

Hexatronic Group AB (publ)

Year-End Report 2019

(Full year 1 January – 31 December 2019)

The quarter (1 October – 31 December 2019)

- Net sales amounted to MSEK 463.2 (443.2), which represents 5% growth during the quarter.
- Reported operating result before interest, taxes and amortisation (EBITA) totalled MSEK 27.6 (24.4), which corresponds to an EBITA margin of 5.9% (5.5%). EBITA excluding patent dispute costs totalled MSEK 37.1 (28.0) which corresponds to an EBITA margin of 8.0% (6.3%).
- The operating result amounted to MSEK 20.6 (17.4).
- Net earnings totalled MSEK 14.5 (6.3).
- Earnings per share after dilution totalled SEK 0.39 (0.17).
- Cash flow from operating activities during the quarter amounted to MSEK 58.1 (51.6)

The full year (1 January – 31 December 2019)

- Net sales amounted to MSEK 1,842.3 (1,597.8), which represents 15% growth during the period.
- Reported operating result before interest, taxes and amortisation (EBITA) totalled MSEK 135.9 (114.9), which corresponds to an EBITA margin of 7.4% (7.2%). EBITA excluding patent dispute costs totalled MSEK 157.4 (122.7) which corresponds to an EBITA margin of 8.5% (7.7%).
- The operating result amounted to MSEK 106.4 (92.5).
- Net earnings totalled MSEK 67.1 (59.3).
- Earnings per share after dilution totalled SEK 1.80 (1.62).
- Cash flow from operating activities during the full year amounted to MSEK 173.9 (15.6)
- The board will propose a dividend of SEK 0.40 (0.40) per share for the financial year 2019 to the annual general meeting.

Comments from the CEO

Continued strong international growth

2019 was a year of continued strong international growth for Hexatronic. Sales excluding Sweden grew by just over 30%. The main growth was in Europe with the UK and Germany as the main drivers, along with North America. Including Sweden, sales increased by just over 15%, and 5% of this was organic. For the first time, Sweden now accounts for less than 30% of the company's net sales. Growth during the fourth quarter was 5%, attributable in full to the acquisition of Opternus in Germany.

Profitability for the full year increased, with a boost in EBITA* (earnings after depreciation of tangible assets) of 28.2%. The EBITA margin* increased from 7.7% to 8.5% compared with 2018 as a whole. For the fourth quarter, the EBITA margin* increased from 6.3% to 8.0%. The reported EBITA margin also increased during the year and in the fourth quarter, despite considerably higher legal costs linked to the ongoing patent dispute in the UK. The improvements in margin during the periods are primarily a result of a higher gross margin.

Cash flow during the year was strong. Due to a decrease in interest-bearing debt combined with increased profitability, we reduced net debt in relation to EBITDA to 1.98, compared with 2.15 in the previous year. Thanks to our strong financial position, we can continue our growth journey through strategic acquisitions.

Looking ahead to 2020, we foresee continued strong growth internationally. During 2019 we have continued to invest in building our sales organisation, primarily in North America and the UK; we expect these investments to produce results as early as 2020. Also, during the year, we decided on a major investment in North America, with the establishment of a new duct factory in Texas, with production planned to begin in April 2020. Alongside our comprehensive organic growth investments, we are working actively to acquire strategic companies to continue growing on important emerging markets.

It was pleasing during the quarter to see a five-year extension of a contract with one of our biggest customers, Chorus, for passive fiber optic solutions.

We enter the first quarter of 2020 with an order book on a par with the same time last year.

We still have a highly positive view of the FTTH market, the opportunities 5G will bring in the shape of fiber expansion, and our potential for continued profitable growth. In the current situation, we see a minor risk of short-term adverse impact primarily on profitability should the spread of the coronavirus escalate.

Thank you for joining us on this journey.

Henrik Larsson Lyon
President and CEO of Hexatronic Group AB (publ)

* Excluding patent dispute costs related to the ongoing patent dispute in the UK.

Events during the quarter (1 October – 31 December 2019)

- Hexatronic NZ Ltd. extended its strategic partnership with Chorus Ltd. in signing a new 5-year supply agreement. The agreement covers the supply of end to end passive fibre optic solutions including fiber optic cables, micro duct etc. Chorus is one of the largest customers to the Hexatronic Group.

Events since the end of the period

No significant events since the end of the period.

Financial information, Group

MSEK	Quarter Oct-Dec 2019	Quarter Oct-Dec 2018	Full year Jan-Dec 2019	Full year Jan-Dec 2018
Net sales	463.2	443.2	1,842.3	1,597.8
EBITA	27.6	24.4	135.9	114.9
EBITA margin	5.9%	5.5%	7.4%	7.2%
EBITA excluding patent dispute costs	37.1	28.0	157.4	122.7
EBITA-marginal excluding patent dispute costs	8.0%	6.3%	8.5%	7.7%
Operating result	20.6	17.4	106.4	92.5
Net earnings	14.5	6.3	67.1	59.3
Earnings per share after dilution, SEK	0.39	0.17	1.80	1.62
Cash flow from operating activities	58.1	51.6	173.9	15.6
Liquid assets	103.8	84.6	103.8	84.6

See other key metrics on page 16.

Net sales and results

The quarter (1 October – 31 December 2019)

Net sales during the quarter amounted to MSEK 463.2 (443.2). Net sales increased by 5% for the Group compared to the same quarter last year. The growth is in full attributable to the acquisition of Opternus.

Other external expenses during the quarter amounted to MSEK 74.3 (73.3). In accordance with IFRS 16, costs for leased premises during the quarter current year of approximately MSEK 9.4 have been replaced as depreciation of tangible assets and interest expenses. During the quarter, the Group has had legal costs of approximately MSEK 9.5 (3.6) for the ongoing patent dispute in the UK.

EBITA totalled MSEK 27.6 (24.4), which corresponds to an EBITA margin of 5.9% (5.5%).

Net financial items during the quarter amounted to MSEK -2.4 (-3.7), whereof net interest amounted to MSEK -2.4 (-2.0), unrealised foreign exchange differences to MSEK 0.4 (-0.6) and other financial items to MSEK -0.4 (-1.1).

The full year (1 January – 31 December 2019)

Net sales for the full year amounted to MSEK 1,842.3 (1,597.8). Net sales increased by 15% for the Group compared to the year before. The growth in sales is primarily attributable to the acquisitions of PQMS, Gordon Franks Training, Smart Awards and Opternus. The organic growth was 5% compared to the same period last year.

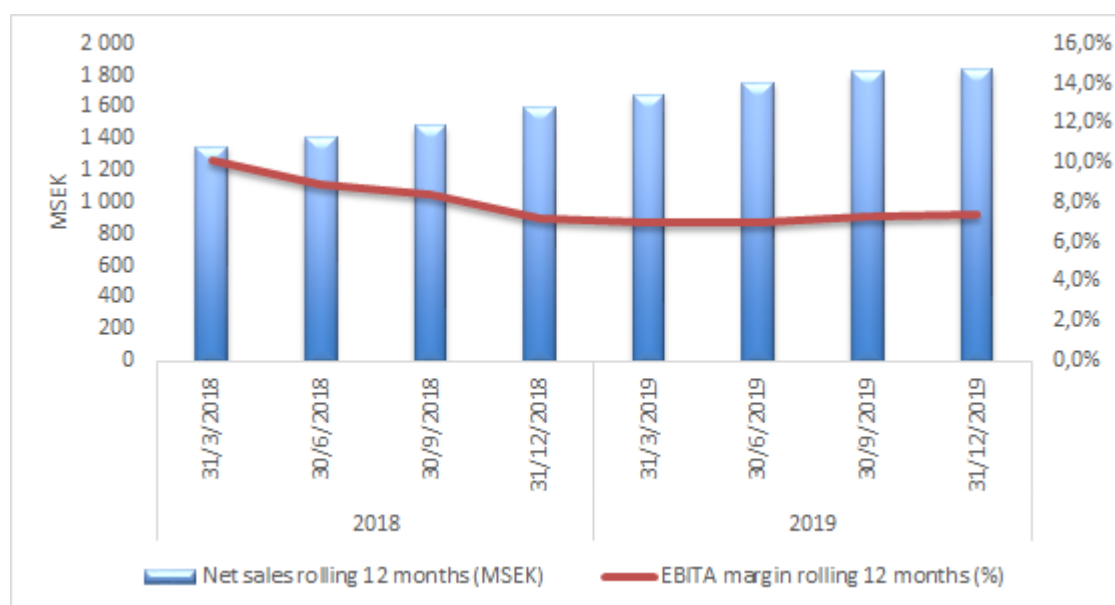
Other operating expenses and operating income have been affected by adjustments of previously booked debt raised for additional purchase prices from acquisitions.

Other external expenses during the full year amounted to MSEK 266.7 (259.6). In accordance with IFRS 16, costs for leased premises during the current year of approximately MSEK 36.8 have been replaced as depreciation of tangible assets and interest expenses. During the full year, the Group has had legal costs of approximately MSEK 21.5 (7.8) for the ongoing patent dispute in the UK.

EBITA totalled MSEK 135.9 (114.9), which corresponds to an EBITA margin of 7.4% (7.2%).

Net financial items during the period amounted to MSEK -15.4 (-10.8), whereof net interest amounted to MSEK -11.6 (-6.9), unrealised foreign exchange differences to MSEK -2.1 (-1.6) and other financial items to MSEK -1.7 (-2.3).

Net sales 12 months (MSEK) and EBITA margin rolling 12 months (%)



Financial position and liquidity

Liquid assets

Liquid assets on 31 December 2019, excluding unutilised overdraft facilities, amounted to MSEK 103.8 (84.6). Unutilised overdraft facilities amounted to MSEK 68.0 on 31 December 2019.

Non-current assets

Non-current assets amounted to MSEK 788.5 on 31 December 2019 (594.7). MSEK 156.0 is related to the fact that use-of-rights for premises is recognized as tangible assets after the transition to IFRS 16.

Equity

Equity amounted to MSEK 574.4 on 31 December 2019 (494.4), which equated to SEK 15.45 per outstanding share before dilution at the end of the reporting period.

Borrowing

The Parent Company has an acquisition facility of MSEK 565. The utilised amount on 31 December 2019 totalled MSEK 377.4, and MSEK 320.4 of this is long-term borrowing. The debt falls due for payment on 15 December 2022 with an option to extend. The Parent Company's loan agreements include the usual conditions, commitments and provisos related to senior net debt to EBITDA ratio based on rolling 12 months pro forma, interest cover ratio and equity ratio.

Net debt totalled MSEK 318.9 at the end of the reporting period compared to MSEK 353.4 as per 31 December 2018. Agreed bank covenants are calculated excluding the effects of IFRS 16.

Cash flow

Cash flow from operating activities

Cash flow from operating activities during the quarter amounted to MSEK 58.1 (51.6), including a change in working capital of MSEK 41.4 (28.8).

Cash flow from operating activities during the full year amounted to MSEK 173.9 (15.6), including a change in working capital of MSEK 13.8 (-83.2).

Cash flow from investing activities

Cash flow from investing activities during the quarter amounted to MSEK -23.9 (-96.7). The cash flow is primarily attributable to investments in tangible assets.

Cash flow from investing activities during the full year amounted to MSEK -96.3 (-361.5). The cash flow is primarily attributable to investments in tangible assets.

Cash flow from financing activities

Cash flow from financing activities during the quarter amounted to MSEK -20.8 (69.9). The cash flow from financing activities during the quarter is primarily attributable to amortisation of loans, increased utilisation of overdraft facilities and amortisation of lease liabilities.

Cash flow from financing activities during the full year amounted to MSEK -59.0 (322.3). The cash flow from financing activities during the period is primarily attributable to amortisation of loans, amortisation of lease liabilities, new working capital loan and dividend paid.

Dividend policy

Any dividend is decided by the Annual General Meeting, following a recommendation by the Board of Directors. The Group is currently in an expansive phase of development, and in the next few years the focus will be on re-investing profits back into the business.

The Board will propose to the AGM a dividend of SEK 0.40 (0.40) per share for the 2019 financial year.

The Group's financial goals from 1 January 2019

In light of the transition to the new reporting standard, IFRS 16 Leases, the Board of Directors has adopted new financial goals to apply from 1 January 2019.

Profitability

The EBITA margin (Earnings before interest, taxes, and amortisation) should be at least 9% on a rolling 12-month basis. The EBITA margin on a rolling 12-month basis on 31 December 2019 was 7.4% (7.2%).

The EBITA margin on a rolling 12-month basis on 31 December 2019, excluding patent disputes costs, was 8.5% (7.7%).

Growth

The Group shall grow more than its market organically. Annual growth of at least 20%. The growth will be both organic and acquisition driven. Growth during the full year was 15%.

Segments

Hexatronic Group AB (publ) is an engineering group specialising in fibre communications. The Group delivers products and solutions for optical fibre networks and supplies a complete range of passive infrastructure for telecom companies, including related training. Hexatronic Group AB (publ) comprises the operating segment fibre optic communication solutions.

Customers

The Group's customers are telecom operators, network owners, telecom companies, installers and system houses, and a part of the Group's products are distributed via wholesalers.

Employees

There were 597 (564) employees in the Group on 31 December 2019. The increase in employees compared to the same time last year is primarily due to production personnel in Sweden and the US.

Parent Company

The Parent Company's main business consists of performing Group-wide services. Revenue for the full year amounted to MSEK 19.0 (27.2) and the result for the full year was MSEK 9.2 (-4.6).

The Parent Company's financial assets amounted to MSEK 631.8 at the end of the period (compared to MSEK 630.2 at the beginning of the year).

Transactions with related parties

The Group rents premises from Fastighets AB Balder, in which the Group's board member Erik Selin has a significant influence. The rental contract has been entered under normal commercial conditions. The rent for the premises amounts to approximately MSEK 4.7 annually.

Significant risks and uncertainties

Like all business activities, Hexatronic's operation is associated with risks of various kinds. Continually identifying and assessing risks is a natural and integral part of the operation, enabling risks to be controlled, limited and managed proactively.

The Group's ability to map and prevent risks minimises the likelihood of unpredictable events having an adverse impact on the business. The aim of risk management is not necessarily to eliminate the risk, but rather to safeguard set business goals with a balanced risk portfolio. Mapping, planning and management of identifiable risks supports the management in making strategic decisions. Risk assessment also aims to increase the entire organisation's risk awareness.

Several risk areas have been identified in Hexatronic's risk management process. Hexatronic has divided identified risks into operational and environmental risks, market risks and financial risks.

A more detailed description of the Group's risks and risk management is provided in the Hexatronic Group Annual Report for 2018 on page 42-45.

Patent dispute

In June 2018 Emtelle UK Ltd. filed a lawsuit in England against Hexatronic UK Ltd., Hexatronic Cables & Interconnect Systems AB and Hexatronic Group AB., for infringement in two British patents related to air-blown fiber. Hexatronic has contested the claim. Court proceedings is planned for May 2020.

The Group – Hexatronic Group AB (publ)



The Group offers a broad product range designed for fibre optic communication solutions for telecom companies, operators and network owners. It develops, designs, manufactures and sells its own products and system solutions in combination with products from leading partners around the world. The Group conducts its own business through established companies in Sweden, Norway, the UK, Germany, China, USA and New Zealand.

The Group's growth strategy is to grow organically by continuously developing its product range and introducing more added value services such as servicing, aftermarket sales, support and training.

The Group has an explicit acquisition and growth strategy.

The market

Expansion of fiber networks has continued worldwide, both in broadband and 5G. It is evident that certain countries have made good progress while several large nations are still lagging a long way behind.

At the EU level and in many individual countries, there are digitalisation goals that include a certain bandwidth per household by a certain date. *The Digital Agenda for Europe* stipulates the goals up to 2025. The global economy is changing quickly, and it is important for the competitiveness of individual nations and the entire EU that the goals are met; this is causing several countries to earmark government funds to speed up the expansion.

There is still a high level of activity on the global FTTH market around the world, and especially on our focus markets which are Central Europe and North America. In an FTTH Council Europe report presented in February 2019, relating to coverage of FTTH/FTTB users by country as a percentage, small nations like the UAE, Qatar and Singapore, along with China are at the top of the rankings. The corresponding ranking for Europe is topped by Latvia, followed by Lithuania, Spain and Sweden. Large countries like Germany, Italy and the UK remain far down the list.

In terms of size the North American market, which has been seeing strong growth since 2014, is comparable with Europe, and the rate of expansion is expected to be high in the next few years. At the end of 2018 there were approximately 1.8 million connected homes in Canada and 18.4 million in the USA, which indicates that potential remains high.

The main task remaining in Sweden is to connect rural areas. Since the material requirement for duct and cable is higher for each connection in rural areas than in cities, the need for materials will not decrease at the same rate as the number of connections. Though, the rate of expansion in rural areas is lower than in cities which means this expansion will take longer time.

5G is now imminent – a technological shift that is needed to provide enough support for new services and connected products that need higher transfer speeds in the networks, such as driverless vehicles. Video now accounts for around 50% of all traffic, and this is expected to increase to 75% by 2023. The transition to 5G entails a marked densification of antennas. This will influence the fiber networks as the antennas are largely connected to fiber, and the need for fiber will increase.

The expansion of 5G is still in its infancy and is expected to gather serious momentum in two to three years' time as it expands across Europe. The countries that have made the most progress with 5G expansion are China, the USA, Korea and Japan. According to the Ericsson Mobility Report of June 2019, 5G is expected to be rolled out on a global level from 2020, and by 2024 there will be 1.9 billion users of 5G.

The development of Internet of Things (IoT) and smart cities has only just begun, and the market is expected to grow dramatically in the years to come. Creative ideas and solutions are emerging and new needs are becoming evident. The opportunities and potential applications are virtually endless.

Outlook

The Group will continue to work with large customers and major projects, where the Group's added value as a competent systems and product supplier constitutes a competitive edge. The Group's principal offering is systems and products for broadband communication, primarily for fibre optic networks.

The Group has an active acquisition and growth strategy whereby attractive candidate – i.e., those that can complement Hexatronic either in terms of market or products – are continuously being evaluated. The Group does not prioritise acquisitions in which cost synergies need to be harnessed to achieve a good return on the acquisition investment.

The Group does not publish forecasts.

The Hexatronic share

The company's share is listed in the Mid cap segment on Nasdaq Stockholm.

The company's share is listed under the ticker **HTRO**. On the balance sheet date, the share capital in Hexatronic Group AB (publ) amounted to SEK 1,877,190.95, distributed among a total of 37,183,825 ordinary shares and 360,000 shares in serie C.

At the Annual General Meeting (AGM) on 9 May 2019, it was decided to authorise the Board to acquire and transfer personally held shares in line with the Board's decision, and to decide on the new issue of shares and/or warrants and/or convertibles equating to no more than 10% of the registered share capital. The AGM decided to pay a dividend of SEK 0.40 per share, which was paid on 16 May 2019.

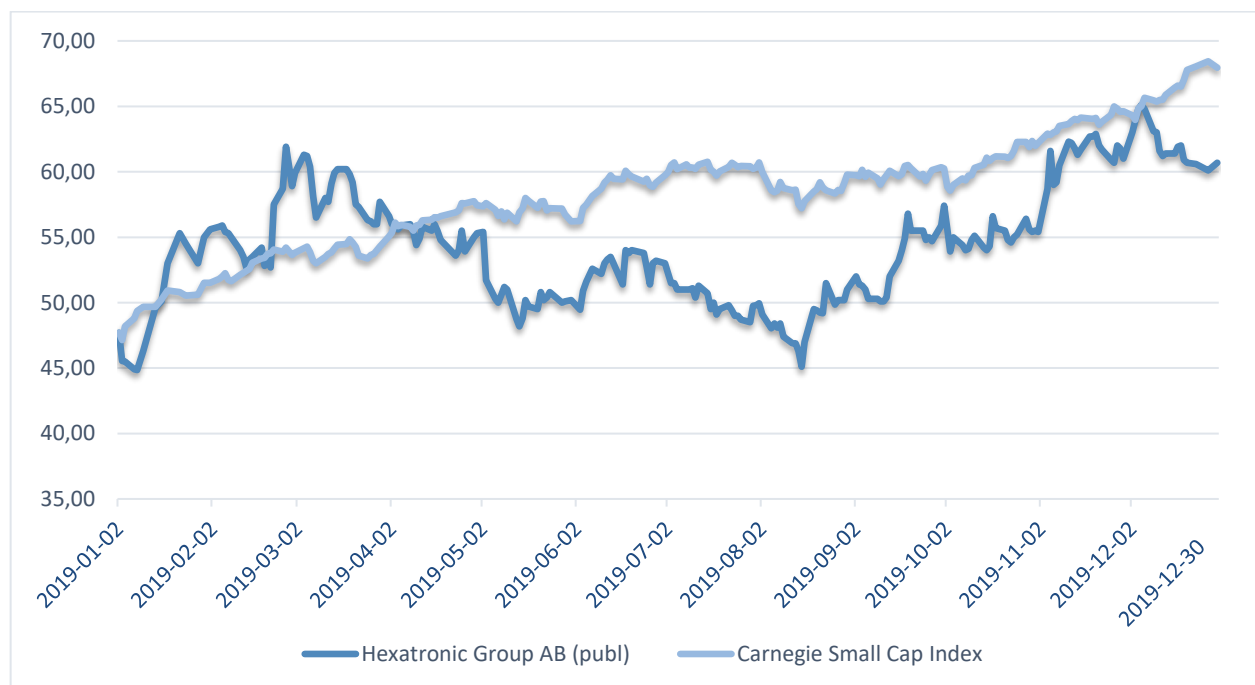
The fair value on the issued options, in all employee stock option programs, has been calculated according to the Black & Scholes model. Each option entitles the holder to buy one share.

Existing incentive programmes active at the time of this report's publication are:

- In 2018 an employee stock option programme was approved with 1,000,000 options available to the company's personnel; 603,000 of these options were subscribed at an issue price of SEK 82.20, with a redemption window of 15 May – 15 June 2021.
- In 2019 an employee stock option programme was approved with 500,000 options available to the company's personnel; 361,500 of these options were subscribed at an issue price of SEK 66.73, with a redemption window of 15 May – 15 June 2022.
- During 2019, a decision was made to introduce a long-term, performance-based incentive plan (LTIP 2019) for 12 senior executives in the Group who are resident in Sweden. At the time of this report, the participants have invested in a total of 54,240 savings shares.

Under the LTIP, for each acquired Hexatronic share (savings share), participants can receive 4–6 shares in Hexatronic (performance shares) free of charge, assuming achievement of certain performance targets. To qualify for performance shares, participants must acquire and retain a number of Hexatronic shares for the whole of the three-year vesting period and must, with some exceptions, remain in employment during the same period. In addition to the above conditions, performance shares also require certain performance targets to be met, linked to the development of the per-share earnings, the Group's growth and the growth in EBITA during the vesting period. The targets relate to the 2019, 2020 and 2021 financial years. Hexatronic has judged that all the above conditions are non-market related conditions under IFRS 2.

Share price development in the past 12 months (SEK)



The company's market value at the end of the period was MSEK 2,257.

The number of shareholders at period end, 7,720, is based on data from Euroclear. The shareholder structure of Hexatronic Group AB (publ) on 31 December is shown in the table below.

Shareholder	No. of ordinary shares	Votes %
Accendo Capital	3,906,012	10.5%
Handelsbanken Funds	3,391,000	9.1%
Jonas Nordlund, privately and corporately	3,000,000	8.1%
Länsförsäkringar Funds	1,898,881	5.1%
Martin Åberg and Erik Selin via Chirp AB	1,785,872	4.8%
Swedbank Robur, West Fund	1,359,722	3.7%
Fondita Nordic Micro Cap	1,162,795	3.1%
AMF Insurance & Funds	1,151,279	3.1%
Avanza Pension - Insurance Company	1,053,145	2.8%
Consensus Asset Management	952,501	2.6%
Other shareholders	17,522,618	47.1%
Total outstanding shares	37,183,825	100.0%

Other information

Publication

This information comprises disclosures that Hexatronic Group AB (publ) must publish according to the EU Market Abuse Regulation and the Swedish Securities Market Act. The information was submitted for publication, under responsibility of the contact persons named below, on 21 February 2020 at 08:00 CET.

Financial calendar

Interim Report January-March 2020: 29 April 2020

Interim Report April-June 2020: 14 August 2020

Interim Report July-September 2020: 5 November 2020

Year-End Report: 24 February 2021

Annual General Meeting

The AGM will be held on 7 May 2020.

Please direct any questions to:

- Henrik Larsson Lyon, President and CEO, + 46 (0)70-650 34 00
- Lennart Sparud, CFO, + 46 (0)70-558 66 04

The Board of Directors and President hereby confirm that this interim report provides a true and fair overview of the business, financial position and results of the Parent Company and the Group and describes significant risks and uncertainty factors with which the Parent Company and the companies forming the Group are faced.

Gothenburg, 21 February 2020

Anders Persson
Chairman

Erik Selin
Board member

Jaakko Kivinen
Board member

Malin Frenning
Board member

Malin Persson
Board member

Mats Otterstedt
Board member

Henrik Larsson Lyon
President and CEO

This interim report has not been reviewed by the company's auditor.

Hexatronic Group AB (publ) is a group that develops, markets and delivers products, components and system solutions with the main focus on the fiber optic market. Hexatronic offers a wide range of innovative system and product solutions mainly for passive fiber optic infrastructure with global trademarks like Matrix, Viper, Stingray, Raptor, InOne, Drytech™, Lightmate®, Skyline and Wistom®. The Group has its headquarters in Gothenburg, Sweden and has sales offices and/or subsidiaries in Sweden, Norway, United Kingdom, Germany, China, New Zealand and the US. The Group is listed on Nasdaq Stockholm under the ticker HTRO. For more information, visit www.hexatronicgroup.com

Consolidated income statement (SEK thousand)	Quarter	Quarter	Full year	Full year
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
	2019	2018	2019	2018
<u>Revenue</u>				
Net sales	463,236	443,159	1,842,266	1,597,768
Other operating income	5,503	14,989	14,043	17,526
	468,740	458,148	1,856,310	1,615,294
<u>Operating expenses</u>				
Raw materials and goods for resale	-254,833	-264,517	-1,022,632	-906,639
Other external costs	-74,287	-73,306	-266,716	-259,596
Personnel costs	-98,281	-84,686	-368,880	-306,191
Other operating expenses	-599	-4,653	-1,294	-4,653
Depreciation of tangible assets	-13,179	-6,615	-60,876	-23,281
Earnings before interest, taxes and amortisation (EBITA)	27,562	24,370	135,911	114,933
Depreciation of intangible assets	-6,916	-7,008	-29,501	-22,388
Operating result (EBIT)	20,646	17,362	106,410	92,545
<u>Result from financial items</u>				
Financial income	101	2,219	285	194
Financial expenses	-2,551	-5,936	-15,664	-10,988
Result after financial items	18,196	13,645	91,031	81,751
Income taxes	-3,708	-7,310	-23,965	-22,472
Net result for the period	14,488	6,335	67,066	59,279
Attributable to:				
Parent Company shareholders	14,488	6,335	67,066	59,279
Earnings per share				
Earnings per share before dilution (SEK)	0.39	0.17	1.81	1.63
Earnings per share after dilution (SEK)	0.39	0.17	1.80	1.62
Consolidated statement of comprehensive income	Quarter	Quarter	Full year	Full year
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
	2019	2018	2019	2018
Result for the period	14,488	6,335	67,066	59,279
Items which can later be recovered in the income statement				
Translation differences	-21,798	826	12,025	11,542
Cash flow hedge	0	0	0	3,077
Other comprehensive income for the period	-21,798	826	12,025	14,619
Comprehensive income for the period	-7,310	7,160	79,091	73,898
Attributable to:				
Parent Company shareholders	-7,310	7,160	79,091	73,898

Consolidated balance sheet (SEK thousand)

	31/12/2019	31/12/2018
Assets		
<u>Non-current assets</u>		
Intangible assets	434,253	454,517
Tangible assets	352,562	139,197
Financial assets	1,729	1,015
Total non-current assets	788,544	594,729
<u>Current assets</u>		
Inventories	339,346	334,282
<u>Current receivables</u>		
Accounts receivable	242,413	261,774
Current tax receivables	0	1,594
Other receivables	3,232	2,553
Prepaid expenses and accrued income	20,559	23,582
Total current receivables	266,204	289,502
<u>Liquid assets</u>	103,762	84,621
Total current assets	709,312	708,405
Total assets	1,497,856	1,303,134
Equity	574,400	494,415
<u>Non-current liabilities</u>		
Liabilities to credit institutions	320,430	351,741
Deferred tax	58,497	62,630
Non-current lease liabilities	123,415	0
Total non-current liabilities	502,342	414,372
<u>Current liabilities</u>		
Liabilities to credit institutions	57,000	56,457
Current lease liabilities	34,349	0
Overdraft facilities	45,258	29,863
Accounts payable	162,584	173,772
Provisions	3,000	3,000
Current tax liabilities	2,811	0
Other liabilities	48,346	72,815
Accrued expenses and deferred income	67,765	58,440
Total current liabilities	421,114	394,347
Total equity, provisions and liabilities	1,497,856	1,303,134

Consolidated statement of changes in equity (SEK thousand)	Share capital	Other capital contributions	Reserves	Result brought forward, including result for the period	Total equity
Balance brought forward as of 1 January 2018	1,809	186,077	-8,714	236,087	415,259
Result for the period	0	0	0	59,279	59,279
Other comprehensive income	0	0	14,619	0	14,619
Total comprehensive income	0	0	14,619	59,279	73,898
New share issue relating to business acquisitions	17	17,436	0	0	17,453
Employee stock option programme	0	2,274	0	0	2,274
Dividend paid	0	0	0	-14,469	-14,469
Total transactions with shareholders, reported directly in equity	17	19,710	0	-14,469	5,258
Balance carried forward as of 31 December 2018	1,826	205,787	5,905	280,897	494,415
Balance brought forward as of 1 January 2019	1,826	205,787	5,905	280,897	494,415
Result for the period	0	0	0	67,066	67,066
Other comprehensive income	0	0	12,025	0	12,025
Total comprehensive income	0	0	12,025	67,066	79,091
New shares related to employee stock option programme	34	12,795	0	0	12,828
Employee stock option programme	0	2,186	0	0	2,186
Share-based remuneration	18	0	0	736	754
Dividend paid	0	0	0	-14,874	-14,874
Total transactions with shareholders, reported directly in equity	52	14,981	0	-14,138	894
Balance carried forward as of 31 December 2019	1,877	220,768	17,930	333,825	574,400

Consolidated statement of cash flows (SEK thousand)	Quarter	Quarter	Full year	Full year
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
	2019	2018	2019	2018
Operating result	20,646	17,362	106,410	92,545
Items not affecting cash flow	8,893	18,508	97,206	50,508
Interest received	101	101	285	194
Interest paid	-5,987	-5,274	-16,090	-10,403
Income tax paid	-6,945	-7,875	-27,679	-34,094
Cash flow from operating activities before changes in working capital	16,708	22,822	160,132	98,749
Increase (-)/decrease (+) in inventories	5,561	12,103	-5,065	-67,247
Increase (-)/decrease (+) in accounts receivable	57,334	70,670	19,361	1,378
Increase (-)/decrease (+) in operating receivables	-452	-2,815	3,938	-4,627
Increase (+)/decrease (-) in accounts payable	-9,296	-36,584	-11,188	5,183
Increase (+)/decrease (-) in operating liabilities	-11,780	-14,611	6,736	-17,872
Cash flow from changes in working capital	41,367	28,763	13,782	-83,186
Cash flow from operating activities	58,075	51,585	173,915	15,564
<u>Investing activities</u>				
Acquisition of tangible and intangible assets	-23,928	-9,916	-81,781	-41,034
Acquisition of subsidiaries after deduction of acquired liquid assets	0	-86,761	-13,809	-319,776
Change in financial assets	-7	-33	-714	-703
Cash flow from investing activities	-23,935	-96,710	-96,304	-361,512
<u>Financing activities</u>				
Borrowings	0	87,105	20,000	348,728
Amortisation of loans	-38,503	-21,726	-92,628	-43,446
Changes in overdraft facilities	17,675	4,557	15,395	29,863
New share issues for the period	0	0	13,106	1,654
Dividends paid	0	0	-14,874	-14,469
Cash flow from financing activities	-20,828	69,936	-59,000	322,330
<u>Cash flow for the period</u>	13,312	24,811	18,610	-23,618
Liquid assets at the start of the period	87,407	59,810	84,621	108,239
Exchange rate difference in liquid assets	3,043	0	531	0
Liquid assets at the end of the period	103,762	84,621	103,762	84,621

Key metrics for the group	Quarter	Quarter	Full year	Full year
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
	2019	2018	2019	2018
Growth in net sales	5%	36%	15%	23%
EBITA margin	5.9%	5.5%	7.4%	7.2%
EBITA margin, 12 months rolling	7.4%	7.2%	7.4%	7.2%
Operating margin	4.5%	3.9%	5.8%	5.8%
Earnings per share before dilution (SEK)	0.39	0.17	1.81	1.63
Earnings per share after dilution (SEK)	0.39	0.17	1.80	1.62
Net sales per employee (SEK thousand)	771	801	3,133	3,090
Result per employee (SEK thousand)	24	11	114	115
Quick ratio	88%	95%	88%	95%
Average number of employees	601	553	588	517
Number of shares at period end before dilution	37,183,825	36,511,825	37,183,825	36,511,825
Average number of shares before dilution	37,183,825	36,438,900	37,127,825	36,278,940
Average number of shares after dilution	37,235,486	36,836,200	37,217,336	36,676,240

For the definition of key metrics, see the Annual Report for 2018.

The key metrics presented are deemed essential to describing the Group's development as they both constitute the Group's financial objectives (growth in net sales and EBITA margin) and are the key metrics by which the Group is governed. Several key metrics are considered relevant to investors, such as earnings per share and the number of shares. Other key metrics are presented in order to provide different perspectives on how the Group is developing and are therefore deemed to be of benefit to the reader.

Parent Company income statement (SEK thousand)

	Full year Jan-Dec 2019	Full year Jan-Dec 2018
<u>Revenue</u>		
Net sales	18,986	27,242
	18,986	27,242
<u>Operating expenses</u>		
Other external costs	-51,806	-28,163
Personnel costs	-23,032	-20,119
Depreciation of tangible assets	-215	-215
Operating result (EBITA)	-56,066	-21,254
<u>Result from financial items</u>		
Interest income	2,072	1,134
Interest expenses	-10,346	-14,112
Result after financial items	-64,340	-34,232
Appropriations	76,550	29,550
Result before tax	12,210	-4,682
Tax on profit for the period	-3,042	90
Net result for the period	9,167	-4,591

Total comprehensive income is the same as net result for the full year in the parent company since there is no accounted for as other comprehensive income.

Parent Company balance sheet (SEK thousand)

	31/12/2019	31/12/2018
Assets		
Intangible assets	388	0
Tangible assets	333	548
Financial assets	631,753	630,239
Total non-current assets	632,473	630,786
<u>Current receivables</u>		
Receivables from Group companies	257,463	151,401
Current tax receivables	0	507
Other receivables	2,262	3,324
Prepaid expenses and accrued income	4,118	1,605
Total current receivables	263,843	156,837
<u>Cash and bank balances</u>	0	0
Total current assets	263,843	156,837
Total assets	896,316	787,623
<u>Equity, provisions and liabilities</u>		
<u>Equity</u>	210,390	192,922
<u>Untaxed reserves</u>	16,950	6,330
<u>Non-current liabilities</u>		
Liabilities to credit institutions	320,430	350,828
Deferred tax	4	0
Total non-current liabilities	320,434	350,828
<u>Current liabilities</u>		
Liabilities to credit institutions	57,000	48,721
Overdraft facilities	45,258	29,863
Accounts payable	8,465	6,504
Liabilities to Group companies	200,084	98,914
Current tax liabilities	3,462	0
Other liabilities	29,270	49,104
Accrued expenses and deferred income	5,002	4,437
Total current liabilities	348,541	237,543
Total equity, provisions and liabilities	896,316	787,623

NOTES

Note 1 General information

Hexatronic Group AB (publ), with corporate identity number 556168-6360, is the Parent Company of the Hexatronic Group. Hexatronic Group AB (publ) is based in Gothenburg at the address Sofierogatan 3A, SE-412 51 Gothenburg, Sweden.

All amounts are in thousands of Swedish kronor (SEK thousand) unless otherwise stated. The figures in parentheses refer to the previous year.

Note 2 Accounting policies

The consolidated financial statements for Hexatronic Group ("Hexatronic") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act. This interim report has been prepared in accordance with IAS 34 Interim Reporting, the Swedish Annual Accounts Act and RFR 1 Supplementary Accounting Rules for Groups.

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The application of RFR 2 means that in its interim report for the legal entity, the Parent Company applies all IFRS and statements adopted by the EU as far as possible within the framework of the Swedish Annual Accounts Act and the Swedish Insurance Act and regarding the relationship between accounting and taxation.

For full accounting policies, see the Annual Report for 2018.

New standards applied from 1 January 2019

IFRS 16 Leases is applied from 1 January 2019.

The Group as a lessee

The Group's leases primarily comprise right-of-use assets regarding premises. The leases are recognised as right-of-use assets equating to a lease liability on the day the leased asset becomes available for use by the Group. Short-term leases and leases for which the underlying asset is of low value are excepted.

Each lease payment is distributed between repayment of lease liability and financial expense. The financial expense shall be distributed over the term of the lease so that each accounting period is charged with an amount corresponding to a fixed rate of interest for the liability recognized in the respective period.

The lease period is established as the non-terminable period together with both periods covered by an opportunity to extend the lease if the lessee is reasonably certain to utilise that option, and periods covered by an opportunity to terminate the lease if the lessee is reasonably certain not to utilise that option.

The Group's lease liabilities are entered at the present value of the Group's fixed fees. Call options are included in the fees if it is reasonably certain that these will be utilised to acquire the underlying asset. Penalty fees which are charged on termination of the lease are included if the lease period reflects the fact that the lessee will utilise an opportunity to terminate the lease. The lease payments are discounted by the

lease's imputed rate of interest if this interest rate can easily be established, otherwise the Group's incremental borrowing rate is used.

The Group's right-of-use assets are recognised at cost and initially include the present value of the lease liability, adjusted for lease fees paid on or before the start date, as well as initial direct costs. Restoration costs are included in the asset if a corresponding provision relating to restoration costs has been identified. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the length of the lease.

Hexatronic has assessed many contracts concerning premises being open-ended contracts. This requires the Hexatronic lessee to determine the contract period instead of considering the termination clause. The lessee then determines the length of the contract period based on factors such as the importance of building to the business, any planned or made leasehold investments and the market situation for premises. Consequently, these contracts have in many cases had the contract period extended.

Hexatronic has chosen to perform the transition in line with the Cumulative catch-up approach and has applied the expedient to not restate any comparative information. Right-of-use assets have been determined as an amount equal to the lease liabilities as identified at initial application. A marginal rate of interest equal to the parent company's borrowing interest rate has been applied. Lease contracts shorter than 12 months or ending within 12 months at the date of application are considered short-term and hence not recognized as lease liability or right-of-use asset. Low value contracts, with a value as new below SEK 50 thousand, are also excluded from being recognized as lease liability or right-of-use asset.

Consolidated income statement

SEK thousand	Oct-Dec 2019	Jan-Dec 2019
Decrease in other external costs	9,447	36,753
Increase in depreciation of tangible assets	-9,143	-35,657
Effect on operating profit	0,304	1,096
Increase in financial expenses	-0,686	-2,861
Effect on profit before tax	-0,382	-1,765
Decrease in income taxes	0,082	0,378
Effect on earnings for the period	-0,300	-1,387
Effect on earnings per share before dilution, SEK	-0.01	-0.04
Effect on earnings per share after dilution, SEK	-0.01	-0.04

Consolidated statement of cash flows

SEK thousand	Oct-Dec 2019	Jan-Dec 2019
Increase in cash flow from operating activities	9,143	35,657
Decrease in cash flow from financing activities	-9,143	-35,657
Effect on cash flow for the period	0	0

Consolidated balance sheet	Recognised balance-sheet items, 31/12/2018	Restating to IFRS 16	Restated balance- sheet items, 1/1/2019
SEK thousand			
Assets			
Right-of-use assets	0	180,314	180,314
Total assets	1,303,134	180,314	1,483,448
Shareholders' equity and liabilities			
Non-current lease liabilities	0	149,969	149,969
Current lease liabilities	0	30,345	30,345
Total shareholders' equity and liabilities	1,303,134	180,314	1,483,448

Note 3 Revenue

January to December 2019					
Geographical markets	Sweden	Rest of Europe	North America	Rest of the world	Total
Revenue from external customers	546,339	587,740	426,782	281,405	1,842,266
<u>Category</u>					
Goods	515,482	524,330	426,782	281,405	1,747,999
Services	<u>30,857</u>	<u>63,410</u>	<u>0</u>	<u>0</u>	<u>94,267</u>
Total	546,339	587,740	426,782	281,405	1,842,266
<u>Time for revenue recognition</u>					
At a given time	546,339	587,740	426,782	281,405	1,842,266
Over time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	546,339	587,740	426,782	281,405	1,842,266

January to December 2018					
Geographical markets	Sweden	Rest of Europe	North America	Rest of the world	Total
Revenue from external customers	606,701	287,637	365,625	337,805	1,597,768
<u>Category</u>					
Goods	577,281	245,678	365,625	337,805	1,526,389
Services	<u>29,420</u>	<u>41,959</u>	<u>0</u>	<u>0</u>	<u>71,379</u>
Total	606,701	287,637	365,625	337,805	1,597,768
<u>Time for revenue recognition</u>					
At a given time	606,701	287,637	365,625	337,805	1,597,768
Over time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	606,701	287,637	365,625	337,805	1,597,768

Note 4 Pledged assets

Pledged assets	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
<i>Assets pledged for liabilities to credit institutions</i>				
Chattel mortgages	157,350	157,350	100	100
Shares in subsidiaries	269,517	281,484	82,785	82,504
Total	426,867	438,834	82,885	82,604

RECONCILIATION BETWEEN IFRS AND KEY METRICS USED

In this interim report, Hexatronic presents certain financial parameters that are not defined in IFRS, known as alternative key metrics. The Group believes that these parameters provide valuable supplementary information for investors, as they facilitate an evaluation of the company's results and position. Since not all companies calculate financial parameters in the same way, these metrics are not always comparable with those used by other companies. Investors should see the financial parameters as a complement to, rather than a replacement for, financial reporting in accordance with IFRS.

Organic growth SEK thousand, %	October-December	January-December
Net sales 2019	463,236	1,842,266
Acquisition driven	<u>-20,686</u>	<u>-171,878</u>
Comparable net sales	442,550	1,670,388
Net sales 2018	443,159	1,597,768
Net sales increase	20,077	244,498
%	5%	15%
Organic growth	-0,609	72,620
%	0%	5%

Organic growth is calculated as net sales for the year adjusted by acquisitions in relation to net sales for the previous year adjusted by acquisitions.

Annual growth, rolling 12 months %	12 months
Net sales January-December 2019	<u>1,842,266</u>
<i>Net sales rolling 12 months</i>	1,842,266
Net sales January-December 2018	<u>1,597,768</u>
<i>Net sales rolling 12 months</i>	1,597,768
Annual growth, rolling 12 months	15%

Average annual growth is calculated as the Group's total net sales during the period compared to the same period the year before.

Quick asset ratio		
%	31/12/2019	31/12/2018
Current assets	709,312	708,405
Inventories	-339,346	-334,282
<i>Current assets-inventories</i>	<u>369,965</u>	<u>374,123</u>
Current liabilities	421,114	394,347
Quick asset ratio	88%	95%

Quick asset ratio is calculated as current assets minus inventories divided by current liabilities.

Core working capital		
SEK thousand	31/12/2019	31/12/2018
Inventories	339,346	334,282
Accounts receivable	242,413	261,774
Accounts payable	-162,584	-173,772
Core working capital	419,176	422,284

Core working capital is defined as inventories plus accounts receivable minus accounts payable.



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