Hexatronic
Sector: Telecommunication Equipment

Just the beginning

Organic trend shift
The report for the first quarter of 2019 showed small deviations to our projections. The organic growth increased compared to the two previous quarters; in our view, in conjunction with the 22% increase y/y in the order book at the end of the quarter it marks a definite sign of a trend shift.

The potential in the UK
We saw a strong performance for "Other Europe" during Q1, driven in part by delivery to CityFibre but also from an increased sales to other UK players. The deal of SEK 500m for about 500k premises with CityFibre is a real breakthrough for the company. However, the market "outside" of CityFibre is significant. According to the public statements by the different ISPs the planned rollouts amounts to almost 10 million premises by the end of 2022, which is also the government support goal. The opportunities are indeed enormous.

Valuation
We have only made some minor forecast adjustments; our Base-case valuation now amounts to 73 (78) SEK per share. We believe that the market will catch on and revalue the stock when the organic uptake continues to improve. New significant deals in the UK or the USA could act as strong catalysts. International peers continue to be valued at higher multiples then Hexatronic, this discount is unjustified in our opinion.

### KEY FINANCIALS (SEKm)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1299</td>
<td>1598</td>
<td>1950</td>
<td>2394</td>
<td>2989</td>
<td>3527</td>
</tr>
<tr>
<td>EBITA</td>
<td>133</td>
<td>115</td>
<td>164</td>
<td>204</td>
<td>268</td>
<td>310</td>
</tr>
<tr>
<td>EBIT</td>
<td>122</td>
<td>93</td>
<td>128</td>
<td>175</td>
<td>239</td>
<td>282</td>
</tr>
<tr>
<td>EPS (adj.)</td>
<td>2.4</td>
<td>1.6</td>
<td>1.8</td>
<td>2.9</td>
<td>4.2</td>
<td>5.0</td>
</tr>
<tr>
<td>EV/Sales</td>
<td>2.1</td>
<td>1.2</td>
<td>1.1</td>
<td>0.9</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>EV/EBITA</td>
<td>20.7</td>
<td>16.3</td>
<td>13.5</td>
<td>10.6</td>
<td>8.0</td>
<td>6.7</td>
</tr>
<tr>
<td>EV/EBIT</td>
<td>22.6</td>
<td>20.4</td>
<td>17.2</td>
<td>12.4</td>
<td>8.9</td>
<td>7.3</td>
</tr>
<tr>
<td>P/E</td>
<td>31.9</td>
<td>27.1</td>
<td>27.0</td>
<td>16.7</td>
<td>11.7</td>
<td>9.7</td>
</tr>
</tbody>
</table>

**FAIR VALUE RANGE**

<table>
<thead>
<tr>
<th></th>
<th>BEAR</th>
<th>BASE</th>
<th>BULL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.0</td>
<td>73.0</td>
<td>120.0</td>
</tr>
</tbody>
</table>

**VERSUS OMXS30**

**REDEYE RATING**

**KEY STATS**

- **Ticker**: HTRO
- **Market**: Nasdaq
- **Share Price (SEK)**: 48.8
- **Market Cap (MSEK)**: 1780
- **Net Debt 19E (MSEK)**: 428
- **Free Float**: 78 %
- **Avg. daily volume (’000)**: 97

**ANALYSTS**

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

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

All in all, there were only minor deviations from our projections during Q1. Net sales was slightly below our projections but gross margin was considerably stronger. The EBITA came in 8% below our forecast, mainly due to higher depreciation which is an effect of the new IFRS 16 accounting standard.

The organic growth increased to 6%, up from 2% (Q4'18) and -12% (Q3'18) - in our view a definite sign of a trend shift.

** Estimate vs. Outcome **

<table>
<thead>
<tr>
<th>MSEK</th>
<th>2018 Q1</th>
<th>2019 Q1E</th>
<th>2019 Q1</th>
<th>Diff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>339</td>
<td>441</td>
<td>421</td>
<td>-4%</td>
</tr>
<tr>
<td>other income</td>
<td>0.7</td>
<td>1.0</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>-187</td>
<td>-260</td>
<td>-234</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td>152</td>
<td>181</td>
<td>187</td>
<td>4%</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>-129</td>
<td>-145</td>
<td>-152</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>25</td>
<td>36</td>
<td>37</td>
<td>3%</td>
</tr>
<tr>
<td>EBITA</td>
<td>19</td>
<td>23</td>
<td>21</td>
<td>-8%</td>
</tr>
</tbody>
</table>

Net sale Growth: 30% 24%
Gross Profit margin: 45% 41% 45%
EBITDA margin %: 7.2% 8.2% 8.8%
EBITA margin %: 5.7% 5.2% 5.0%

Source: Hexatronic Group & Redeye Research

The organic uptake was fueled by substantial development in the international markets. North America grew by 25%, likely from increased system sell, and continued success from Blue Diamond Industries (BDI). Other Europe saw a massive surge of 132%, driven by the acquisition in Germany and delivery to the first CityFibre deal. Sweden is still a bit slow and shrunk 8% compared to last year.
The UK on the rise

Hexatronic expects that the volumes to CityFibre will increase gradually during the year to be in full swing next year. It is no secret that UK is taking off, Ofcom recently released a report where data showed a 6% “full fiber” penetration in the UK, up from 3% last year. According to the report, there are roughly 24 million premises in the UK. Hexatronic’s deal of SEK 500m for about 500k premises with CityFibre is a true breakthrough for the company. However, the market “outside” of CityFibre is significant. According to the announcements by the different ISPs the planned rollouts amounts to almost 10 million premises by the end of 2022, which is also the government support goal.

We have made an exemplification on how the fiber rollout could play out in the UK based on the available data, penetration and the number of premises. We assume here that the fiber penetration reaches about 85% by the end of 2025.
It’s evident that we are only at the beginning of a massive 10+ year fiber roll-out. If we assume that each premise is worth about 1k SEK (SEK 500m for 500k premises) and 1.5k in the later stage (countryside is farther distances and require more km fiber) then the TAM (Total Addressable Market) in the UK during the coming seven years amounts to roughly SEK 21.4bn. It’s just a question how much of the market Hexatronic can grab, and that’s extremely hard to predict. Given Hexatronic’s already strong market position it’s unlikely that they would not experience market growth. But we can at least look at one fact: As discussed earlier, the company has already shown their color as they are the leading supplier to CityFibre in the first stage roll-out.

**The three main players in Sweden**

There are three main players when it comes to investment in the Swedish market for FTTH; IP Only, TeliaSonera and the City Network operators. In summary, TeliaSonera will most likely decrease their investment, IP Only increase and the City Network to be stable which creates a market in terms of volumes in line with last year. The company expects to have roughly the same investment level as last year. One should note that the “home” market now only stands for 30% of the Groups revenue.

- TeliaSonera, one of the largest fiber optic network investors in Sweden, have a clear focus on increasing their cash flow during 2019. We expect that they will decrease their Fiber CAPEX somewhat during the year.
- IP Only seems to be back on track again after a slow 2018. We expect the operator to ramp up their investments. There are also some rumors that EQT is planning on selling IP Only.
- The City Networks is expected to have roughly the same investment level as last year.

The company also indicates that some projects in the international markets have been pushed to Q3 instead of Q2, which might affect the short-term growth rate during the next quarter.
Financial projections

**Hexatronic: Net sales development per region**

- **Sweden** – We believe that Sweden has roughly the same sales level as last year.
- **Other Europe** – We believe the CityFibre order will gradually increase during the year and reach full bloom in 2020. Overall, we also expect growth outside of CityFibre given the high activity in the market. The Opternus acquisition is also a contributing factor behind the uptake in income levels, but we do not expect to see a market demand surge in Germany like we currently see in the UK during 2019.
- **North America** – We believe that North America will continue to show a steady growth mainly driven by BDI. The system sales in the USA is still on small volumes but picking up gradually.
- **RoW** – The most significant part of Rest of the World is New Zealand, where the market is maturing, and we believe the income levels will show single-digit growth compared to last year.

**Next quarter and estimate adjustments**

We expect to see a growth of about 0% during Q2. Supported by:

- A strong organic order book
- Earlier acquisitions of the education companies and Opternus
- Strong development in both the UK and USA

The second quarter is the, and the increased volumes should lead to a boost in margins. For Q2 we expect to see net sales of SEK 494m with an EBITA of SEK 40m. We make no material projection adjustments following the report for the full year.

**Next quarter estimates**

<table>
<thead>
<tr>
<th>MSEK</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>412</td>
<td>494</td>
</tr>
<tr>
<td>EBITA</td>
<td>34</td>
<td>40</td>
</tr>
<tr>
<td>EBIT</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>Net sales growth</td>
<td>18.9%</td>
<td>20.0%</td>
</tr>
<tr>
<td>EBITA margin</td>
<td>8.3%</td>
<td>8.2%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>7.3%</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

Source: Redeye Research
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 only made some minor forecast adjustments, our Base-case valuation now amounts to 73 (78) SEK per share. We believe that the market will catch on and revalue the stock when the organic uptake continues to improve. New significant deal in the UK or the USA could act as strong catalysts. International peers continue to be valued at higher multiples then Hexatronic, the discount is unjustified according to us.

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 73.0 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 25x. Relativley inline with international peers. 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>45 282</td>
<td>1.1x</td>
<td>0.9x</td>
<td>31.1x</td>
<td>25.1x</td>
<td>21%</td>
<td>4%</td>
</tr>
<tr>
<td>Clearfield INC</td>
<td>USD</td>
<td>1 672</td>
<td>2.1x</td>
<td>1.8x</td>
<td>34.8x</td>
<td>23.9x</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td>O-net Communications Group</td>
<td>HKD</td>
<td>4 379</td>
<td>1.2x</td>
<td>1.0x</td>
<td>12.1x</td>
<td>10.1x</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Huber &amp; Suhner AG-REG</td>
<td>CHF</td>
<td>13 389</td>
<td>1.6x</td>
<td>2.9x</td>
<td>22.2x</td>
<td>20.9x</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td>1.5x</td>
<td>1.7x</td>
<td>25.1x</td>
<td>20.0x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td></td>
<td></td>
<td>1.4x</td>
<td>1.4x</td>
<td>26.7x</td>
<td>22.4x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hexatronic Group at Base-case</strong></td>
<td>SEK</td>
<td>2254</td>
<td>1.2x</td>
<td>0.9x</td>
<td>17.6x</td>
<td>12.9x</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 173</td>
<td>1.6x</td>
<td>1.3x</td>
<td>24.7x</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.

CityFibre is just the start

Hexatronic’s deal of SEK 500m for about 500k premises with CityFibre is a real breakthrough for the company. However, the market "outside" of CityFibre is significant. According to the announcements by the different ISPs the planned rollouts amounts to almost 10 million premises by the end of 2022, which is also the government support goal. An announced deal with a new ISP in the UK would act as a definite catalyst for the market understanding of the actual UK potential.

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.
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.
## DCF Valuation

<table>
<thead>
<tr>
<th>NVIC (%)</th>
<th>Cash Flow, MSEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.0%</td>
<td>NVIC FCF (2018-2020)</td>
</tr>
<tr>
<td></td>
<td>NVIC FCF (2021-2027)</td>
</tr>
<tr>
<td></td>
<td>NVIC FCF (2028-)</td>
</tr>
<tr>
<td></td>
<td>Non-operating assets</td>
</tr>
<tr>
<td></td>
<td>Interest-bearing debt</td>
</tr>
<tr>
<td></td>
<td>Fair value estimate MSEK</td>
</tr>
</tbody>
</table>

### Assumptions 2017-2023 (%)

- Average sales growth: 11.5% (Fair value e. per share, SEK: 73)
- EBIT margin: 8.4% (Share price, SEK: 48.8)

### Profitability

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>24%</td>
<td>13%</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>ROCE</td>
<td>26%</td>
<td>13%</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>ROIC</td>
<td>30%</td>
<td>23%</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>12%</td>
<td>9%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Net margin</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Data per Share

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>2.41</td>
<td>1.59</td>
<td>1.80</td>
<td>2.92</td>
</tr>
<tr>
<td>EPS adj</td>
<td>2.41</td>
<td>1.59</td>
<td>1.80</td>
<td>2.92</td>
</tr>
<tr>
<td>Dividend</td>
<td>0.29</td>
<td>0.35</td>
<td>0.39</td>
<td>0.44</td>
</tr>
<tr>
<td>NPV debt</td>
<td>0.38</td>
<td>0.67</td>
<td>11.42</td>
<td>10.24</td>
</tr>
<tr>
<td>Total shares</td>
<td>737.51</td>
<td>737.31</td>
<td>737.53</td>
<td>737.53</td>
</tr>
</tbody>
</table>

### Valuation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EV</td>
<td>2,188.6</td>
<td>1,884.2</td>
<td>2,084.8</td>
<td>2,184.3</td>
</tr>
<tr>
<td>P/E</td>
<td>31.9</td>
<td>27.1</td>
<td>21.0</td>
<td>16.7</td>
</tr>
<tr>
<td>P/E diluted</td>
<td>31.9</td>
<td>27.1</td>
<td>21.0</td>
<td>16.7</td>
</tr>
<tr>
<td>P/Sales</td>
<td>3.2</td>
<td>1.0</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>EV/Sales</td>
<td>2.1</td>
<td>1.2</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>18.3</td>
<td>13.6</td>
<td>9.7</td>
<td>7.1</td>
</tr>
<tr>
<td>EV/EBIT</td>
<td>22.6</td>
<td>20.4</td>
<td>17.2</td>
<td>12.4</td>
</tr>
<tr>
<td>P/BV</td>
<td>6.7</td>
<td>3.2</td>
<td>3.3</td>
<td>2.8</td>
</tr>
</tbody>
</table>

### Share Performance

<table>
<thead>
<tr>
<th>Growth/Year</th>
<th>16/18E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month</td>
<td>-12.6%</td>
</tr>
<tr>
<td>3 month</td>
<td>-15.5%</td>
</tr>
<tr>
<td>12 month</td>
<td>-27.4%</td>
</tr>
<tr>
<td>Since start of the year</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

### Shareholder Structure (%)

<table>
<thead>
<tr>
<th>Capital</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accendo Capital</td>
<td>10.9%</td>
</tr>
<tr>
<td>Handelsbanken Fonder</td>
<td>8.9%</td>
</tr>
<tr>
<td>Elf Bank / Gerena</td>
<td>8.1%</td>
</tr>
<tr>
<td>Inves Nordfond</td>
<td>8.0%</td>
</tr>
<tr>
<td>Chiyu AB</td>
<td>4.8%</td>
</tr>
<tr>
<td>Fondia Fonder</td>
<td>4.7%</td>
</tr>
<tr>
<td>Seedbanken Rabo Fonder</td>
<td>3.4%</td>
</tr>
<tr>
<td>Gira Nordfond</td>
<td>2.9%</td>
</tr>
<tr>
<td>Avanza Pension</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

### Share Information

- **Rutters-code**: UZT
- **Share price**: 48.8
- **Total shares, million**: 36.5
- **Market Cap, MSEK**: 1760.0

### Management & Board

- **CEO**: Henrik Larsson Lyne
- **CFO**: Leonard Spanrud
- **Chair**: Anders Persson

### Financial Information

- **Analysts**: Redeye AB
- **Kontorstorg Lindroth**: Mäster Samuelsgatan 42, 110
- **lindroth.lindstroem@redeye.se**: 110 57 Stockholm
- **Hans Rehn**: hans.rehn@redeye.se
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 on 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.
Redeye Equity Research team

Management
Björn Fahlen
bjorn.fahlen@redeye.se

Håkan Östling
hakan.ostling@redeye.se

Technology Team
Jonas Amnesten
jonas.amnesten@redeye.se

Henrik Alveskog
henrik.alveskog@redeye.se

Dennis Berggren
dennis.berggren@redeye.se

Havan Hanna
havan.hanna@redeye.se

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Fredrik Nilsson
fredrik.nilsson@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

Eddie Palmgren
eddie.palmgren@redeye.se

Oskar Vilhelmsson
oskar.vilhelmsson@redeye.se

Viktor Westman
viktor.westman@redeye.se

Linus Sigurdsson (Trainee)
linus.sigurdsson@redeye.se

Editorial
Jim Andersson
jim.andersson@redeye.se

Eddie Palmgren
eddie.palmgren@redeye.se

Mark Sjöstedt
mark.sjostedt@redeye.se

Johan Kårestedt (Trainee)
johan.karestedt@redeye.se

Life Science Team
Anders Hedlund
anders.hedlund@redeye.se

Arvid Necander
arvid.necander@redeye.se

Erik Nordström
erik.nordstrom@redeye.se

Klas Palin
klas.palin@redeye.se

Jakob Svensson
jakob.svensson@redeye.se

Ludvig Svensson
ludvig.svensson@redeye.se

Oscar Bergman (Trainee)
oscar.bergman@redeye.se

Alexander Ribrant (Trainee)
alexander.ribrant@redeye.se
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.

Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

Limitation of liability
This document was prepared for information purposes for general distribution and is not intended to be advisory. The information contained in this analysis is based on sources deemed reliable by Redeye. However, Redeye cannot guarantee the accuracy of the information. The forward-looking information in the analysis is based on subjective assessments about the future, which constitutes a factor of uncertainty. Redeye cannot guarantee that forecasts and forward-looking statements will materialize. Investors shall conduct all investment decisions independently. This analysis is intended to be one of a number of tools that can be used in making an investment decision. All investors are therefore encouraged to supplement this information with additional relevant data and to consult a financial advisor prior to an investment decision. Accordingly, Redeye accepts no liability for any loss or damage resulting from the use of this analysis.

Potential conflict of interest
Redeye's research department is regulated by operational and administrative rules established to avoid conflicts of interest and to ensure the objectivity and independence of its analysts. The following applies:
- For companies that are the subject of Redeye's research analysis, the applicable rules include those established by the Swedish Financial Supervisory Authority pertaining to investment recommendations and the handling of conflicts of interest. Furthermore, Redeye employees are not allowed to trade in financial instruments of the company in question, effective from 30 days before its covered company comes with financial reports, such as quarterly reports, year-end reports, or the like, to the date Redeye publishes its analysis plus two trading days after this date.
- An analyst may not engage in corporate finance transactions without the express approval of management, and may not receive any remuneration directly linked to such transactions.
- Redeye may carry out an analysis upon commission or in exchange for payment from the company that is the subject of the analysis, or from an underwriting institution in conjunction with a merger and acquisition (M&A) deal, new share issue or a public listing. Readers of these reports should assume that Redeye may have received or will receive remuneration from the company/companies cited in the report for the performance of financial advisory services. Such remuneration is of a predetermined amount and is not dependent on the content of the analysis.

Redeye's research coverage
Redeye’s research analyses consist of case-based analyses, which imply that the frequency of the analytical reports may vary over time. Unless otherwise expressly stated in the report, the analysis is updated when considered necessary by the research department, for example in the event of significant changes in market conditions or events related to the issuer/the financial instrument.

Recommendation structure
Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2019-05-14)

<table>
<thead>
<tr>
<th>Rating</th>
<th>Management</th>
<th>Ownership</th>
<th>Profit outlook</th>
<th>Profitability</th>
<th>Financial Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.5p - 10.0p</td>
<td>51</td>
<td>50</td>
<td>20</td>
<td>12</td>
<td>22</td>
</tr>
<tr>
<td>3.5p - 7.0p</td>
<td>94</td>
<td>88</td>
<td>125</td>
<td>42</td>
<td>58</td>
</tr>
<tr>
<td>0.0p - 3.0p</td>
<td>15</td>
<td>22</td>
<td>15</td>
<td>106</td>
<td>80</td>
</tr>
<tr>
<td>Company N</td>
<td>160</td>
<td>160</td>
<td>160</td>
<td>160</td>
<td>160</td>
</tr>
</tbody>
</table>

Duplication and distribution
This document may not be duplicated, reproduced or copied for purposes other than personal use. The document may not be distributed to physical or legal entities that are citizens of or domiciled in any country in which such distribution is prohibited according to applicable laws or other regulations.
Copyright Redeye AB.

CONFLICT OF INTERESTS
Kristoffer Lindström, owns shares in the company Hexatronic: 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.