

Hexatronic

Sector: Telecommunication Equipment

Softer in Sweden, but international is going strong

2018 a year of consolidation

During 2017 the fiber market in Sweden saw a huge surge in demand and the investment rate in the fiber infrastructure was at extreme heights. Hexatronic even had a hard time handling the volumes, and there was a shortage of the raw material fiberglass. 2018 will be a more "normal" year, and we will see lower business volumes compared to the record levels in 2017. The current market dynamics in the home market does, of course, affect Hexatronic negatively. The aggressive growth in international revenues will most likely be more or less netted out by the drop in Sweden, creating a sort of consolidation period. By 2019 we expect to see organic growth in Sweden again.

The international expansion decides the value

Sweden is important for Hexatronic as it's their home-market and stand for about 40% of revenue today. However, the true opportunity lies in the international markets like the USA, the UK, and Germany, where one operator can be many times larger than the whole Swedish market. During Q2 we saw increasing system sales volumes in the USA and after the period ended Hexatronic landed a milestone deal in the UK, signaling the start of something bigger.

Short-term pressure creates an opportunity

We have made some forecast adjustments which leads to a slightly lowered Base-case and valuation range. Our Base-case now amounts to **72** (78) SEK per share. 2018 will be a year where the market focuses on the short-term pressure in Sweden, which might lead to a wait and see approach for investors. A large order from the USA would most likely create a shift in sentiment, but that is something which is hard to predict in beforehand. We view further acquisitions as more likely than not, but this is something we do not account for in our projections. We find that the short-term pressure might create a great opportunity for the long-term investor.

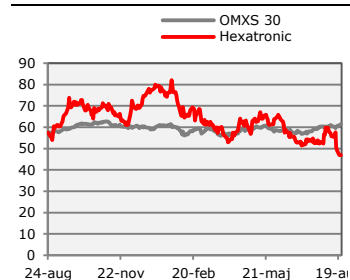
| KEY FINANCIALS (MSEK) | 2016 | 2017 | 2018E | 2019E | 2020E | 2021E |
|-----------------------|------|------|-------|-------|-------|-------|
| Net sales | 1032 | 1299 | 1553 | 1828 | 2157 | 2481 |
| EBIT | 89 | 122 | 114 | 138 | 222 | 261 |
| EBITDA | 110 | 151 | 155 | 196 | 263 | 312 |
| EPS (adj.)(SEK) | 1.6 | 2.4 | 2.1 | 2.8 | 4.6 | 5.5 |
| EV/Sales | 0.8 | 2.1 | 1.3 | 1.1 | 0.9 | 0.7 |
| EV/EBIT | 9.3 | 22.6 | 17.2 | 14.2 | 8.6 | 7.1 |
| EV/EBITDA | 7.5 | 18.3 | 12.7 | 10.0 | 7.2 | 5.9 |
| P/E | 13.9 | 31.9 | 24.2 | 18.4 | 11.0 | 9.3 |

Source: Redeye Research

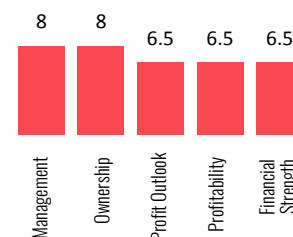
FAIR VALUE RANGE

| BEAR | BASE | BULL |
|------|------|-------|
| 25.0 | 72.0 | 114.0 |

VERSUS OMXS30



REDEYE RATING



KEY STATS

| | |
|--------------------------|---------|
| Ticker | HTRO.ST |
| Market | Nasdaq |
| Share Price (SEK) | 50.7 |
| Market Cap (MSEK) | 1840 |
| Net Debt 18E (MSEK) | 130 |
| Free Float | 78 % |
| Avg. daily volume ('000) | 100 |

ANALYSTS

Kristoffer Lindstrom
kristoffer.lindstrom@redeye.se
 Havan Hanna
havan.hanna@redeye.se

International on the rise

| Estimate vs. Outcome | | | | |
|----------------------|------------|-------------|------------|------------|
| MSEK | 2017 Q2 | 2018 Q2E | 2018 Q2 | Diff |
| Net sales | 346 | 380 | 412 | 8% |
| of which Nordic | 247 | 197 | 187 | -5% |
| Other Europe | 48 | 51 | 50 | -2% |
| North America | 2 | 81 | 103 | 28% |
| RoW | 49 | 51 | 71 | 38% |
| other income | 0.3 | 0.0 | 0.9 | |
| COGS | -190 | -205 | -230 | |
| Gross Profit | 156 | 175 | 182 | 4% |
| SG&A | -107 | -133 | -142 | |
| EBITDA | 49 | 42 | 40 | -5% |
| Net sale Growth | | 10% | 19% | |
| Gross Profit margin | 45% | 46% | 44% | |
| EBITDA margin % | 14% | 11% | 10% | |

Source: Hexatronic Group & Redeye Research

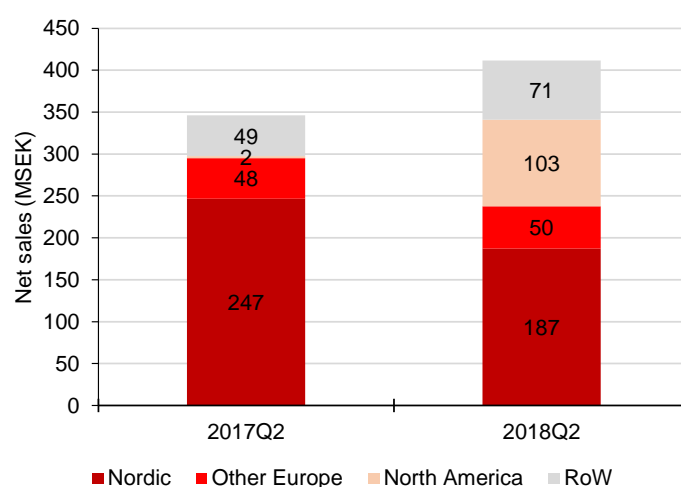
The reported net sales came in 8% above our projections. The outperformance comes from a stronger development in both North America and Rest of The World than expected. In North America BDI continues to shine, but we also saw some uptake in system sales. Overall the report was mostly as expected with little stronger sales, but somewhat weaker profitability.

Profitability wise the company had a higher gross margin that exceeded our projections, but higher SG&A expenses lead to a little lower EBITDA outcome than we thought. Hexatronic states that the lower capacity utilization of the asset in Sweden hurt the margins to some degree as the company has a lot of "semi-fixed" cost in production personnel.

For Hexatronic a softer Swedish market is of course not great, but it's something we already had in our projections. We believe that 2018 will be somewhat of consolidation year where the international revenue keeps climbing and makes up most of the negative effect from the negative growth in Sweden. By the beginning of 2019, we expect to see organic growth in Sweden. Overall we can say that it's evident that Hexatronic Group is moving forward in key growth markets like the USA and the UK; here is where the long-term value and opportunity lies.

The geographic regions, key part of our investment thesis

Geographical split Q1'17 vs Q2'18



Source: Hexatronic Group

Since the previous Research update our projections are based on the different geographical regions Nordic, Other Europe (excl. Nordic), North America and Rest of the World. We know the geo-split during 2016/17, but do not have the quarterly figures for each region during 2017.

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 2022. Excellent opportunity's lies in the UK, USA, Germany, and New Zealand as investments in fiber infrastructure in some of these countries 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 taking off and there is a vast need for investments in fiber infrastructure on the island economy.

North America – System sales rises and BDI outperform

The increase in the system offering in the USA is of course very important as the growth opportunity in the country is enormous. During Q2 the company had net sales of SEK 103.5m to North America. The revenue is divided between BDI (Blue Diamond Industries), Hexatronic USA (System sales) and the sea cable deal with Crosslake Fibre (Canada).

| Sales mix in North America | | | | |
|----------------------------|------------|------------|-------------|--------------|
| Period | Q1'17 | Q2'12 | Q1'18 | Q2'18 |
| BDI | 0 | 0 | 64.9 | 81.0 |
| Other sales* | | | | 13.2 |
| System sales | 3.4 | 5.6 | 5.2 | 9.3 |
| Total North America | 3.4 | 5.6 | 70.1 | 103.5 |

Source: Redeye Research

*Canada sea cable deal worth SEK 33m in total, assumed 40% delivery during June

We do not know exactly how much of the order to Crosslake Fiber that was delivered, but we know the total value of SEK 33m. Hexatronic stated that the majority of contracted quantities were delivered during the summer, we assume that 40% during Q2. It looks like the sales in North America excluding BDI and the sea cable order during the summer almost doubled. We know that Hexatronic has delivered for pilot projects to a Tier 2 operator, Q2 might be a first real data point that the volumes are taking off.

BDI produced net sales of SEK 81m during the period up from SEK 64.9m in Q1. The EBIT margin came in at 10% which was also an improvement. The company is developing extremely well, above our expectations and likely even managements'.

| BDI net sales and EBIT (mSEK) | | |
|-------------------------------|-------|-------|
| Period | Q1'18 | Q2'18 |
| Net sales | 64.9 | 81.0 |
| EBIT | 5.3 | 8.0 |
| EBIT margin | 8% | 10% |

Source: Hexatronic Group

| Hexatronic Group, net sales North America (mSEK) | | | | | | | |
|--|-------|-------|-------|-------|--------|--------|-------|
| Period | Q1'17 | Q2'17 | Q1'18 | Q2'18 | Q3'18E | Q4'18E | 2018E |
| North America | 3 | 2 | 70 | 103 | 95 | 81 | 350 |
| Sales growth | | | 1980% | 4463% | - | - | - |

Source: Redeye Research

During Q2 the sales figures were positively affected by the Canadian sea cable order, and we expect that the deal will also boost the numbers during Q3. The USA system sales seem to increase steadily, and BDI is going strong. For Q3 we expect to see a sales level of about SEK 95m. During the full year, we assume that the North American region will have contributed with SEK 350m in sales to the Group.

Rest of the World

New Zealand also saw great development during the quarter according to Hexatronic. Rest of the World saw growth of a whopping 45% during Q2. We know that the market in New Zealand is solid and that there is a surge in fiber investment; however, it's hard for us to

extrapolate such fast growth given the few data points we have. For Q3 we expect to see a sales level of about SEK 63m.

| Hexatronic Group, net sales Rest of the World (mSEK) | | | | | | | |
|---|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Period | Q1'17 | Q2'17 | Q1'18 | Q2'18 | Q3'18E | Q4'18E | 2018E |
| RoW | 54 | 49 | 58 | 71 | 63 | 58 | 250 |
| Sales growth | | | 7% | 45% | - | - | - |

Source: Redeye Research

One key event after the period ended was that Emtelle is dropping their lawsuit in New Zealand. The lawsuit outcome was according to our expectations, but still something positive for the company.

Other Europe – The UK is taking off

Today Other Europe mainly consists of business in the UK. Hexatronic is also actively investing in Germany to enhance their footprint, and some minor projects in the country will be initiated during Q3. During the quarter Hexatronic acquired the training company PQMS and just prior to releasing the quarterly figures the company announced a major deal with a UK operator.

The deal with the UK operator is a significant deal for Hexatronic. The order is related to the company's MATRIX system of fiber optic products. The agreement includes the supply of microduct, fiber cables, distribution cabinets and accessories for delivery in 2018. The company states that the total order value amounts to approximately 6 MGBP during the rest of the year. In our research reports, we previously noted that the UK market seems to take-off; the new order with the operator further strengthens our view. Hexatronic has currently not announced the name of the operator.

The PQMS acquisition is an exciting addition to the Group and strengthens Hexatronic's service and education offering in the UK, which is a key component in selling the system offering. As part of the transaction, Hexatronic also acquired UK-based Smart Awards Ltd, and Gordon Franks Training Ltd. The acquired companies were consolidated into the Group from June 8, 2018. PQMS is a training provider to a number of the largest telecommunication and electric companies in the UK. During 2017, the companies generated revenue of approximately £5.2 million with an expected strong revenue growth going forward.

Massive growth in fiber deployment

As we have previously discussed; the UK market seems to take off with an enormous amount of investment into fiber infrastructure in the coming years. We noticed some exciting news from British Telecom's division Open Reach that we wanted to highlight. BT's goal is to roll out to 2-3 million premises (homes passed) by 2020. During the last quarter, the telecom giant reported 631 000 premises passed in total, up 59% from the same period the previous year. There will take a massive push in deployment to reach the goal of 2-3 million households by 2020, the CAGR in installation would be about 110% to reach the mid-point of the target, basically this means that the market will double in size each year.

| BT Group's report Network deployment ('000 premises passed) | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
| Period | 17/18 Q1 | 17/18 Q2 | 17/18 Q3 | 17/18 Q4 | 17/18 FY | 18/19 Q1 | 2020* |
| Ultrafast FTTP | 398 | 431 | 493 | 567 | 567 | 631 | 2500 |
| Growth (CAGR) | | | | | | 59% | 110% |

Source: BT Group

*mid range of 2-3 million

The sales level within Other Europe has been firm the past quarter and rose by 4% year over year in Q2. For the next quarter, we expect to see a sharp rise thanks to the newly signed operator deal and the PQMS acquisition. For Q3 quarter we project net sales of approximately SEK 78m.

| Hexatronic Group, net sales Other Europe (mSEK) | | | | | | | |
|--|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Period | Q1'17 | Q2'17 | Q1'18 | Q2'18 | Q3'18E | Q4'18E | 2018E |
| Other Europe | 47 | 48 | 49 | 50 | 78 | 85 | 262 |
| Sales growth | | | 3% | 4% | - | - | - |

Source: Redeye Research

What is happening in the Nordics`?

Sales from the Nordics, with Sweden being the largest market, came in at SEK 187m, 5% below our projections. Hexatronic continues to see some challenges and slowdown in Sweden. Despite winning a larger order for the continued expansion of the Swedish transport network of SEK 29m during the quarter.

Hexatronic now expects that the Swedish market will see a drop of about 20% in business volume during 2018 compared to the previous year. The statement is mainly in line with our earlier estimate of market growth, so it will not lead to any more substantial estimate revisions for us. As we understand it, the company is experiencing a healthy demand in the other Nordic countries.

We take a somewhat cautious approach to our Nordic revenue projections. Rising inventory signals that the companies expect to see increased deliveries. For Q3 we estimate net sales in the region of SEK 166m. Our full year figures models a drop of about 24% from the levels we think the company had the previous year.

| Hexatronic Group, net sales Nordic (mSEK) | | | | | | | |
|--|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Period | Q1'17 | Q2'17 | Q1'18 | Q2'18 | Q3'18E | Q4'18E | 2018E |
| Nordic | 186 | 247 | 163 | 187 | 166 | 176 | 692 |
| Sales growth | | | -13% | -24% | - | - | - |

Source: Redeye Research

Next quarter and estimate adjustments

At the beginning of Q3, the organic order book was 32% lower compared to the same time last year. When including the acquisitions order book level dropped 13%. The figure of orders does not include the large UK deal so we still expect to see a growth during the quarter. Compared to Q2, Hexatronic states that they expect to see an increasing Swedish market, continued international expansion and higher capacity utilization of the production asset in the coming quarters.

| Next quarter estimates | | |
|------------------------|------------|-------------|
| MSEK | 2017 Q3 | 2018 Q3E |
| Net sales | 337 | 401 |
| EBITDA | 43 | 40 |
| EBIT | 36 | 30 |
| Net sales growth | 30.0% | 19.1% |
| EBITDA margin | 12.7% | 10.0% |
| EBIT margin | 10.6% | 7.5% |

Source: Redeye Research

For Q3 we expect revenues in the region of SEK 401m, the growth is driven by international up-take in revenues. We expect to see EBITDA margins in the region of 10%.

| Forecast adjustments | | |
|----------------------|-------|-------|
| MSEK | 2018E | 2019E |
| Revenues | | |
| Old | 1 593 | 1 889 |
| New | 1 553 | 1 828 |
| % change | -3% | -3% |
| EBITDA | | |
| Old | 185 | 227 |
| New | 155 | 196 |
| % change | -16% | -14% |
| EBITDA-margin | | |
| Old | 11.6% | 12.0% |
| New | 10.0% | 10.7% |

Source Redeye Research

As a whole, we have only made some minor adjustments to our sales projections. We have adjusted our Nordic estimates downwards slightly but the deal in UK makes up for this. However the lower assumed sales in the Nordic leads to a slight margin adjustment. Hexatronic is a long-term growth case riding on the digitalization of the world. 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 and possibly the UK during the year as more likely than not.

Investment Case

- Hexatronic is establishing themselves outside of the Nordics in new growth regions
- Structural forces of increased data consumption is driving the long-term the growth of Hexatronic
- Focus on system selling will increase profitability in new market regions compared to the Nordic's
- The possibility of a true break-through in the US have increased after the BDI acquisition

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 2022. Excellent opportunity's lies in the UK, USA, Germany, and New Zealand as investments in fiber infrastructure in some of these countries 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

Valuation

We have lowered our Base-case valuation slightly to **72 (78) SEK** per share. Overall we believe that during 2018 there will be a somewhat softer Swedish market, but that we will see a substantial up-take from international growth regions. We view further acquisitions as more likely than not, but this is something we do not account for in our projections.

Bear Case 25.0 SEK

Key model assumptions:

CAGR sales 9% next ten years
Average EBITDA margin of 10% coming ten years
Terminal growth rate of 2%
Terminal EBITDA margin of 8%

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.

Base Case 72.0 SEK

Key model assumptions:

CAGR sales 13% next ten years
Average EBITDA margin of 13% coming ten years
Terminal growth rate of 2%
Terminal EBITDA margin of 13%

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. Our valuation implies an EV/EBITDA exit multiple of 8x, which we find as a conservative assumption to make.

Bull Case 114.0 SEK

Key model assumptions:

CAGR sales 16% next ten years
Average EBITDA margin of 15% coming ten years
Terminal growth rate of 2%
Terminal EBITDA margin of 14%

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.

Peer valuation

Our Base-case fair value implies an EV/EBIT 2018E multiple of about 24.4x. 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 28. We believe a higher multiple to be motivated given the strong growth prospects for Hexatronic.

| 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 | 54 745 | 0.2x | 1.4x | 40.9x | 32.5x | 23% | 0% |
| Clearfield INC | USD | 1 460 | 2.2x | 1.9x | 37.4x | 25.2x | 9% | 6% |
| O-net Communications Group | HKD | 4 657 | 1.6x | 1.3x | 14.6x | 11.6x | 24% | 11% |
| Huber & Suhner AG-REG | CHF | 9 453 | 1.2x | 1.2x | 20.2x | 18.1x | 8% | 6% |
| Average | | | 1.3x | 1.4x | 28.3x | 21.8x | 16% | 6% |
| Median | | | 1.4x | 1.3x | 28.8x | 21.6x | 16% | 6% |
| Hexatronic Group | SEK | 2416 | 1.6x | 1.3x | 21.1x | 17.6x | 18% | 7% |
| <i>at Base-case</i> | | 2 789 | 1.8x | 1.5x | 24.4x | 20.3x | | |

Source: Bloomberg & Redeye Research

Catalysts

Breakthrough deal in the USA

Hexatronic is increasing their presence in the USA with the acquisition of BDI and that their MATRIX system is now approved by a major US telecom operator. We see the possibility of a larger breakthrough order or deal with the "unnamed" US telecom operator as both likely and value adding.

Continued growth of fiber infrastructure investments

The growth of infrastructure investment in fiber will be substantial over the coming years. Due to the large need of higher internet capacity with the reason of changed consumer behavior. The overall market growth will increase the revenue levels of Hexatronic.

Gained market share

Hexatronics 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.

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

Management: 8.0

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.

Ownership: 8.0

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: 6.5

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: 6.5

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: 6.5

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.

Redeye Rating and Background 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.

Redeye Equity Research team

Management

Björn Fahlén

bjorn.fahlen@redeye.se

Håkan Östling

hakan.ostling@redeye.se

Technology Team

Henrik Alveskog

henrik.alveskog@redeye.se

Dennis Berggren

dennis.berggren@redeye.se

Havan Hanna

havan.hanna@redeye.se

Kristoffer Lindström

kristoffer.lindstrom@redeye.se

Eddie Palmgren

eddie.palmgren@redeye.se

Tomas Otterbeck

tomas.otterbeck@redeye.se

Johan Svantesson

johan.svantesson@redeye.se

Viktor Westman

viktor.westman@redeye.se

Editorial

Eddie Palmgren

eddie.palmgren@redeye.se

Jim Andersson

jim.andersson@redeye.se

Ludvig Svensson

ludvig.svensson@redeye.se

Life Science Team

Anders Hedlund

anders.hedlund@redeye.se

Arvid Necander

arvid.necander@redeye.se

Klas Palin

klas.palin@redeye.se

Mathias Spinnars

mathias.spinnars@redeye.se

Erik Nordström (Trainee)

erik.nordstrom@redeye

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 (2018-08-27)

| Rating | Management | Ownership | Profit outlook | Profitability | Financial Strength |
|--------------|------------|-----------|----------------|---------------|--------------------|
| 7,5p - 10,0p | 43 | 45 | 18 | 10 | 19 |
| 3,5p - 7,0p | 78 | 70 | 105 | 33 | 46 |
| 0,0p - 3,0p | 15 | 21 | 13 | 93 | 71 |
| Company N | 136 | 136 | 136 | 136 | 136 |

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CONFLICT OF INTERESTS

Kristoffer. Lindström. owns shares in the company : Yes

Havan. Hanna. owns shares in the company : No

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