK per share*

After the full year result, we can conclude that Q4 was yet another quarter with an impressive performance from Hexatronic. The company has now beaten our estimates, regarding growth, in no less than **six** quarters in a row. As a result, we now have enough fundamentals and understanding of what to expect to hike our estimates, at least to a minor degree, for the next few years. The increased forecast, in combination with an improved Redeye rating, leads to a new estimate fair value in our **Base-case of 40** (27) SEK per share. In the graph below we illustrate our valuation, in Base-case, compared to the share price for the past two years. Now looking in the rear window, yes back trading is easy, we can at least say that an investor that took advantage of the valuation discrepancy between our Base-case and the share price for the past two years would have yielded a satisfying return on their investment.

Historical Base-case and share performance



Source: Redeye Research & Bloomberg

We have a long-term focus

One could say that we have been right in anticipating the valuation level in Hexatronic or that our valuation has acted as a guideline for the market. We always focus on the long-term prospects of a company, where it will be in 3-5 years or even longer. This creates an advantage compared to short-term focused investors.

Comments on the quarter: Another strong one

Hexatronic's report for the fourth quarter of the split financial year 2015/16 handsomely beat our expectations on all grounds. The company reported net sales growth of 40%, of which roughly 30% was organic, and a margin increase, primarily driven by a favorable sales mix. The strong momentum seems to continue, and by the end of Q4, the order backlog was 39% higher than the same period last year.

The report for the fourth quarter handsomely beat our expectations on all grounds

Estimate vs. Outcome

MSEK	14/15 Q4	15/16 Q4E	15/16 Q4A	Diff
Net sales	**169**	**214**	**237**	**11%**
other income	1.4		3.0	
COGS	96	124	127	3%
Gross Profit	**74**	**90**	**112**	**25%**
SG&A	56	71	81	15%
EBITDA	**18**	**19**	**31**	63%
Net sales Growth %		27%	40%	
Gross Profit margin %	44%	42%	47%	
EBITDA margin %	10.5%	9.0%	13.3%	

Source: Hexatronic Group & Redeye Research

Net sales clearly exceeded our expectations and grew by 40%, of which 30% was organic

Net sales clearly exceeded our expectations and grew by 40%, of which 30% was organic, year over year. A continued high organic growth is something we find as important and is an effect of earlier market investments. We also find that both OpticReach and the new acquisition in New Zealand (NZ) seem to deliver result above our previous assessments. The strong order backlog implies that we will continue to see a high growth in the coming quarters.

The gross profit was positively affected by a favorable sales mix

The EBITDA margin during the period was significantly greater than we had expected, primarily driven by a strong gross profit margin. The gross profit was positively affected by a favorable sales mix during the quarter and widely exceeded our expectations. However, to be conservative, we will not adjust our assessments of future gross margin levels to any greater extent, and find a level around 42-44% as sustainable. Hexatronic has continued to invest in personnel and grew their staff count by 26% year over year, now employing about 312 people. Most of these newly hired are production staff or are related to the acquisitions of OpticReach and Hexatronic NZ. We believe that we will see a greater capacity utilization of this newly hired production personnel in the coming quarters, which should lead to a visible operational leverage for the company.

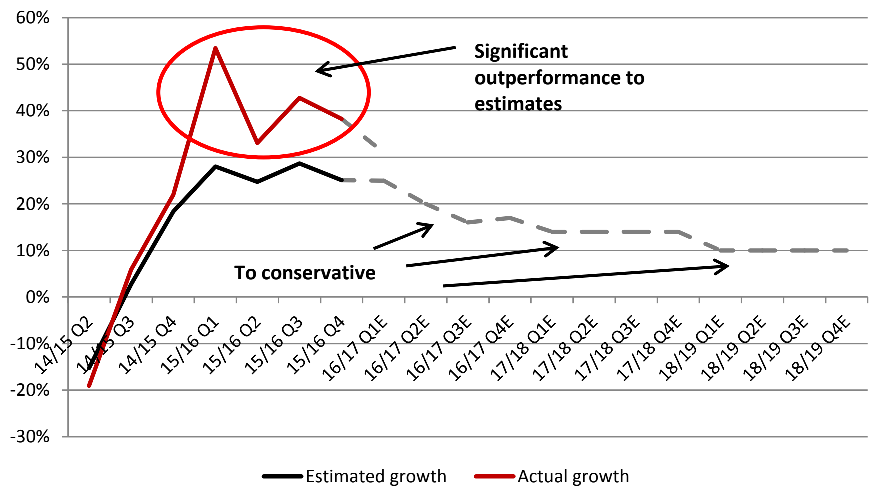
The internationalization of Hexatronic continues and the development in Great Britain and New Zealand has been strong. The company states that the progress in the USA is slower than expected but they continue to be optimistic about the future of the market and the opportunities that lies ahead for Hexatronic. A large uptake in international sales lies in our estimates in the coming years, a view that hasn't changed following the report. Hexatronic also proposes a dividend of 0.3 SEK per share, indicating the company's conviction about a continued favorable performance for the Group.

Beating our estimates, an increase is warranted

Beating our growth estimates for six quarters in a row

As an analyst, you always want to be conservative with your assumptions regarding the future development for a company. The only thing we know for sure is that we will never be exactly right, but that is just how our line of trade works. In the case of Hexatronic, we have always made conservative assumptions regarding future growth but still, have seen attractive value opportunities. Now Q4 was the **sixth** quarter in a row where the reported numbers exceeded our assumption, an impressive feat by the company or are we just a lousy forecaster? Well, hopefully, it is the first one. In the graph below we illustrate our estimated yearly growth for each quarter compared to the actual results:

Historical deviation of Estimate vs Outcome



Source: Redeye Research & Hexatronic Group

As we can see in the graph above, our future estimates feel far too conservative to be at least marginally correct. Overall we can say that we have underestimated the organic output that the company has managed to execute. The high organic growth has primarily been driven by the following:

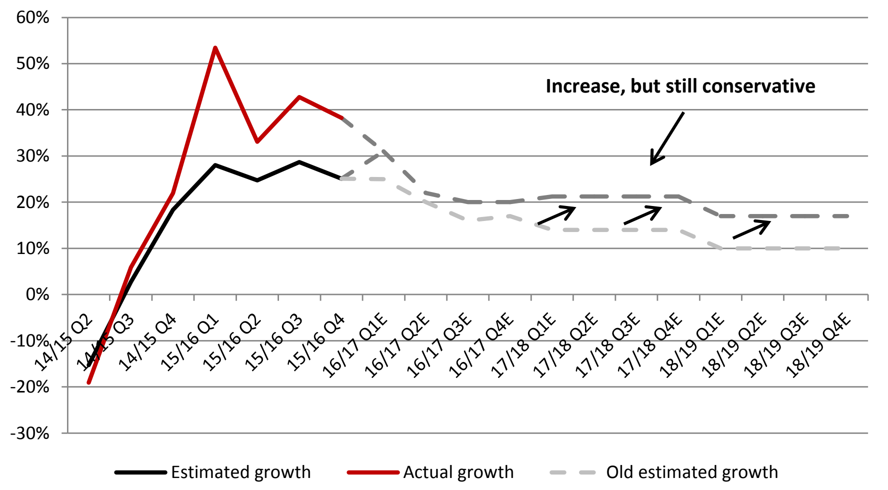
- Earlier market investments to focus on a larger client base "outside" of the acquired customer contacts from Ericsson.
- The Nordic's continue to be strong with large investments in fiber infrastructure leading to a fruitful market environment.
- Cross synergies between the subsidiaries now is starting to show for real, regarding both products and sale competence
- A big success for the new Viper series
- Strong up-take internationally, primarily in the UK

The reasons behind the strong organic development will not wear off in the near-term. We also believe that the future sales levels will be further enhanced by a continued international expansion in New Zealand and the USA. All the above reasoning leads to the conclusion that larger upwards adjustment of our estimates is warranted.

We will highlight the exact numbers for our adjustments in a separate section of this report, but the change is illustrated in the graph below.

We still believe our assumptions are conservative but more realistic than our old ones

Historical deviation of Estimate vs Outcome and new estimates



Source: Redeye Research & Hexatronic Group

We still believe our assumptions are conservative but more realistic than our old ones. We still model a drop to growth levels below 20%, which is a fair bit lower than the organic development the last few quarters and the company's internal goal, but when at doubt conservatism is the best medicine.

Improved Redeye rating

Increase in our rating

We have always viewed Hexatronic as a quality company with strong future prospects, good ownership structure and a competent management team. In this update we have made some upward adjustments in our rating, primarily for the Financial strength and Profitability. It is Hexatronic's continued strong performance that has led to the adjustments. Our WACC (Weighted Average Cost of Capital for the less financial savvy) is determined by our rating and is reduced to 9.6% from 10.3%. This effects our valuation positively.

Why is the market for fiber growing? One word; data

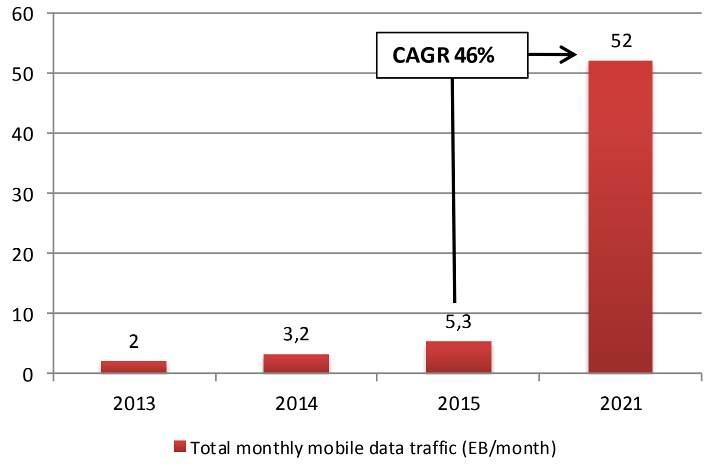
Increased data consumption by consumers leads to a need of fiber investments

We have said it before, but we believe it is always good to repeat the message, a least when it is important. The primary driver behind the market growth that Hexatronic is experiencing is the increased data consumption by consumers. This data consumption leads to a higher need for increased speeds and bandwidth, which generates needs of infrastructure investments in fiber networks, where Hexatronic is a supplier of equipment.

Mobile data traffic will grow from the current level of 5.3 EB/month to about 52 EB/month in 2021, this corresponds to an annual CAGR of 46%

Today we use 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. Ericsson, in their mobility report from 2016, estimates that the mobile data traffic will grow from the current level of 5.3 EB/month to about 52 EB/month in 2021, this corresponds to an annual CAGR of 46%.

Monthly mobile data worldwide figures

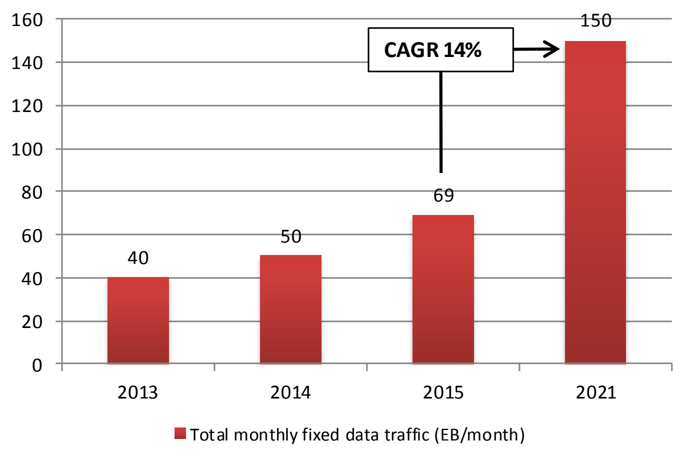


Source: Ericsson mobility report 2016

Data usage of fixed data is also anticipated to grow substantially over the next five years to a total of 150 EB/month from the current level of 69 EB/month.

Important to stress is that Hexatronic is of course highly present in both these categories; fiber optics solutions are needed for setting up both mobile and fixed data networks.

Monthly fixed data worldwide figures

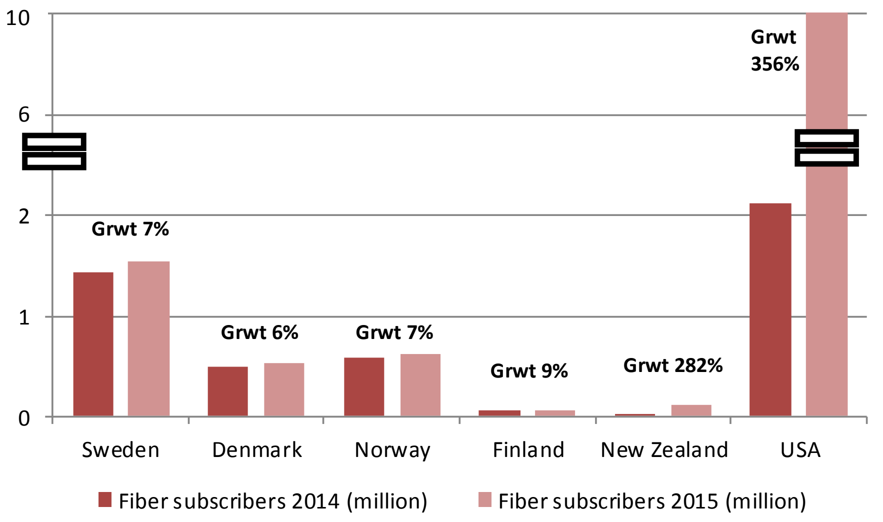


Source: Ericsson mobility report 2016

Continued strong fiber growth

As the expected demand for data capacity will increase at a very high rate so will also the need for investment in the fiber optical infrastructure on a worldwide basis. Below is a diagram showing the number of fiber subscribers in 2014 and 2015 and the growth rates in the countries where Hexatronic have operations, UK excluded.

Fiber subscribers and growth 2014-2015



Source: OECD & Redeye Research

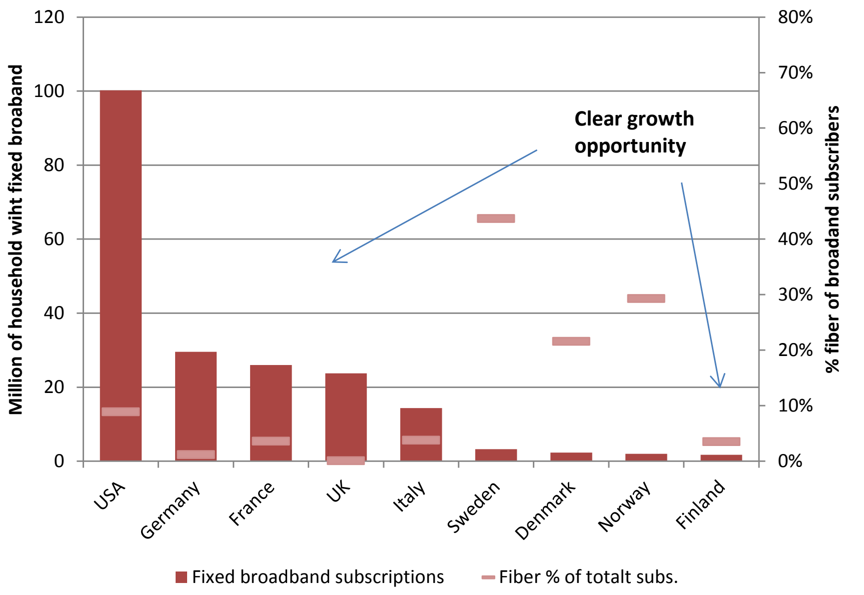
Huge upcoming investments in fiber infrastructure

Hexatronic has most of their revenue generated from the Scandinavian region. In these countries, the number of fiber subscribers grew by 7-9% during 2015. The market for fiber optic equipment is expected to grow 10-12% on an annual basis during the next 5-8 years, which can be compared to Hexatronic's strong organic growth of 30% the last quarter. Swedish telecom operators have announced planned investments in the fiber infrastructure for about SEK 30 billion during the next five years. Despite the large upcoming investments in the Swedish fiber infrastructure, the Scandinavian countries have amongst the most developed infrastructures in the world. The true growth prospects lie in less developed countries such as USA, UK, New Zealand and other large Western Europe economies.

The growth in new market regions for Hexatronic, such as New Zealand and the USA, grew at substantial rates during 2015. We believe both markets will experience a massive uptake in installations as both countries have a low fiber penetration rates.

In the USA, there are about 100 million fixed broadband subscribers, and of these approximately 9% is through real fiber connection

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 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 investors.

Full year revisions

As discussed earlier, we have increased our growth assumptions quite a bit. We see this revision as warranted due to the outperformance and organic development of Hexatronic. Overall we expect to see a ramp-up of international revenue during the coming years, leading to a better capacity utilization of the producing units of Hexatronic and generating higher sustainable margins than we see today.

We have adjusted our estimates upwards

Forecast adjustments

MSEK	16/17E	17/18E	18/19E
Revenues			
Old	1 036	1 181	1 340
New	1 097	1 330	1 569
% change	5.9%	12.6%	17.1%
EBITDA			
Old	108	142	161
New	117	153	181
% change	8%	8%	13%
EBITDA-margin			
Old	*10.4%*	*12.0%*	*12.0%*
New	*10.6%*	*11.5%*	*11.5%*

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.

Q1 estimates – It continues

We expect to see yet another solid quarter from Hexatronic during Q1. The sales momentum remains strong and that that the order intake, at the beginning of September, was 30% higher compared to the same period last year which should be a good indicator of a strong quarter to come.

Sales levels, to some degree, will also be driven by the acquisition of Hexatronic NZ. We expect revenues in the region of SEK 294m, i.e. 31% growth year over year.

294 MSEK in revenue expected for the next quarter

Next quarter estimates

MSEK	15/16 Q1	16/17 Q1E
Revenues	224	294
EBITDA	22	31
EBIT	17	25
Revenue Growth	53%	31%
EBITDA margin	9.6%	10.5%
EBIT margin	7.7%	8.7%

Source: Redeye Research

The absolute sales levels will be higher than last year, and we believe that the employee investments conducted during the last few quarters are starting to yield results. We anticipate an EBITDA in the region of SEK 31m corresponding to and margin of 10.5%.

Valuation

Our fair value is unchanged at 40 SEK per share in our Base-case

Our estimated fair value, in Base-case, per share is adjusted upwards to **40** (27) SEK per share, due to an increased growth assumption and improved Redeye rating. In our valuation, we are accounting for a dilution effect from the outstanding stock options. To summarize: 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 increase their sustainable margin level. We estimate a CAGR of sales in the region of 14.5% between the years 2015/16-25 and an average EBIT-margin of 9.4% during the period. Our valuation implies and EV/EBITDA exit multiple of 7x, which we find as a conservative assumption to make.

Hexatronic: Base-case			
Assumtions:	**2015/16-25**	**DCF-Value**	
CAGR Sales	14.5%	WACC	9.6%
EBIT-margin	9.4%	Present value of FCF	299
Average RONIC	19%	Present value of Terminal Value	1165
Average Reinvestment rate	89%		
		EV	1464
Terminal		Net debt	2
Terminal Growth of FCF	4.0%	**DCF-value**	**1466**
Terminal EBIT-margin	9%	**Value per share**	**40**
Implied EV/EBITDA Exit multipel	7x	Todays share price	28
		Margin of saftey	**43%**

Source: Redeye Research

Our estimated fair value implies a potential/margin of safety of 43% 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.

Valuation discrepancy to international peers for no reason

Our Base-case fair value implies an EV/EBIT 2016/17E multiple of about 15.4x. Compared to international peers this is still conservative. The peer group consisting of fiber optical equipment companies trade at a median of EV/EBIT16E of 21.5X. Hexatronic should have a small cap discount but not as large as today's valuation levels. We believe a much higher multiple is motivated given the company's attractive growth prospects.

Peer valuation, international fiber optical companies						
Company	**Currency**	**EV**	**EV/SALES 17E**	**EV/EBIT 17E**	**Sales CAGR 15-18E**	**EBIT % 17E**
Fiberhome Telecom Tech CO-A	CNY	33 423	1.7x	30.2x	24%	5%
Clearfield INC	USD	227	2.6x	22.9x	18%	12%
O-net Communications Group	HKD	3 568	1.8x	20.2x	28%	9%
Huber & Suhner AG-REG	CHF	1 047	1.3x	17.7x	5%	7%
Average		**9 566**	**1.9x**	**22.7x**	**19%**	**8%**
Median		**2 308**	**1.7x**	**21.5x**	**21%**	**8%**
Hexatronic Group	SEK	**917**	**1.0x**	**9.7x**	**21%**	**9%**
at Base-case		***1 464***	***1.6x***	***15.4x***		

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 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.

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.

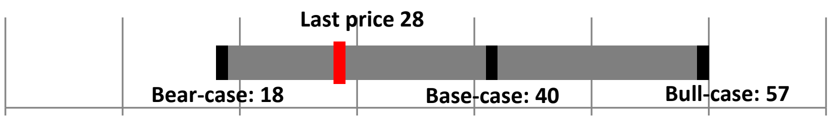
- **Small/nano-cap** – Hexatronic is still a small company. This, according to us, creates an opportunity as Hexatronic might be overlooked by the investment community, creating a more likely disparity between true fundamental value and market capitalization.

- **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 he savvy investor.

Hexatronic: Fair value range



Hexatronic currently trades 42% 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.

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 and sustain a high growth rate. In this scenario we also model an increase their profitability due to scalability, and a successful international expansion. The large increase in international sales leads to a higher capacity utilization of Hexatronic's production units.

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

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.

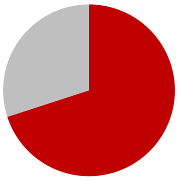
Summary Redeye Rating

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

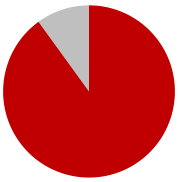
Our Fin. Str. Rating has increased to 7.5 (7) and Profitab. Rating to 7 (5).

Management 7.0p



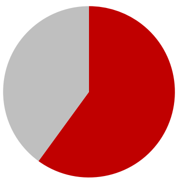
Hexatronic has a strong management team of entrepreneurial people with plenty of skin in the game. CEO and chairman have significant experience from the telecom industry. Staff at other key positions, that joined the group through last year's acquisitions, are also intact. The company has delivered so 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



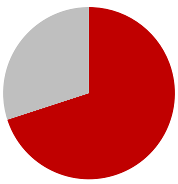
Top scores in almost all subcategories for our Ownership rating. The entire board and top management have large stakes in the company. Over 50 percent of the shares are held by active owners. The only thing missing in order to get a full score is a large institutional owner as one of the largest shareholders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

Profit outlook 6.0p



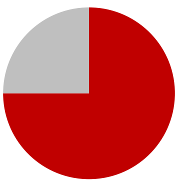
The rating for Growth Outlook is only average, in spite of good overall market prospects. The reason is mainly the competitive situation. Product differentiation appears to be difficult, thus price will always be an issue. Hexatronic is a small player compared to some of the dominant multinational companies.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

Profitability 7.0p



The last few years both the margins and return on capital has strengthened. We view Hexatronic's profitability levels as compelling and stable.

Financial strength 7.5p



In our view Hexatronic is very financial stable and scores high in most subcategories for Financial Strength. 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	14/15	15/16	16/17E	17/18E	18/19E
Net sales	627	891	1,097	1,330	1,569
Total operating costs	-564	-810	-980	-1,177	-1,388
EBITDA	**64**	**81**	**117**	**153**	**181**
Depreciation	-14	-18	-22	-33	-37
Amortization	0	0	0	-2	-2
Impairment charges	0	0	0	0	0
EBIT	**50**	**63**	**95**	**118**	**143**
Share in profits	0	0	0	0	0
Net financial items	-1	-8	-16	-20	-14
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	**49**	**55**	**78**	**98**	**129**
Tax	-11	-13	-17	-21	-28
Net earnings	**37**	**42**	**61**	**76**	**100**

Balance	14/15	15/16	16/17E	17/18E	18/19E
Assets					
Current assets					
Cash in banks	46	51	55	67	78
Receivables	137	168	208	253	314
Inventories	164	198	252	319	392
Other current assets	8	15	18	22	26
Current assets	**356**	**431**	**534**	**660**	**810**
Fixed assets					
Tangible assets	43	81	110	146	173
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	82	93	93	91	89
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
Total fixed assets	**126**	**174**	**203**	**238**	**262**
Deferred tax assets	0	0	0	0	0
Total (assets)	**482**	**605**	**737**	**898**	**1,073**
Liabilities					
Current liabilities					
Short-term debt	0	0	0	0	0
Accounts payable	73	102	132	160	188
O current liabilities	99	117	144	174	206
Current liabilities	**172**	**219**	**275**	**334**	**394**
Long-term debt	27	50	64	101	115
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	**199**	**269**	**340**	**435**	**509**
Deferred tax liab	27	30	30	30	30
Provisions	7	5	5	5	5
Shareholders' equity	249	301	362	428	528
Minority interest (BS)	0	0	0	0	0
Minority & equity	**249**	**301**	**362**	**428**	**528**
Total liab & SE	**482**	**605**	**737**	**898**	**1,073**

Free cash flow	14/15	15/16	16/17E	17/18E	18/19E
Net sales	627	891	1,097	1,330	1,569
Total operating costs	-564	-810	-980	-1,177	-1,388
Depreciations total	-14	-18	-22	-35	-38
EBIT	**50**	**63**	**95**	**118**	**143**
Taxes on EBIT	-11	-15	-21	-26	-31
NOPLAT	**39**	**48**	**74**	**92**	**111**
Depreciation	14	18	22	35	38
Gross cash flow	**52**	**66**	**96**	**127**	**150**
Change in WC	-19	-23	-42	-56	-78
Gross CAPEX	-126	-66	-51	-70	-63
Free cash flow	**-93**	**-23**	**3**	**1**	**9**

Capital structure	14/15	15/16	16/17E	17/18E	18/19E
Equity ratio	52%	50%	49%	48%	49%
Debt/equity ratio	11%	17%	18%	24%	22%
Net debt	-19	-1	9	35	37
Capital employed	230	300	371	462	565
Capital turnover rate	1.3	1.5	1.5	1.5	1.5

Growth	14/15	15/16	16/17E	17/18E	18/19E
Sales growth	26%	42%	23%	21%	18%
EPS growth (adj)	-35%	12%	34%	25%	32%

DCF valuation		Cash flow, MSEK	
WACC (%)	9.6 %	NPV FCF (2016-2018)	9
		NPV FCF (2019-2025)	290
		NPV FCF (2026-)	1165
		Non-operating assets	51
		Interest-bearing debt	-50
		Fair value estimate MSEK	1465
Assumptions 2016-2022 (%)			
Average sales growth	16.5 %	**Fair value e. per share, SEK**	**40**
EBIT margin	9.4 %	Share price, SEK	28.9

Profitability	14/15	15/16	16/17E	17/18E	18/19E
ROE	21%	15%	18%	19%	21%
ROCE	26%	20%	25%	25%	24%
ROIC	48%	21%	25%	25%	24%
EBITDA margin	10%	9%	11%	11%	12%
EBIT margin	8%	7%	9%	9%	9%
Net margin	6%	5%	6%	6%	6%

Data per share	14/15	15/16	16/17E	17/18E	18/19E
EPS	1.11	1.25	1.67	2.09	2.75
EPS adj	1.11	1.25	1.67	2.09	2.75
Dividend	0.00	0.00	0.28	0.00	0.00
Net debt	-0.57	-0.03	0.26	0.95	1.01
Total shares	33.66	33.68	36.54	36.54	36.54

Valuation	14/15	15/16	16/17E	17/18E	18/19E
EV	336.7	750.1	1,003.4	1,028.7	1,031.0
P/E	9.8	17.9	17.3	13.9	10.5
P/E diluted	9.8	17.9	17.3	13.9	10.5
P/Sales	0.6	0.8	1.0	0.8	0.7
EV/Sales	0.5	0.8	0.9	0.8	0.7
EV/EBITDA	5.3	9.2	8.6	6.7	5.7
EV/EBIT	6.7	11.9	10.6	8.7	7.2
P/BV	1.4	2.5	2.7	2.3	1.9

Share performance		Growth/year	14/16e
1 month	12.5 %	Net sales	32.3 %
3 month	31.4 %	Operating profit adj	37.8 %
12 month	111.7 %	EPS, just	22.7 %
Since start of the year	75.2 %	Equity	20.6 %

Shareholder structure %	Capital	Votes
Gert Nordin	13.6 %	13.6 %
Goran Nordlund	10.2 %	10.2 %
Jonas Nordlund	9.6 %	9.6 %
Chirp AB	5.2 %	5.2 %
Erik Fischbeck Holding AB	5.1 %	5.1 %
AIF Clients	4.7 %	4.7 %
Jovitech Invest AB	3.7 %	3.7 %
Robert Lidstr□m Holding AB	2.6 %	2.6 %
Henrik Larsson Lyon	2.4 %	2.4 %

Share information	
Reuters code	
List	
Share price	28.9
Total shares, million	34.4
Market Cap, MSEK	994.1

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

Financial information

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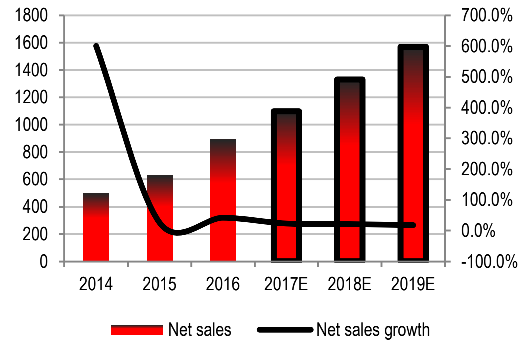
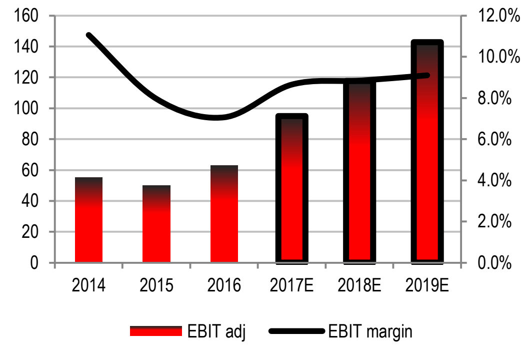
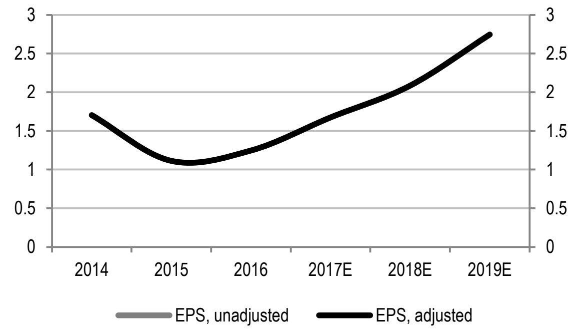
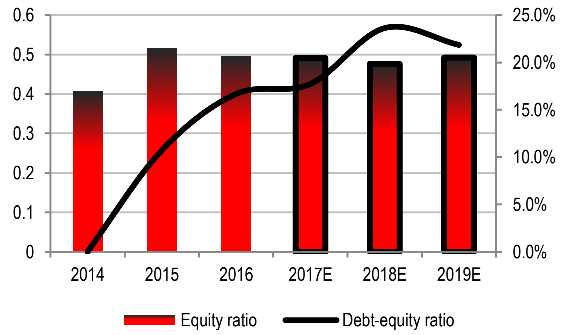
Revenue & Growth (%)	EBIT (adjusted) & Margin (%)





Earnings per share	Equity & debt-equity ratio (%)





Sales division	Geographical areas

Conflict of interests	Company description
Kristoffer. Lindström owns shares in the company Hexatronic: Yes **Henrik. Alveskog owns shares in the company Hexatronic: No** Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.	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.

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Redeye Rating (2016-10-26)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	41	43	20	8	18
3,5p - 7,0p	71	61	92	34	45
0,0p - 3,0p	6	14	6	76	55
Company N	118	118	118	118	118

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