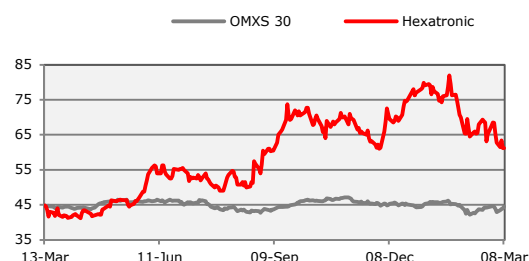


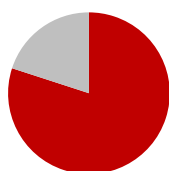
**Summary**
**Hexatronic (HTRO.ST)**
**The opportunity abroad**

- The performance during Q4 was adversely affected by a slowdown in the Swedish market for fiber investments, and the reported figures came in below our projections. The company remains confident about the coming years and views the downturn as only temporary.
- We find it likely with a substantial up-take in the UK and USA in the coming years, as market data indicates a sky-rocking escalation in fiber investments. It looks like 2018 will be the true breakthrough year for fiber in the UK and Hexatronic is well positioned. The key event during the quarter was the acquisition of US-based duct manufacturer Blue Diamond Industries.
- We reiterate our Base-case valuation of 78 SEK per share. We model a somewhat softer Swedish market but with a substantial up-take from international growth regions. We view the long-term prospects as undoubtedly positive for Hexatronic.

List: 2,261 MSEK  
 Market Cap: 2,261 MSEK  
 Industry: Telecommunication Equipment  
 CEO: Henrik Larsson Lyon  
 Chairman: Anders Persson

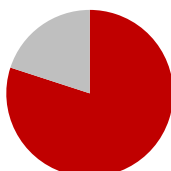

**Redeye Rating (0 – 10 points)**

Management



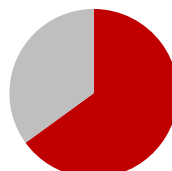
8.0 points

Ownership



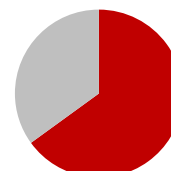
8.0 points

Profit outlook



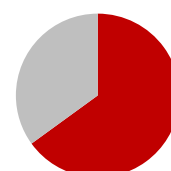
6.5 points

Profitability



6.5 points

Financial strength



6.5 points

**Key Financials**

	2016	2017	2018E	2019E	2020E
Revenue, MSEK	1,032	1,299	1,590	1,876	2,158
Growth	65%	26%	22%	18%	15%
EBITDA	110	151	187	234	299
EBITDA margin	11%	12%	12%	12%	14%
EBIT	89	122	153	182	238
EBIT margin	9%	9%	10%	10%	11%
Pre-tax earnings	70	116	145	172	229
Net earnings	54	90	113	134	179
Net margin	5%	7%	7%	7%	8%
Dividend/Share	0.00	0.29	0.37	0.43	0.58
EPS adj.	1.61	2.41	3.05	3.61	4.81
P/E adj.	13.9	31.9	20.5	17.3	13.0
EV/S	0.8	2.1	1.5	1.2	1.0
EV/EBITDA	7.5	18.3	12.7	9.9	7.5

**Share information**

Share price (SEK)	62.5
Number of shares (m)	36.2
Market Cap (MSEK)	2,261
Net debt (MSEK)	105
Free float (%)	50 %
Daily turnover ('000)	50

**Analysts:**

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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.

## Sweden slow but UK and USA picking up pace

The performance during Q4 was adversely affected by a slowdown in the Swedish market for fiber investments, and the reported figures came in below our projections. The company remains confident about the coming years and views the downturn as only temporary. Overall we expect the Swedish market to sustain the investment rate during 2018, but not show a massive growth over the past years. We find it likely with a substantial up-take in the UK and USA the coming years, as market data indicates a sky-rocking escalation in fiber investments. The key event during the quarter was the acquisition of US-based duct manufacturer Blue Diamond Industries.

### Outcome for the quarter

Estimate vs. Outcome				
MSEK	2016Q 4	2017Q 4E	2017Q 4A	Diff
<b>Net sales</b>	<b>305</b>	<b>372</b>	<b>325</b>	<b>-13%</b>
other income	0.3	2	17	
COGS	-169	-208	-181	-13%
<b>Gross Profit</b>	<b>137</b>	<b>166</b>	<b>161</b>	<b>-3%</b>
Adj. Gross profit			148	-11%
SG&A	-104	-119	-123	3%
<b>EBITDA</b>	<b>33</b>	<b>47</b>	<b>38</b>	<b>-19%</b>
Adj. EBITDA			26	-44%
Net sale Growth		22%	7%	
Gross Profit margin	45%	45%	49%	
EBITDA margin %	11%	13%	12%	
Adj. EBITDA margin		13%	12%	

Source: Hexatronic Group & Redeye Research

The reported figures were clearly below our expectation. Growth during the quarter amounted to 7%, of about 4% was organic. Reported EBITDA came in at SEK 38m. During the period some one-off effects were affecting the comparability, so the adjusted EBITDA amounted to about SEK 26m. Scale factors of SG&A cost mostly explain the lower margin and profit level, i.e., due to semi-fixed expenses, the more moderate net sales level affected the margins.

As we wrote in our preview; there has been some news from IP-Only that they are conducting some strategic oversight of their projects. The large network operator has announced that they temporarily suspended some new rollout projects in Sweden to complete projects not completed in 2017. Hexatronic states that a high rate of expansion during 2017 followed by the seasonal slowdown at the end of the year has led to a stock buildup at all stages of the value chain. So due to the extensive inventory held by both

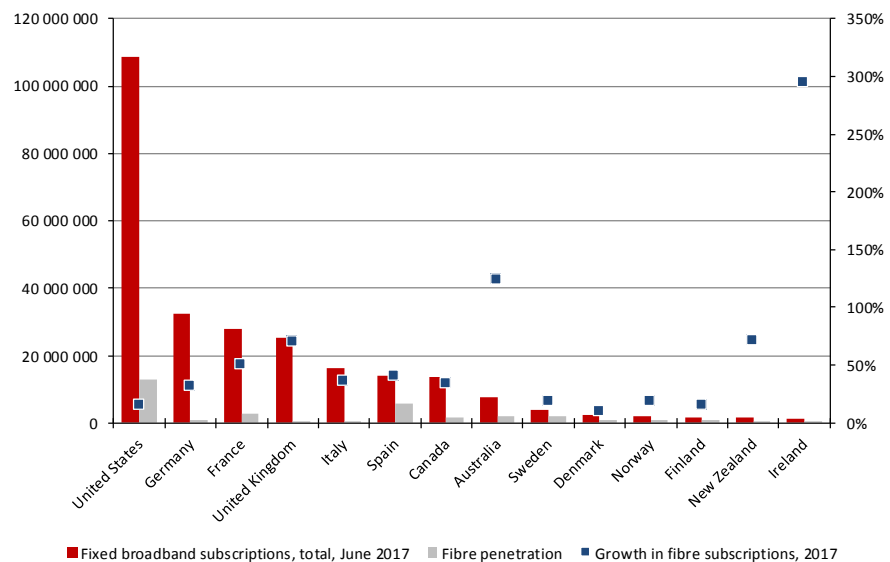
wholesalers and installers both sales and order bookings have been affected. Overall the company views the slowdown as only temporary and expects the investment rate in fiber in Sweden during 2018 will be at about the same level as during 2017.

### The huge international opportunity – focus on USA, UK and Germany

We notice that at both the investor presentation, that we attended, and in the report the company seems increasingly optimistic about the market outlook for UK, USA, and Germany. We have a feeling that we might see a real sales breakthrough in the international markets during the year. We dig deeper into this matter below.

The long-term market opportunity for Hexatronic lies in its international expansion. The overall household fiber penetration in large economies such as USA, Germany, France, UK, and Canada is still very low. In the diagram below one notices that the growth in fiber subscriptions in the larger and “immature” countries outpaces the smaller and more mature ones (except outliers like Australia, Ireland and New Zealand). Looking at Sweden, Norway, and Denmark, countries with relatively high penetration rates, they still experienced growth in the region of 10-18% 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.

**Fixed broadband subs, fiber penetration % and growth in fiber subs. (2017)**



Source: OECD

In the US, there are more than 100 million fixed broadband subscribers, and of these approximately 12% is through real fiber connection. Compared to Sweden (Hexatronic’s largest market today) where there are about 3.7 million subscribers, and 58% of those use fiber. We expect that the trend

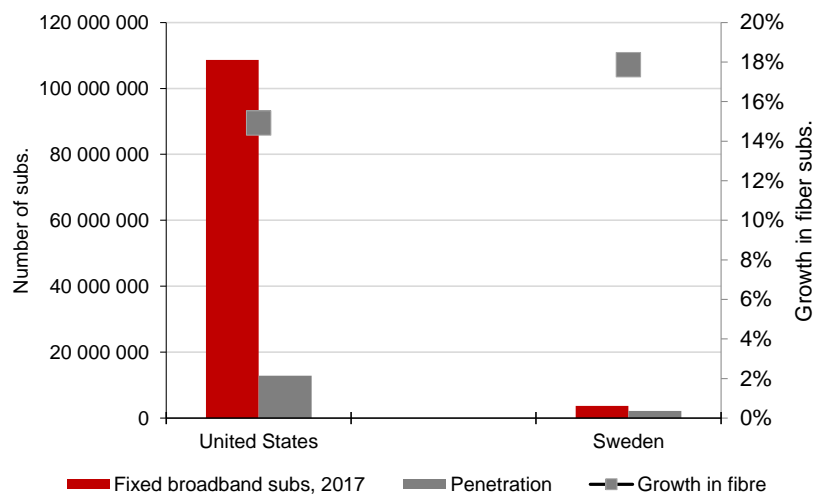
above is only in its infancy and that these countries will invest heavily in fiber infrastructure in the coming two decades, simply because they have to. Fiber infrastructure is as critical as any other utility for any country that has serious ambitions to participate in the global digital economy.

There is a great deal of variation between countries in their approach to fiber and those that get ahead of the game stand to be at a significant competitive advantage (in our opinion). Other technologies (e.g., vectoring) may temporarily satisfy the masses but should not be viewed as a long-term solution to develop an infrastructure capable of supporting the sky-high ambitions of the digital economy; only fiber will do.

### USA - acquisition of BDI brings massive potential

In December Hexatronic Group announced the purchase of the US-based duct manufacture named Blue Diamond Industries (BDI). To quote our text in the latest research report; “To be able to handle a larger production for the operator we believe Hexatronic will have to acquire a duct production company in the USA.” Well, occasionally you are relatively accurate in your foretelling’s. We believe that the acquisition is strategically necessary and that the price tag is appetizing. Hexatronic is stepping up the pace in the USA, a market which holds great potential.

**Fixed broadband subs, fiber penetration % and growth in fiber subs. (2017) (USA & Sweden)**



Source: OECD

There are about 109 million subscribers of fixed broadband, with a fiber penetration of 15%. The number of fiber users grew by 18% during 2017 (June). The USA is a massive market and almost 30 times larger than the Swedish. Today about 12% of the total number of users have fiber in the USA, which can be compared to 58% in Sweden. We can say that the runway and future need of fiber investments are significant.

Hexatronic acquires the High-Density Polyethylene (HDPE) conduit and duct manufacture for an Enterprise Value (EV) of USD 24.5m with an additional purchase consideration of up to USD 2.5m based on the future performance of the company. A committed senior debt will fund the M&A deal. BDI is based in Lexington, Kentucky and has about 85 employees. The sellers are the four members of the senior management team, which all will remain at their current positions with the aim to take the company to new heights as part of the Hexatronic family.

Due to tax legalizations and the corporate structure of BDI the transaction will result in a tax benefit of USD 4m. So the effective EV will amount to USD 20.5-23.0m. During 2017 BDI produced net sales of SEK 250m with an EBITDA margin of approximately of 14%. The M&A multiples look compelling when comparing to Hexatronic’s valuation levels prior the announced acquisition.

M&A multiples (2017) compared to Hexatronic's valuation							
	EV	Sales	EBITDA	EV/sales	EV/EBITDA	Sales growth	EBITDA margin
BDI in \$	20.5 23	29	4	0.7x 0.8x	5.0x 5.6x	10%	14%
Hexatronic Group*	2384	1299	151	1.8x	15.8x	26%	12%

*Current EV and 2017 figures*

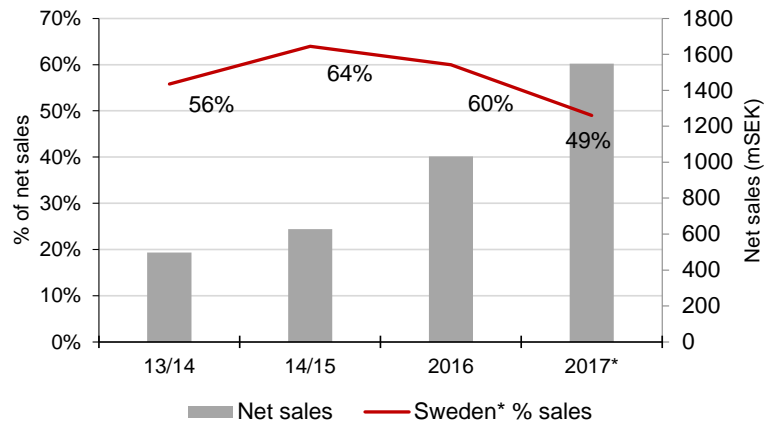
*Source: Redeye Research*

The company invested in a new factory during 2016 as the old facility was destroyed in a blizzard, luckily no one was hurt. BDI has been growing their income level by at a low double-digit rate the last few years. Hexatronic expects to see a high growth going onwards as the company will expand their product portfolio with other items from the Group. The company will also invest in a micro-duct production as the duct currently produced is of a larger sort. BDI will be consolidated on the 2<sup>nd</sup> of January 2018.

**Growing sales outside of Sweden**

All in all the M&A deal shows that Hexatronic is stepping up the pace in the USA. Hexatronic’s MATRIX system is, as communicated earlier, now approved by a major US telecom operator that during 2017 installed 700 000 homes passed compared to the whole swedish market of about 300 000 on 2017. With the acquisition of BDI and the large US telecom operator, the possibility of taking a slice of the massive USA market is significantly enhanced.

**Net sales & Sweden sales, % of total**

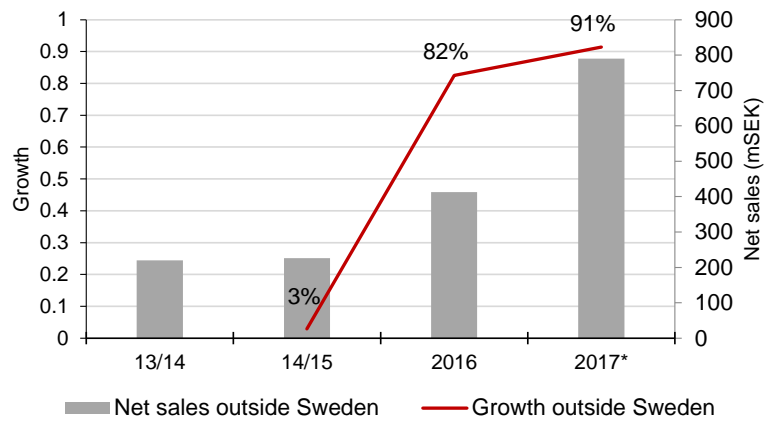


Source: Redeye Research

\*on pro-forma with BDI fully consolidated whole year

Interestingly Hexatronic is becoming less and less dependent on the Swedish market, and after the acquisition of Blue Diamond Industries (BDI) about 49% of the pro forma income during 2017 was related to Sweden, down from 60% the previous year. We view the purchase as strategically important and that Hexatronic is stepping up the phase in the USA.

**Net sales outside of Sweden and growth**



Source: Redeye Research

\*on pro-forma with BDI fully consolidated whole year

The international expansion is becoming increasingly crucial for Hexatronic. The company grew net sales from outside of Sweden, pro forma basis, by 91% during 2017. The regions with the most significant sales up-take are likely New Zealand, UK, and USA through the BDI acquisition.

## UK

The development in the UK, one of Hexatronics focus markets, is worth highlighting. During the split financial year of 2015/16 (2017 figures is yet to be released) the company had about 2% of the sales from the region, we believe this will grow significantly the coming years due to enhanced market conditions. In 2016 the Group acquired OpticReach, we believe Hexatronic is well positioned with an attractive offering to reap benefit of the expanding UK market.



### Openreach makes big FTTP statement

Openreach (British Telecom-owned), the UK's dominant fixed-line wholesaler, has vowed to ramp up its fiber-to-the-premises roll-out to hit three million premises by the end of 2020 to reach ten million by the mid-2020s. This programme should be distinguished from the previous strategy (Gfast) of combining FTTC with copper augmentation. The underlying point seems to be to virtue-signal about its new-found commitment to fiber. Openreach reckons the cost of all this new fiber will be £300-£400 per premise, making the total cost £1-4 billion.

## Openreach 'Fibre First' programme – 3m FTTP by end of 2020



- Already building our ultrafast network - mix of G.fast and FTTP<sup>1</sup>
  - bringing at least 100Mbps broadband speeds
  - 886,000 premises passed as at end of December 2017



- Commitment to reach 3m FTTP by end of 2020, ambition to reach 10m by mid-2020s, if conditions are right
  - 8 cities out of 40 named in first phase of the programme



- Broad support for consultation on large scale deployment; co-operation needed on key enablers including:
  - achieving low build and connection costs
  - achieving rapid take-up of and generating incremental revenue from the platform
  - supportive regulatory and public policy framework



- Improving deployment methods
  - including trenching machines, connectorised blocks and plug and play fibre frames
  - estimated £300 - £400 per premise passed<sup>2</sup>, plus £150 - £175 to connect<sup>3</sup>

### Win-win solution for all stakeholders

<sup>1</sup> Fibre-to-the-Premises <sup>2</sup> for first 10m premises passed <sup>3</sup> excludes cost of battery back-up for the majority of customers

Overview and Strategy	Group	Consumer	EE	Business and Public Sector	Global Services	Wholesale and Ventures	Openreach	Appendix
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Source: Openreach



### CityFibre and its ambitions

CityFibre is the UK's leading alternative provider of wholesale full-fiber network infrastructure. CityFibre's strategy is to establish CityFibre as a leading alternative wholesale full fiber network provider to Openreach in its chosen markets. It has metro duct and fiber footprints in 42 towns and cities across the UK. Fiber-to-the-home/premises ('FTTH/P') network construction will leverage CityFibre's existing core metro networks already present across 42 UK towns and cities.

## Integrating our verticals through densification

	Metro infrastructure			Natural expansion to FTTH using metro infrastructure	FTTH expansion
	Public Sector	Business	Mobile		Consumer
<b>50 towns &amp; cities</b> (Planned Addressable)	<b>52,100 sites</b>	<b>420,000 sites</b>	<b>8,700 cells</b> (43,500 small cells)		<b>5,200,000 homes</b>
<b>New city &amp; incremental connection drivers<sup>(1)</sup>:</b>	<ul style="list-style-type: none"> <li>£740m stimulus</li> <li>Public sector anchors</li> <li>Gov't target 100 towns and cities</li> </ul>	<ul style="list-style-type: none"> <li>Entanet acquisition</li> <li>Full fibre business vouchers</li> <li>Business parks rollout</li> </ul>	<ul style="list-style-type: none"> <li>Transition to dark fibre</li> <li>5G &amp; small cells</li> <li>Discussions with MNOs</li> </ul>		<ul style="list-style-type: none"> <li>Ofcom – 3<sup>rd</sup> network to 40% of premises</li> <li>HM Treasury – £800m DIIF for competitive full fibre</li> </ul>
<b>42 towns &amp; cities</b> (Current Addressable)	<b>43,820 sites</b>	<b>349,400 sites</b>	<b>7,300 cells<sup>(2)</sup></b> (36,500 small cells <sup>(2)</sup> )		<b>4,383,000 homes</b> (within metro footprints)
<b>Sold connections</b> (Penetration % of current)	<b>1,946 sites<sup>(3)</sup></b> (4.5%)	<b>6,010 sites<sup>(3)</sup></b> (1.7%)	<b>37 cells<sup>(3)</sup></b> (Trial city)		<b>3,758 homes<sup>(4)</sup></b> (Trial)
<b>Example channel partners</b> (Current and potential partners)					

Sources: Company information and public information.  
 Notes: (1) Subject to government policy changes. (2) Estimated. (3) Sold connections as at 30<sup>th</sup> June 2017. (4) York FTTH trial connections sold as at 30 June 2017.

Source: CityFibre



### New partnership with Vodafone

During November CityFibre signed a strategic FTTH partnership with Vodafone which we believe is a big step. Under the agreement, CityFibre will provide full-fiber connectivity in the first phase to a minimum of one million UK homes in twelve cities. Two cities have already been announced, Milton Keynes and Aberdeen, with the potential to extend this to up to five million UK homes (approximately 50 towns and cities and representing 20% of the current UK broadband market) by 2025. Vodafone has made a minimum volume-based commitment for ten years, which scales over the period, maturing at 20% of homes passed. In turn, Vodafone has been granted a period of marketing exclusivity, city by city, for consumer grade fiber-to-the-home ('FTTH') services mainly during the construction period.

Construction will commence in 2018, peak in 2020, and is expected to be mostly complete in four years. The Company expects the indicative cost to construct the FTTH/P network at maturity should be in the range of £350 to £480 per home passed (not connected). Fiber optic cables will be used for every stage of the connection, from the customer’s home or business to the Internet, allowing Vodafone to offer broadband speeds which it hopes will hit 1 Gbps.

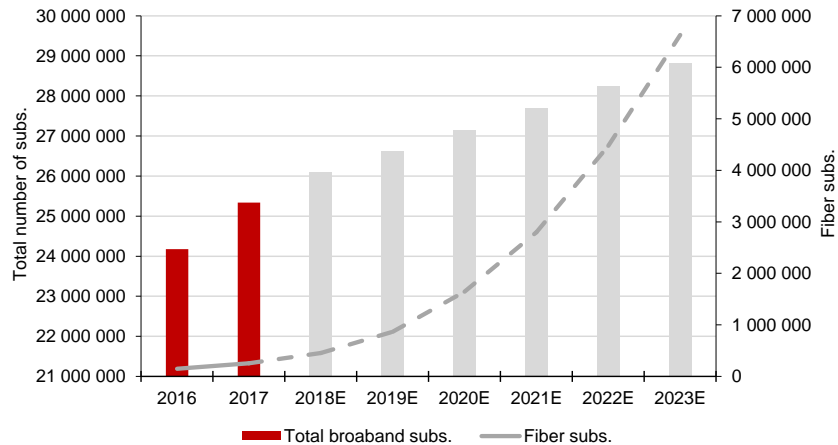
**Ramp-ups are expected by incumbents**

We believe that this development should generate reactions from incumbents like BT. In cities like Milton Keynes and Aberdeen, there has been little competition so far, Vodafone could easily capture frustrated customers with a strong speed offering. These cities where terrible broadband has become the norm will welcome disruption to the status quo.

**The UK in figures**

According to OECD.org, there are a total of 25.3 million broadband subscribers in the UK. About 1% of these use fiber. The average fiber penetration in the OECD countries in June 2017 was 22%. If the fiber penetration in the UK would reach this level by 2023, then there would likely be close to 7 million fiber users.

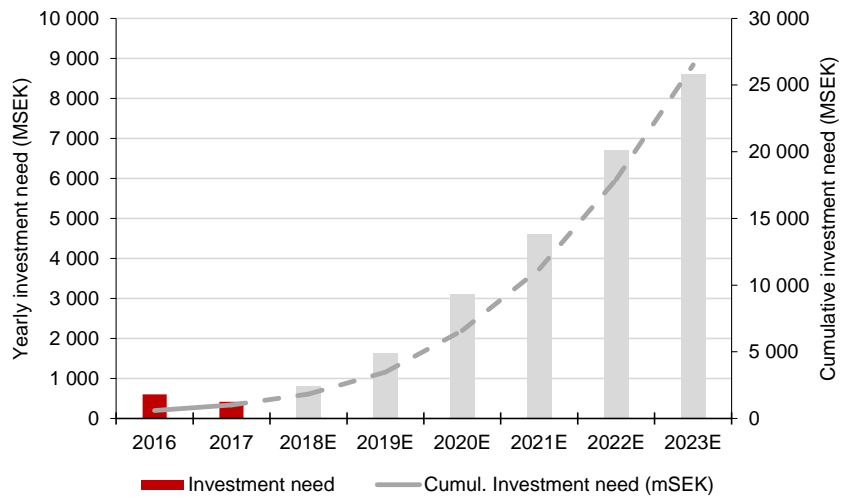
**Fixed broadband subs. & Fiber subs the UK**



Source: OECD & Redeye Research

What does it cost to go from the level we see today, with 250k, to 7 million users? Well, apparently a lot. We have previously stated that the material cost for connecting a user is 15-20% of the total cost related to the installation, based on the cost statement of Openreach this approximation holds true.

**Investment need related to material yearly and cumulative the UK (MSEK)**



Source: Redeye Research

We believe that the cumulative investment need related to the material to connect roughly 7 million users will amount to SEK 25bn; this is, of course, a massive amount, but we might still be lowballing.

### **Even Germany shifts focus to fiber**

Another interesting governmental shift concerns Germany (a country with slow historical fiber adoption). Germany is a new focus market for Hexatronic and we believe that the commitments to fiber all over Europe are gaining traction. We also know that the company is actively looking at M&A candidates to enter the market more quickly.

According to the new Chancellor-general Helge Braun, the German government will only promote fiber broadband going forward. Speaking to broadcaster ZDF, he confirmed the government was moving away from its previous target of 50 Mbps service for all by the end of 2018, which was based on upgrades to the copper network. Instead, it would adopt a new funding strategy (of 12 billion Euro) for encouraging broadband expansion, not based on old technology. Any new lines promoted with subsidies in a region or neighborhood would have to be fiber.

## Next quarter and estimate adjustments

The softer Swedish market has definitely affected the order intake negatively, and at the beginning of 2018 the level was 8% higher compared to the period last year. On a quarter over quarter basis this drop is rather significant. We have also noticed that the winter has been colder than usual in Sweden, which also affects the investment rate in fiber. BDI will make a positive contribution on the top-line, and as we have described earlier, we believe the other geographic regions will continue to grow and have a positive impact during Q1.

For Q1 we expect project revenues in the region of SEK 326m corresponding to a growth of roughly 12%. The first quarter of the year is Hexatronic weakest due to the seasonality of the business, and as the company has quite a lot of semi-fixed costs, the margins will be lower.

Next quarter estimates		
MSEK	2017 Q1	2018 Q1E
Net sales	291	326
EBITDA	21	18
EBIT	14	10
Net sales growth	50.9%	12.0%
EBITDA margin	7.2%	5.5%
EBIT margin	4.8%	3.0%

Source: Redeye Research

Our projections for the full-year are based on the following assumptions

- Acquisition of BDI boost sales level during the whole year, we do not account for any further purchases of companies in our estimates
- Softer H1 for the Swedish market but as a whole on the same level as last year, but limited growth
- More substantial sales uptake from H2 driven by a Swedish market more in phase and international markets intensify, mainly the UK. The USA, outside of BDI, holds great potential but we model a more significant impact during 2019

Forecast adjustments		
MSEK	2018E	2019E
<b>Revenues</b>		
Old	1 771	2 036
New	1 590	1 876
% change	-10%	-8%
<b>EBITDA</b>		
Old	197	229
New	187	234
% change	-5%	2%
<b>EBITDA-margin</b>		
Old	11.1%	11.2%
New	11.7%	12.5%

Source Redeye Research

As we have outlined in this research update, we see significant opportunity for Hexatronic to grow in international markets the coming decade. The focus on the UK and the USA will likely intensify thanks to favorable market conditions. We view an acquisition in Germany during the year as likely.

## Valuation

We reiterate our Base-case valuation of 78 SEK per share. We model a somewhat softer Swedish market but with a substantial up-take from international growth regions.

Our Base-case is based on the assumption that Hexatronic will experience significant growth for 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 13% between the years 2017-27 and an average EBITDA-margin of 14% during the period. Our valuation implies an EV/EBITDA exit multiple of 8x, which we find as a conservative assumption to make.

Hexatronic Group: Base-case			
Assumptions	2017-27	DCF-value	
CAGR Sales	13%	WACC	9.0%
EBITDA margin (avg)	14%	Net present value FCF	878
ROIC (avg)	36%	Net present value of Termin	2 122
<b>Terminal</b>		EV	3 000
Terminal growth FCF	2.0%	Net debt	-92
Terminal EBITDA margin	14%	Value assos. Companies	0
Exit EV/EBITDA multiple	8x	Value minorities	0
		<b>DCF-value</b>	<b>2 909</b>
		<b>Estimated Fair value</b>	<b>78</b>
		Today's share price	63.0
		<b>Potential/Risk</b>	<b>23%</b>

Source: Redeye Research

We view the valuation as increasingly attractive; we believe that the market in the short-term will focus on the softer Swedish market and less on the real opportunity that exists abroad, this might create a truly exciting investment possibility for the savvy investor.

### Valuation discrepancy should disappear

Our Base-case fair value implies an EV/EBIT 2018E multiple of about 19.6x. This is still lower than the international peer's trade at. The comparable group consisting of fiber optical equipment companies, which trade at a median of EV/EBIT18E of 22.4x. We believe a higher multiple to be motivated given the company's attractive growth prospects.

Peer valuation, international fiber optical companies								
Company	Curr.	EV (MSEK)	EV/S 18E	EV/S 19E	EV/EBIT 18E	EV/EBIT 19E	Sales CAGR 17-20E	EBIT % 18E
Fiberhome Telecom Tech CO-A	CNY	48 725	1.4x	1.1x	30.1x	23.9x	23%	5%
Clearfield INC	USD	1 294	1.9x	1.7x	24.0x	17.7x	10%	8%
O-net Communications Group	HKD	5 144	1.9x	1.6x	17.0x	13.3x	20%	11%
Huber & Suhner AG-REG	CHF	8 772	1.2x	1.2x	20.8x	18.6x	6%	6%
<b>Average</b>			<b>1.6x</b>	<b>1.4x</b>	<b>23.0x</b>	<b>18.4x</b>	<b>15%</b>	<b>7%</b>
<b>Median</b>			<b>1.6x</b>	<b>1.4x</b>	<b>22.4x</b>	<b>18.2x</b>	<b>15%</b>	<b>7%</b>
<b>Hexatronic Group</b>	SEK	<b>2384</b>	<b>1.5x</b>	<b>1.3x</b>	<b>15.5x</b>	<b>13.1x</b>	<b>18%</b>	<b>10%</b>
<i>at Base-case</i>		<i>3 000</i>	<i>1.9x</i>	<i>1.6x</i>	<i>19.6x</i>	<i>16.5x</i>		

Source: Bloomberg & Redeye Research

### **The investment case of Hexatronic**

- Hexatronic is establishing themselves outside of the Nordics. Investors have their focus on the current main market, which will mature by 2020. Excellent opportunity's lies in the UK, USA, and Germany as investments in fiber infrastructure will continue for a decade and more.
- Structural forces drive the growth of Hexatronic. The company is a profitable growth business but not valued as one, mainly because they are overlooked by investors. We believe the valuation will increase as most investors underestimate long-term structural growth.
- In the new market regions such as UK, USA, and possible soon Germany Hexatronic will focus on selling their system of Fiber products called Matrix with higher margins. This will lead to increased profitability when the international sales take off.

### **Structural forces of increased data consumption drive growth**

Hexatronic is present in a growing industry, but to be able to live up to a growth rate of 20% it is likely that future acquisitions are needed. A focus in the coming years will be the establishment of new market regions. As the fiber infrastructure market matures, new growth regions will become increasingly important. The investors mainly focus on the current main market, which will mature by about 2020. Excellent opportunity's lies in the UK, USA, Germany, and New Zealand as investments in fiber infrastructure will continue for a decade and more. In these new market regions, Hexatronic will focus on selling their system of Fiber products called Matrix with higher margins. The system selling approach will lead to increased profitability when the international sales take off. By the end of 2017, Hexatronic acquired Blue Diamond Industries (BDI), we believe this raises the possibilities of a real break-through in the important US market. The company's market presence increases and now can produce domestic plastic duct, which would not be feasible to ship from Sweden or New Zealand for larger orders. We see clear signs that the UK market is really taking off and there is a vast need for investments in fiber infrastructure on the island economy.

An important part of our Investment Thesis is the fact that structural forces drive the growth of Hexatronic. These significant and ongoing Thematic trends are the increased digital consumption, i.e., enhanced usage of data. Overall we find that the company is a profitable growth business but not valued as one, mainly because they are overlooked by investors. We believe the valuation will increase as most investors underestimate long-term structural growth.

**Bear-points (counter-arguments to our Thesis):**

- A dampened economy could lead to less investments in the fiber infrastructure
- Low price Chinese supplier still have a focus on their domestic market; this could shift over the coming years as the large Asian market matures
- New technologies like high-speed alternatives (less likely) to fiber or breakthroughs in data compression (possible) could lead to a smaller need of investments in the infrastructure of fiber

**Hexatronic: Fair value range**

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**Bull-case assumptions**

Key case model assumptions:

- CAGR sales 16% next ten years
- Average EBITDA margin of 17% coming ten years
- Terminal growth rate of 2%
- Terminal EBITDA margin of 15%

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 after that. In this scenario, we also model an increase their profitability due to scalability, and successful international expansion. The large increase in global sales leads to a higher capacity utilization of Hexatronic’s production units and increased long-term margins.

**Bear-case assumptions**

Key case model assumptions:

- CAGR sales 9% next ten years
- Average EBITDA margin of 11% coming ten years
- Terminal growth rate of 2%
- Terminal EBITDA margin of 10%

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 with competitors expanding their offerings. Lower growth, profitability and no acquisitions this give rise to a lower ROIC and lower terminal growth rates.

## Summary Redeye Rating

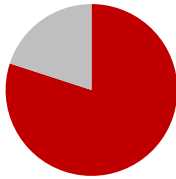
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The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

### Rating changes in the report

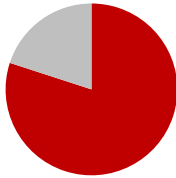
No changes in Rating

Management 8.0p



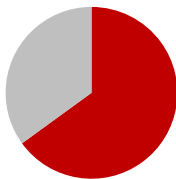
Hexatronic has a strong management team of entrepreneurial people with plenty of skin in the game. CEO have significant experience from the telecom industry. Staff at other key positions, that joined the group through last year's acquisitions, are also intact. The company has delivered so far on their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

Ownership 8.0p



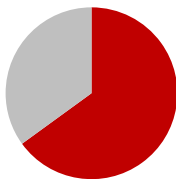
Hexatronic receives high scores in our ownership Rating. The CEO, Henrik Larsson-Lyon owns a significant stake in the company and Hexatronic has some of the most renowned institutional owners that focus on the small cap universe. The largest shareholder is the hedge-fund Accendo Capital, which is also an active member of the board.

Profit outlook 6.5p



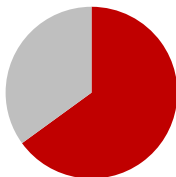
The rating for Growth Outlook is only average, in spite of good overall market prospects. The reason is mainly the competitive situation. Product differentiation appears to be difficult, thus price will always be an issue. Hexatronic is a small player compared to some of the dominant multinational companies.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

Profitability 6.5p



The last few years both the margins and return on capital has strengthened. Our rating for profitability focus mostly historical numbers. Overall we view Hexatronic's profitability levels as compelling and improving.

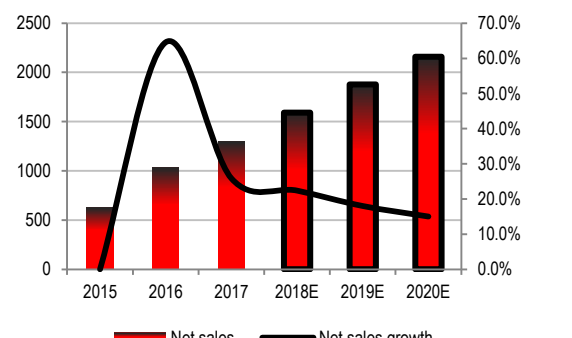
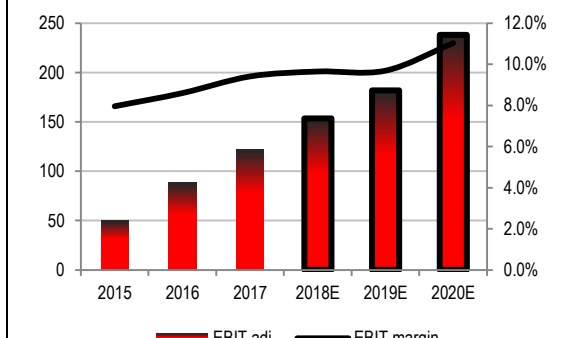
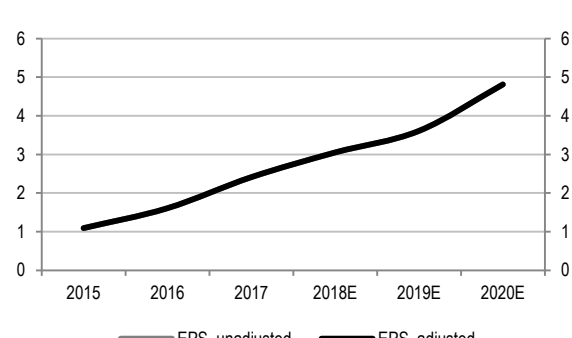
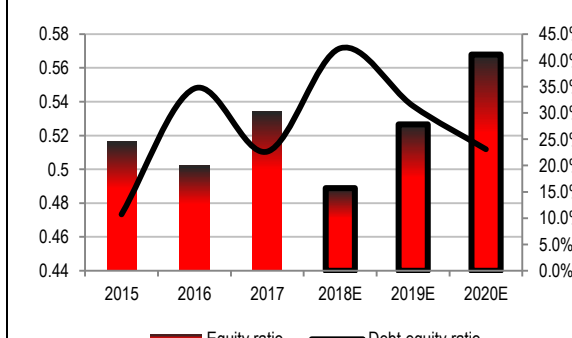
Financial strength 6.5p



In our view Hexatronic is very financial stable and receives a good score 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						DCF valuation		Cash flow, MSEK			
	2016	2017	2018E	2019E	2020E	WACC (%)	9.0 %				
Net sales	1,032	1,299	1,590	1,876	2,158						
Total operating costs	-923	-1,148	-1,403	-1,643	-1,859						
<b>EBITDA</b>	<b>110</b>	<b>151</b>	<b>187</b>	<b>234</b>	<b>299</b>						
Depreciation	-21	-29	-33	-48	-56						
Amortization	0	0	0	-4	-4						
Impairment charges	0	0	0	0	0						
<b>EBIT</b>	<b>89</b>	<b>122</b>	<b>153</b>	<b>182</b>	<b>238</b>						
Share in profits	0	0	0	0	0						
Net financial items	-19	-6	-8	-10	-9						
Exchange rate dif.	0	0	0	0	0						
<b>Pre-tax profit</b>	<b>70</b>	<b>116</b>	<b>145</b>	<b>172</b>	<b>229</b>						
Tax	-16	-26	-32	-38	-50						
<b>Net earnings</b>	<b>54</b>	<b>90</b>	<b>113</b>	<b>134</b>	<b>179</b>						
Balance						Assumptions 2017-2023 (%)		Fair value e. per share, SEK			
	2016	2017	2018E	2019E	2020E	Average sales growth	14.5 %				
						EBIT margin	11.3 %				
									78.0		
									62.5		
Assets						Profitability					
Current assets							2016	2017	2018E	2019E	2020E
Cash in banks	40	108	114	141	194	ROE	19%	24%	24%	23%	25%
Receivables	196	204	254	300	345	ROCE	25%	26%	25%	23%	26%
Inventories	207	237	294	347	399	ROIC	39%	30%	38%	29%	34%
Other current assets	21	15	18	22	25	EBITDA margin	11%	12%	12%	12%	14%
<b>Current assets</b>	<b>464</b>	<b>564</b>	<b>681</b>	<b>810</b>	<b>963</b>	EBIT margin	9%	9%	10%	10%	11%
Fixed assets						Net margin	5%	7%	7%	7%	8%
Tangible assets	80	94	159	188	237						
Associated comp.	0	0	0	0	0						
Investments	0	0	0	0	0						
Goodwill	0	0	0	0	0						
Cap. exp. for dev.	113	119	219	214	210						
O intangible rights	0	0	0	0	0						
O non-current assets	0	0	0	0	0						
<b>Total fixed assets</b>	<b>194</b>	<b>213</b>	<b>378</b>	<b>402</b>	<b>448</b>						
Deferred tax assets	0	0	0	0	0						
<b>Total (assets)</b>	<b>657</b>	<b>777</b>	<b>1,059</b>	<b>1,212</b>	<b>1,411</b>						
Liabilities						Data per share					
Current liabilities							2016	2017	2018E	2019E	2020E
Short-term debt	26	24	0	0	0	EPS	1.61	2.41	3.05	3.61	4.81
Accounts payable	104	141	175	206	237	EPS adj	1.61	2.41	3.05	3.61	4.81
O current liabilities	77	92	112	132	152	Dividend	0.00	0.29	0.37	0.43	0.58
<b>Current liabilities</b>	<b>207</b>	<b>256</b>	<b>287</b>	<b>339</b>	<b>389</b>	Net debt	2.22	-0.38	2.82	1.58	-0.24
Long-term debt	89	71	219	200	185	Total shares	33.68	37.51	37.19	37.19	37.19
O long-term liabilities	0	0	0	0	0						
Convertibles	0	0	0	0	0						
<b>Total Liabilities</b>	<b>296</b>	<b>326</b>	<b>506</b>	<b>539</b>	<b>574</b>						
Deferred tax liab	32	35	35	35	35						
Provisions	0	0	0	0	0						
Shareholders' equity	330	415	518	638	801						
Minority interest (BS)	0	0	0	0	0						
<b>Minority &amp; equity</b>	<b>330</b>	<b>415</b>	<b>518</b>	<b>638</b>	<b>801</b>						
<b>Total liab &amp; SE</b>	<b>657</b>	<b>777</b>	<b>1,059</b>	<b>1,212</b>	<b>1,411</b>						
Free cash flow						Valuation					
	2016	2017	2018E	2019E	2020E		2016	2017	2018E	2019E	2020E
Net sales	1,032	1,299	1,590	1,876	2,158	EV	825.7	2,768.6	2,365.5	2,319.6	2,251.7
Total operating costs	-923	-1,148	-1,403	-1,643	-1,859	P/E	13.9	31.9	20.5	17.3	13.0
Depreciations total	-21	-29	-33	-52	-61	P/E diluted	13.9	31.9	20.5	17.3	13.0
<b>EBIT</b>	<b>89</b>	<b>122</b>	<b>153</b>	<b>182</b>	<b>238</b>	P/Sales	0.7	2.2	1.5	1.2	1.1
Taxes on EBIT	0	0	0	0	0	EV/Sales	0.8	2.1	1.5	1.2	1.0
<b>NOPLAT</b>	<b>89</b>	<b>122</b>	<b>153</b>	<b>182</b>	<b>238</b>	EV/EBITDA	7.5	18.3	12.7	9.9	7.5
Depreciation	21	29	33	52	61	EV/EBIT	9.3	22.6	15.4	12.8	9.5
<b>Gross cash flow</b>	<b>110</b>	<b>151</b>	<b>187</b>	<b>234</b>	<b>299</b>	P/BV	2.3	6.7	4.4	3.5	2.8
Change in WC	-105	19	-56	-50	-50						
Gross CAPEX	-89	-48	-199	-76	-106						
<b>Free cash flow</b>	<b>-84</b>	<b>122</b>	<b>-68</b>	<b>107</b>	<b>143</b>						
Capital structure						Share performance					
	2016	2017	2018E	2019E	2020E		Growth/year		15/17e		
Equity ratio	50%	53%	49%	53%	57%	1 month	-4.9 %		Net sales		
Debt/equity ratio	35%	23%	42%	31%	23%	3 month	-9.4 %		Operating profit adj		
Net debt	75	-14	105	59	-9	12 month	42.7 %		EPS, just		
Capital employed	405	401	623	697	792	Since start of the year	-18.8 %		Equity		
Capital turnover rate	1.6	1.7	1.5	1.5	1.5						
Growth						Shareholder structure %					
	2016	2017	2018E	2019E	2020E		Capital		Votes		
Sales growth	65%	26%	22%	18%	15%	Accendo Capital	12.9 %		12.9 %		
EPS growth (adj)	47%	50%	27%	18%	33%	Jonas Nordlund	8.3 %		8.3 %		
						Fondita Fonder	5.0 %		5.0 %		
						Chirp AB	4.9 %		4.9 %		
						Göran Nordlund	4.5 %		4.5 %		
						Handelsbanken Fonder	4.3 %		4.3 %		
						Swedbank Robur Fonder	3.7 %		3.7 %		
						Nordea Fonder	3.6 %		3.6 %		
						Avanza Pension	3.1 %		3.1 %		
						Henrik Larsson Lyon	2.2 %		2.2 %		
Management & board						Share information					
	2016	2017	2018E	2019E	2020E	Reuters code					
						List					
						Share price					
						Total shares, million					
						Market Cap, MSEK					
						2260.7					
						CEO					
						CFO					
						IR					
						Chairman					
						Henrik Larsson Lyon					
						Lennart Sparud					
						Anders Persson					
Financial information						Analysts					
	2016	2017	2018E	2019E	2020E	Redeye AB					
						Kristoffer Lindstrom					
						Mäster Samuelsgatan 42, 10tr					
						kristoffer.lindstrom@redeye.se					
						111 57 Stockholm					
						Havan Hanna					
						havan.hanna@redeye.se					

Revenue & Growth (%)	EBIT (adjusted) & Margin (%)																																										
 <table border="1"> <caption>Revenue &amp; Growth (%) Data</caption> <thead> <tr> <th>Year</th> <th>Net sales</th> <th>Net sales growth</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~600</td> <td>~0%</td> </tr> <tr> <td>2016</td> <td>~1000</td> <td>~65%</td> </tr> <tr> <td>2017</td> <td>~1300</td> <td>~30%</td> </tr> <tr> <td>2018E</td> <td>~1600</td> <td>~25%</td> </tr> <tr> <td>2019E</td> <td>~1900</td> <td>~20%</td> </tr> <tr> <td>2020E</td> <td>~2200</td> <td>~15%</td> </tr> </tbody> </table>	Year	Net sales	Net sales growth	2015	~600	~0%	2016	~1000	~65%	2017	~1300	~30%	2018E	~1600	~25%	2019E	~1900	~20%	2020E	~2200	~15%	 <table border="1"> <caption>EBIT (adjusted) &amp; Margin (%) Data</caption> <thead> <tr> <th>Year</th> <th>EBIT adj</th> <th>EBIT margin</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~50</td> <td>~8.0%</td> </tr> <tr> <td>2016</td> <td>~90</td> <td>~9.0%</td> </tr> <tr> <td>2017</td> <td>~120</td> <td>~9.5%</td> </tr> <tr> <td>2018E</td> <td>~150</td> <td>~10.0%</td> </tr> <tr> <td>2019E</td> <td>~180</td> <td>~10.5%</td> </tr> <tr> <td>2020E</td> <td>~230</td> <td>~11.5%</td> </tr> </tbody> </table>	Year	EBIT adj	EBIT margin	2015	~50	~8.0%	2016	~90	~9.0%	2017	~120	~9.5%	2018E	~150	~10.0%	2019E	~180	~10.5%	2020E	~230	~11.5%
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<p><b>Sales division</b></p>	<p><b>Geographical areas</b></p>																																										
<p><b>Conflict of interests</b></p> <p><b>Kristoffer. Lindström. owns shares in the company Hexatronic : Yes</b>  <b>Havan. Hanna. owns shares in the company Hexatronic: 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><b>Company description</b></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>																																										

**DISCLAIMER****Important information**

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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**Redeye Rating (2018-03-12)**

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	46	41	17	10	20
3,5p - 7,0p	70	66	101	34	46
0,0p - 3,0p	13	22	11	85	63
Company N	129	129	129	129	129

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