Hexatronic
Sector: Telecommunication Equipment

International expansion on its way
Above expectations, organic up-take

2018 has not been without challenges for Hexatronic, primarily due to a harsh market in Sweden. Despite this fact, the company ended the year in high-fashion and beat our projections somewhat. Net sales came in 8% above our forecast, primarily driven by strong development in “Other Europe” (Europe ex. Sweden). The company grew organically during the quarter, which is a trend shift compared to the latest quarters and the order bookings stood 18% during the start of 2019 compared to the same period last year.

A breakthrough deal in the UK with CityFibre

The big news that was presented in conjunction with the release of the report was the deal with CityFibre. The agreement has an approximate value of SEK 500m for the supply of components in the deployment of the first one million homes in CityFibre’s roll-out. As to our understanding, Hexatronic will cover about half of the homes in the first roll-out stage. Thus 0.5 million homes are worth SEK 0.5bn for Hexatronic. CityFibre has an aggressive plan of finalizing the first million households in two years. Although this is the first “big” international order, it reduces the uncertainty of what we consider a core element in our investment case – the international expansion. In addition to strengthening Hexatronic’s position in the UK market, the cooperation should also increase the likelihood of success in other geographies.

Projections and valuation up

We have adjusted our projections upwards following the CityFibre deal, and also now model for more follow-up orders from the UK. We find that the deal with CityFibre confirms the potential of the market and shows Hexatronic competitive product offering. Our Base-case valuation now amounts to 78 (75) SEK per share. International peers are valued about a 30% premium based on earnings multiples; despite that, we expect that Hexatronic will experience an above peer group growth rate the coming years, we see no apparent reason for a discount that large.
On the report

The biggest news that was presented on the day of the report was the CityFibre deal, something we view as a true game changer. We will begin with a short discussion about the report and then move on to the UK deal.

<table>
<thead>
<tr>
<th>Estimate vs. Outcome</th>
<th>2017 Q4</th>
<th>2018 Q4E</th>
<th>2018 Q4</th>
<th>Diff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>325</td>
<td>409</td>
<td>443</td>
<td>8%</td>
</tr>
<tr>
<td>other income</td>
<td>17.1</td>
<td>1.7</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>-181</td>
<td>-237</td>
<td>-265</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td>144</td>
<td>172</td>
<td>179</td>
<td>4%</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>-123</td>
<td>-143</td>
<td>-163</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>38</td>
<td>30</td>
<td>31</td>
<td>2%</td>
</tr>
</tbody>
</table>

Net sales Growth: 26% 36%
Gross Profit margin: 44% 42% 40%
EBITDA margin %: 12% 7% 7%

Source: Hexatronic Group & Redeye Research

2018 has not been without challenges for Hexatronic, primarily due to a harsh market in Sweden. Despite this fact, the company ended the year in high-fashion and beat our projections somewhat. Net sales came in 8% above our forecast, primarily driven by strong development in “Other Europe” (Europe ex. Sweden). We believe this is due to healthy development in the UK but also Germany to some degree. One interesting note is also that the net sales in North America, excluding BDI, amounted to SEK 15m during the quarter. The figures are still rather small, but it represents a growth of almost 200% since last year’s Q4 for income in North America. Hexatronic increased the sales outside of BDI in North America from SEK 17m during 2017 to SEK 64m for this year.

Both the gross profit and EBITDA came in slightly above our estimates. The gross margin has dropped mainly due increased raw material cost and some price pressure in Sweden. Hexatronic states that they have taken measures and this will improve going forward.

Hexatronic: Growth and order bookings growth pre-quarter

Source: Redeye Research

Despite the headwinds, we see the light. The company grew organically during the quarter, which is a trend shift and the order bookings stood 18% during the start of 2019 compared to
the same period last year. We believe that this indicates that Sweden will be more or less on par with last year and that we will now start to see organic growth, and in combination with the UK order the organic development will accelerate even further during 2019.

The agreement with CityFibre

In this section, we highlight our main takeaways following the agreement with CityFibre. Above all the agreement may be the start of something much bigger.

The market in the UK is taking off

The agreement is a definite sign that the UK market is taking off, and that Hexatronic could play a crucial part in the fiber deployment as the partnership strengthens Hexatronics position in the region.

The agreement has an approximate value of SEK 500m for the supply of components in the deployment of the first one million homes in CityFibre's roll-out. As to our understanding, Hexatronic will cover about half of the homes in the first roll-out stage. Thus 0.5 million homes are worth SEK 0.5bn for Hexatronic. CityFibre has an aggressive plan of finalizing the first million households in two years; this might take a little longer.

Considering CityFibre's long-term plan of 5 million homes by 2025, the agreement may be the start of something much bigger. We find the formulation from John Franklin, Director of Operations at CityFibre, especially interesting, as it expresses a long-term view on the partnership with Hexatronic; we look forward to a long and successful partnership and are confident of their full support as we build Britain's full fiber future.

Looking at the overall market in the UK, it's expected that about 20 million homes will be connected during the coming decade. Based on the CityFibre numbers 20 million homes indicate a potential market of about SEK 20bn for Hexatronic, these figures are just hypothetically but shows the potential.

A strong competitive position

Hexatronic's share of the total deployments of 1 000 000 million homes is 50 percent, and three other suppliers will be responsible for the other 50 percent. Thus, Hexatronic seems to have been the "preferred choice", but because of risk factors, CityFibre can of course not invest in a single supplier.

Also, taking into account that prices for Hexatronics system should be higher than competitors, the value-addition resonates with customers as they are willing to pay a higher price. Besides the high quality of the products CEO, Henrik Lyon was clear with that Hexatronics high service level, and close cooperation were decisive factors in the evaluation – this is important as it is a central part in Hexatronics customer acquisition strategy.

De-risking of the investment case

Although this is the first "big" international order, it reduces the uncertainty of what we consider a core element in our investment case – the international expansion.

In addition to strengthening Hexatronics position in the UK market, the cooperation should also increase the likelihood of success in other geographies. The size of the project is larger than any other case Hexatronic previously worked on and in line with what is expected to be the norm in Germany and the US. The scenario above presumes, of course, that Hexatronic will manage to deliver according to the agreement, but we have full confidence in Hexatronic
in this regard and see no reason to worry. Nonetheless, it will be important to follow the development, and we will appreciate any comments about the project going forward.

To summarize, Hexatronic is showing significant success internationally; we see no reason why it wouldn’t continue the coming years.

CityFibre – first two million homes funded

In December CityFibre communicated that the company has put in place a debt package of £1.12 billion from seven major financial institutions. Proceeds from this infrastructure debt package will be used to fund the deployment of the first two million homes of CityFibre’s five million homes target.

Germany and the US

If we look at the two other focus markets, Hexatronic is very positive about the development in the US and has an optimistic view of the coming year. The development in Germany, on the other hand, is slower, where the company does not expect any breakthrough during 2019.

Hexatronic has increased its presence in the USA with the acquisition of BDI (by the end of 2017), and a major US telecom operator also approved the MATRIX system. We see the possibility of a larger breakthrough order or deal with the unnamed US telecom operator as a real opportunity this year given Hexatronics optimism. One should, however, have big respect for the long lead-times in the industry, as an example, in talks with the CEO, the deal with CityFibre was anticipated to be done already a year ago.

In Germany, the incumbents (mainly Deutsche Telecom) offset the fiber expansion through vectoring technology and lower prices. However, the incumbents are fighting against the inevitable – fiber will be the norm also in Germany. Meanwhile, Hexatronic is building up presence in Germany (just as in the UK) with continued investments – in October Hexatronic acquired German fiber optic company Opternus GmbH – a strategically important acquisition for Hexatronic to have a good position when the German market gains momentum.

Looking beyond these markets, Hexatronic has entered into a partnership with Solifos where Solifos will be the exclusive distributor for the Hexatronic products and solutions in Switzerland and North Italy.
Next quarter and estimate adjustments

It looks like Hexatronic will show a stronger organic growth during Q1, indicated by:

- The improved market climate in Sweden
- Deals in the UK
- Order bookings stood 18% higher compared to last year at the beggning of the quarter

All this was something we already had anticipated. The new large deal with CityFibre will take some time before it materializes into revenue, but there is still some delivery to be done on the initial SEK 70m order. During Q4 Opternus was only included for two months, now it will have a positive effect during the full quarter. For Q1 we expect to see revenues of about SEK 441m, where we expect sales in Sweden to be on par with last years and that the revenues abroad will show a significant increase. Profitability wise we model a drop in gross profit margins compared to last year, but still a bit stronger than during Q4. We believe that the EBITA margin will land in the region of 5.2%

<table>
<thead>
<tr>
<th>Forecast adjustments</th>
<th>2019E</th>
<th>2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSEK</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old</td>
<td>2 028</td>
<td>2 398</td>
</tr>
<tr>
<td>New</td>
<td>2 056</td>
<td>2 513</td>
</tr>
<tr>
<td>% change</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>EBITA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New</td>
<td>163</td>
<td>218</td>
</tr>
<tr>
<td>% change</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>EBITA-margin</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New</td>
<td>7.9%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

Source: Redeye Research

We have increased our sales projections following the CityFibre order. We had already expected a follow-up, but not in this size. The order on SEK 500m could only be the starting point as it represents about 2.5% of the 20 million homes that are expected to be connected in the UK during the coming decade. However, we rather keep our projections conservative. Further acquisitions are expected, but not something we cannot account for our projections. Due to the new IFRS standards (16) Hexatronic now have their financial goals for EBITA instead of EBITDA, as the new rules for leasing accounting effects EBITDA more. We expect EBITA of SEK 163m for the full year, the EBITA margin during 2018 amounted to 7.2%. IFRS 16 also have effects on the balance sheet. Read page 21-22 in Hexatronic’s year-end report for a deeper discussion of the impact. Read the report [here](#).
Valuation

We have adjusted our projections upwards following the CityFibre deal, and also now model for more follow-up orders from the UK. We find that the deal with CityFibre confirms the potential of the market and shows Hexatronic competitive product offering. Our Base-case valuation now amounts to 78 (75) SEK per share. International peers are valued about a 30% premium based on earnings multiples, despite that we expect that Hexatronic will experience an above peer group growth rate the coming years, we see no apparent reason for a discount that large.

### Bear Case 31.0 SEK

- CAGR sales 10% next ten years
- Average EBITA margin of 8% coming ten years
- Terminal growth rate of 2%
- Terminal EBITA margin of 7%

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 78.0 SEK

- CAGR sales 14% next ten years
- Average EBITDA margin of 10% coming ten years
- Terminal growth rate of 2%
- Terminal EBITA margin of 11%

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 120.0 SEK

- CAGR sales 15% next ten years
- Average EBITDA margin of 14% coming ten years
- Terminal growth rate of 2%
- Terminal EBITA margin of 13%

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 2019E multiple of about 26x. Relativley inline with international peers. The comparable group consisting of fiber optical equipment companies, which trade at a median of EV/EBIT19E of 29. Given the strong market position of Hexatronic and growth prospects we see no apparent reason for a discount valuation.

<table>
<thead>
<tr>
<th>Company</th>
<th>Curr.</th>
<th>EV (MSEK)</th>
<th>EV/S 19E</th>
<th>EV/S 20E</th>
<th>EV/EBIT 19E</th>
<th>EV/EBIT 20E</th>
<th>Sales CAGR 18-21E</th>
<th>EBIT % 19E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiberhome Telecom Tech CO-A</td>
<td>CNY</td>
<td>55 864</td>
<td>1.4x</td>
<td>1.1x</td>
<td>35.1x</td>
<td>27.9x</td>
<td>21%</td>
<td>4%</td>
</tr>
<tr>
<td>Clearfield INC</td>
<td>USD</td>
<td>1 619</td>
<td>2.1x</td>
<td>1.9x</td>
<td>35.2x</td>
<td>26.1x</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>O-net Communications Group</td>
<td>HKD</td>
<td>4 307</td>
<td>1.2x</td>
<td>1.0x</td>
<td>13.6x</td>
<td>10.5x</td>
<td>23%</td>
<td>9%</td>
</tr>
<tr>
<td>Huber &amp; Suhner AG-REG</td>
<td>CHF</td>
<td>13 435</td>
<td>1.6x</td>
<td>1.6x</td>
<td>22.9x</td>
<td>21.2x</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td>1.6x</td>
<td>1.4x</td>
<td>26.7x</td>
<td>21.4x</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td></td>
<td></td>
<td>1.5x</td>
<td>1.4x</td>
<td>29.0x</td>
<td>23.7x</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Hexatronic Group</strong></td>
<td>SEK</td>
<td>2 617</td>
<td>1.3x</td>
<td>1.0x</td>
<td>19.8x</td>
<td>14.0x</td>
<td><strong>25%</strong></td>
<td><strong>6%</strong></td>
</tr>
<tr>
<td><strong>at Base-case</strong></td>
<td></td>
<td>3 392</td>
<td>1.7x</td>
<td>1.4x</td>
<td>25.7x</td>
<td>18.1x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.
Net sales 1,259 1,559 2,056 2,513 3,116  
Total operating costs -1,148 -1,460 -1,831 -2,153 -2,731  
EBITDA 151 130 224 320 385  
Depression -18 -23 -62 -101 -106  
Amortisation -11 -22 -31 -31 -30  
Impairment charges 0 0 0 0 0  
EBIT 122 93 132 187 249  
Share in profits 0 0 0 0 0  
Net financial items -6 -11 -41 -27 -25  
Exchange rate diff. 0 0 0 0 0  
Pre-tax profit 116 82 91 161 224  
Tax -26 -22 -18 -32 -45  
Net earnings 90 59 73 129 179  

**BALANCE SHEET** 2017 2018 2019E 2020E 2021E  
Assets  
Current assets  
Cash in banks 108 85 82 126 156  
Rewardee 204 262 349 427 530  
Inventories 237 334 411 503 623  
Other current assets 15 28 36 44 54  
Current assets 564 768 879 1,059 1,363  
Fixed assets  
Tangible assets 94 139 338 352 374  
Associated caps. 0 0 0 0 0  
Investments 0 0 0 0 0  
Goodwill 0 0 0 0 0  
Cap. exp. for div. 0 0 0 0 0  
Intangible rights 119 455 442 427 421  
Other current assets 1 1 1 1 1  
Total fixed assets 213 595 781 789 795  
Deferred tax assets 0 0 0 0 0  
Total (assets) 771 1,363 1,659 1,879 2,158  
Liabilities  
Current liabilities  
Short-term debt 24 56 48 49 46  
Accounts payable 141 174 288 352 436  
Current liabilities 92 164 211 258 320  
Current liabilities 256 294 341 459 603  
Long-term debt 71 352 497 491 646  
Long-term liabilities 0 0 0 0 0  
Commitments 0 0 0 0 0  
Total liabilities 326 146 1,044 1,150 1,266  
Deferred tax liab. 35 63 63 63 63  
Provisions 0 0 0 0 0  
Shareholders' equity 415 494 553 667 829  
Minority interests (B) 0 0 0 0 0  
Minority & equity 415 494 553 667 829  
Total liab. & SE 771 1,363 1,659 1,879 2,158  

**FREE CASH FLOW** 2017 2018 2019E 2020E 2021E  
Net sales 1,259 1,559 2,056 2,513 3,116  
Total operating costs -1,148 -1,460 -1,831 -2,153 -2,731  
Depressions total -29 -46 -93 -132 -135  
EBIT 122 93 132 187 249  
Net profit after tax 122 93 132 187 249  
Share in profits 0 0 0 0 0  
Net financial items -6 -11 -41 -27 -25  
Exchange rate diff. 0 0 0 0 0  
Free cash flow 122 93 132 187 249  

**CAPITAL STRUCTURE** 2017 2018 2019E 2020E 2021E  
Equity ratio 52% 50% 52% 55% 55%  
Debt/equity ratio 23% 30% 22% 25% 20%  
Net debt -14 324 463 414 354  
Capital employed 401 810 1,015 1,081 1,083  
Capital turnover rate 1.7 1.2 1.2 1.3 1.4  

**GROWTH** 2017 2018 2019E 2020E 2021E  
Sales growth 26% 27% 25% 22% 24%  
EPS growth (adj) 56% 34% 22% 17% 35%  

**DCF VALUATION**  
WACC (%) 9.0%  

**CASH FLOW, MSEK**  

**DATA PER SHARE** 2017 2018 2019E 2020E 2021E  
EPS 2.41 1.59 1.94 3.43 4.77  
EPS adj 2.41 1.59 1.94 3.43 4.77  
Diluted 0.29 0.39 0.39 0.44 0.49  
Net debt 0.38 0.67 12.33 11.03 9.44  
Total shares 37.53 37.31 37.53 37.53 37.53  

**REDEYE**  
Assumptions 2017-2023 (%)  
Average sales growth 11.1% Fair value p. share, SEK 70  
EBIT margin 8.4% Share price, SEK 60.5  

**PROFITABILITY** 2017 2018 2019E 2020E 2021E  
ROE 24% 13% 14% 21% 24%  
ROCE 26% 13% 13% 16% 20%  
ROIC 30% 23% 16% 18% 23%  
EBITDA margin 12% 9% 11% 13% 13%  
EBIT margin 9% 6% 6% 7% 8%  
Net margin 7% 4% 4% 5% 6%  

**SHARE PERFORMANCE**  
GROWTH/YEAR 16/18E  
1 month 14.2% Net sales 25.8%  
3 month 35.4% Operating profit adj 3.9%  
6 month -11.6% EPS 4% 10.4%  
Since start of the year 29.6% Equity 15.4%  

**SHAREHOLDER STRUCTURE %**  
CAPITAL VOTES  
Accurea Capital 12.8% 12.8%  
Handelsbanken Fonder 9.0% 9.0%  
Jens Nordland 8.2% 8.2%  
Chop AB 4.9% 4.9%  
Fidealia Fonder 4.8% 4.8%  
Svebank Robur Fonder 3.7% 3.7%  
Rederia Fonder 3.3% 3.3%  
Avanza Pension 3.2% 3.2%  

**SHARE INFORMATION**  
Reuters-code Lzt  
Share price 60.5  
Total shares, million 38.5  
Market Cap, MSEK 2209.0  

**MANAGEMENT & BOARD**  
CEO Henrik Larsson Lyne  
CFO Lennart Spaniel  
IR Chairman Anders Persson  

**FINANCIAL INFORMATION**

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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 – Cyclicality, and 8 – Forthcoming binary events.
Disclaimer

Important information
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Redeye Rating (2019-09-04)

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Kristoffer Lundblom owns shares in the company Hexatronic: Yes
Havan Hanna owns shares in the company Hexatronic: No
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