

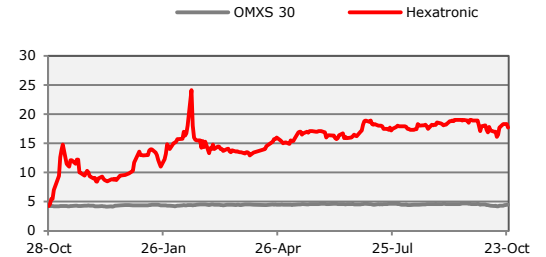
**Summary**

## Hexatronic (HTRO)

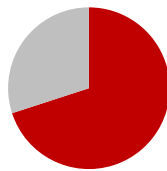
### Continued strong performance

- Hexatronic continues its strong performance in Q4, exceeding our expectations. The company reported revenue of 140 MSEK and EBIT of 15 MSEK, compared to our estimate of 105 MSEK and 8 MSEK, respectively.
- The company has within a year gone from a turnover level of about 70 MSEK to almost 500 MSEK, with improved profitability. We continue to see good growth prospects going forward.
- We have adjusted our estimate of future CAPEX and future net working capital levels. Our fair value estimate for the company is marginally revised to 24.8 (24.5) SEK per share. We find that the share continues to be attractively priced.

List: First North  
 Market Cap: 494 MSEK  
 Industry: Telecommunication Equipment  
 CEO: Henrik Larsson-Lyon  
 Chairman: Göran Nordlund

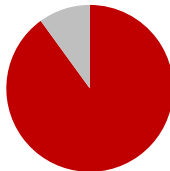

**Redeye Rating (0 – 10 points)**

Management



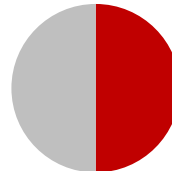
7,0 points

Ownership



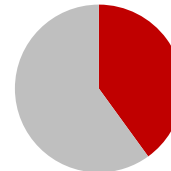
9,0 points

Growth prospect



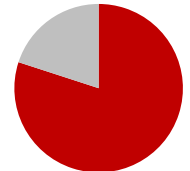
5,0 points

Profitability



4,0 points

Financial strength



8,0 points

**Key Financials**

	12/13	13/14	14/15E	15/16E	16/17E
Revenue, MSEK	71	497	641	717	804
Growth	81%	601%	29%	12%	12%
EBITDA	4	60	89	84	104
EBITDA margin	6%	12%	14%	12%	13%
EBIT	3	55	83	77	94
EBIT margin	4%	11%	13%	11%	12%
Pre-tax earnings	2	54	84	78	96
Net earnings	2	41	65	61	75
Net margin	3%	8%	10%	8%	9%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.17	1.70	2.27	2.12	2.60
P/E adj.	109.3	11.2	8.2	8.8	7.2
EV/S	3.7	0.9	0.7	0.6	0.4
EV/EBITDA	61.5	7.2	5.6	4.8	3.4

**Share information**

Share price (SEK)	18.7
Number of shares (m)	26.4
Market Cap (MSEK)	494
Net Cash (MSEK)	28
Free float (%)	30 %
Daily turnover ('000)	30

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

## Redeye Rating: Background and definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

### Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Growth 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.

### Growth Outlook

Our Growth 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 Growth Outlook are: 1 – Strategies and business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

### Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

### Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicity, and 8 – Forthcoming binary events.

## Continued strong performance

Hexatronic's report for the fourth quarter beat our expectations on almost every level. The company also discussed the future CAPEX needs and the rising net working capital. The company states that they see great underlying growth many years into the future.

*A strong quarter beating our estimates*

The reported revenue for the company came in higher than our estimate. In the Q3 report the company had a discussion that they thought the next quarter would be somewhat weaker, because of seasonality effect in the industry. We had adjusted our forecast to account for this seasonality effects, but in the Q4 report we cannot find any signs of this. This is the main reason that the reported revenue exceeded our estimate by such a wide margin.

*No seasonality effect visible, leading to the high revenue level*

The reported gross profit margin was lower than we had expected. The reason for this was that Hexatronics subsidiaries previously used different accounting principles for the reporting of COGS and General expenses. This distorted the gross profit margins reported for Q3 and Q. Adjusted, the actual margin levels should be 38.1% and 41.7%. The accounting principles are now harmonized. This does not however affect the EBITDA margin. The EBITDA and EBIT margins exceeded our estimate, primarily due to the lower SG&A compared to sales than we had expected. The lower SG&A compared to sales is mainly explained by the high turnover level during the quarter.

Overall we find the quarter as very strong. It is not an easy task for a company to go from a turnover of around 70 MSEK to almost 500 MSEK in just a year but Hexatronic has managed it with verve.

*From 70 MSEK to 500 MSEK year on year*

Estimate vs. Outcome				
MSEK	12/13 Q4	13/14 Q4E	13/14 Q4A	Diff
Revenues	14	105	140	34%
Gross profit	4	48	46	-5%
EBITDA	0	8	16	99%
EBIT	0	8	15	92%
Net profit	0	6	11	94%
EPS SEK	0.0	0.2	0.5	94%
Revenue Growth		648%	902%	
Gross profit margin		45.8%	32.7%	
EBITDA margin		7.7%	11.4%	
EPS Growth (YoY)		n.m		

Source: Redeye Research & Hexatronic

### Future maintenance CAPEX and receivables

In the report comments Hexatronic discussed the future need of investments in tangible assets. The company states that they estimate to spend around 10 MSEK in maintenance CAPEX and possibly some more from year to year in growth investments. But the company states that they can grow the production without new growth investments. In our valuation

*We have adjusted the future CAPEX levels downwards given the new information*

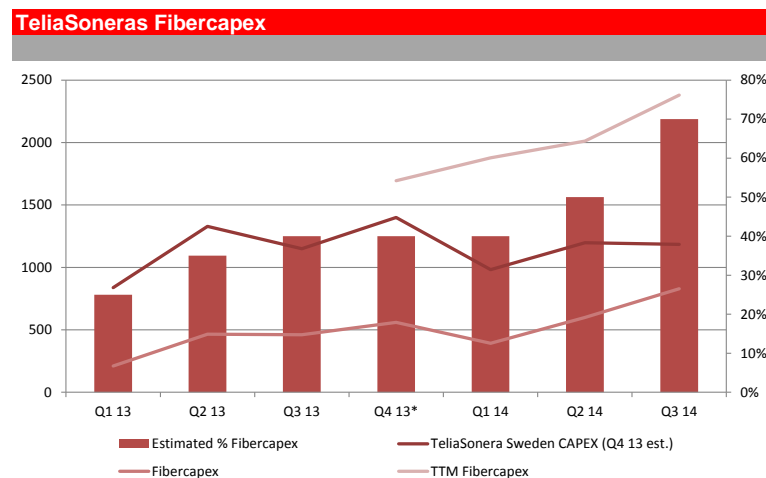
we had previously estimated higher future CAPEX levels. Following this new information we have now adjusted the CAPEX levels them downwards. However we keep them above the stated 10 MSEK to be conservative.

During the quarter, the net working capital grew with almost 35 MSEK. The inventory decrease is largely explained by the strong sales level during the quarter affecting the cash flow positively. Receivables grew quite a bit affecting the cash flow negatively with around 33.8 MSEK. The reason for this was longer payment terms for large costumers. The company has also done some large OEM deals that have been capital intensive. The accounts payable also decreased, which affect the cash flow negatively, and explained by shorter payment terms with the suppliers. We estimated that the cash conversion cycle (CCC), time before Hexatronic convert sales to cash, was around 135 days for the full year. In our estimate we find it likely that the CCC will decrease somewhat and we use a long term estimate of around 120 days. For suppliers to the telecom industry, where the buyers often are very large, the payment terms might become an issue. We are however confident that the company will improve the payments terms for their customers and suppliers in a beneficial way in the coming years.

**TeliaSonera CAPEX and fiber activity**

*Large increase of fiber related CAPEX at TeliaSonera*

TeliaSonera has recently changed their report structure and now reports their segments: Sweden, Europe and Eurasia. TeliaSonera also discusses what percentage of their CAPEX is related to fiber. For the last reported quarter, Q3 the company stated that 70% of the CAPEX in Sweden was related to fiber. In Q1-13 and Q4-13 the percentage was 40% and 50 We can clearly see that the level of CAPEX related to fiber has increased by a significant amount with an estimated TTM fiber capex of around 2.4 billion SEK. The growth of fiber capex done by TeliaSonera is significant and this is of course good for a company like Hexatronic. We view the investment done by TeliaSonera as an indicator for the underlying market of fiber infrastructure in Sweden.



Source: Redeye Research & TeliaSonera, \*Q4 13 is an estimate

During the quarter both, EQT owned IP Only and TeliaSonera have stated that they will invest a significant amount in fiber related items.

IP Only states that they will invest about 30 billion SEK. Buying city networks and deploying fiber in the coming years. TeliaSonera have said that they will invest 9 billion SEK during the years 2015-2018 in fiber capex. This translates to about 2.25 billion SEK each year, which is in line with our TTM fiber capex estimate.

*IP Only will invest 30 billion in buying city networks and deploying fiber*

We see no indications from TeliaSonera that the CAPEX levels will be significantly lower during the next quarter. The company has guided a CAPEX-to-Sales ratio around 15% for their full year and a revenue growth of around -1.7%.

### Next quarter estimate

We have not changed our view on our estimated margin or growth levels. We expect another solid quarter. We estimate that the CAPEX levels in the telecom industry will continue to be high. We do find it likely that the Proximion acquisition will be favorable for the product mix adding a bit to the EBITDA margin levels. We expect the turnover level to be in the region of 158 MSEK and an EBIT of 20 MSEK.

*We expect a revenue of 158 MSEK and EBIT of 20 MSEK for the next quarter*

Next quarter estimates		
MSEK	13/14 Q1	14/15 Q1E
Revenues	26	158
Gross profit	6	65
EBITDA	0	22
EBIT	0	20
Net profit	-1	15
EPS SEK	0.0	0.5
Revenue Growth		500%
Gross profit margin	22.5%	41.0%
EBITDA margin	1.2%	13.7%
EPS Growth (YoY)		

Source: Redeye Research & Hexatronic

## Long-term forecast

Our long term forecast for the company is mostly unchanged. We see a likely high near-term growth driven by the large investment in fiber infrastructure. The large growth rate for the year 14/15 is mainly driven by the fact that HCI (the Hudiksvalls factory) will report for the whole year and not just for three quarters as the case was in 13/14 and the acquisition of Proximion.

*We make small adjustments to our long-term forecast*

We estimate a likely sustainable EBITDA margin level of around 12%. We have lowered our future estimated CAPEX levels and increased our assumed net working capital estimate somewhat.

Hexatronic, income statement												
Base-case												
MSEK	12/11	13/14	14/15E	15/16E	16/17E	17/18E	18/19E	19/20E	20/21E	21/22E	22/23E	23/24E
Revenues	71	497	641	717	804	900	981	1069	1166	1270	1385	1461
COGS	-47	-294	-391	-438	-474	-531	-589	-642	-688	-750	-831	-877
<b>Gross Profit</b>	<b>24</b>	<b>203</b>	<b>249</b>	<b>279</b>	<b>329</b>	<b>369</b>	<b>392</b>	<b>428</b>	<b>478</b>	<b>521</b>	<b>554</b>	<b>584</b>
SG&A	-20	-143	-171	-195	-225	-252	-275	-299	-326	-362	-395	-424
<b>EBITDA</b>	<b>4</b>	<b>60</b>	<b>78</b>	<b>84</b>	<b>104</b>	<b>117</b>	<b>118</b>	<b>128</b>	<b>152</b>	<b>159</b>	<b>159</b>	<b>161</b>
D&A	-1	-5	-5	-7	-10	-11	-14	-16	-16	-17	-15	-15
<b>EBIT</b>	<b>6</b>	<b>55</b>	<b>73</b>	<b>77</b>	<b>94</b>	<b>106</b>	<b>104</b>	<b>112</b>	<b>135</b>	<b>142</b>	<b>144</b>	<b>146</b>
Finans Net	-1	-1	-2	1	1	2	2	3	4	4	5	6
<b>Profit before tax</b>	<b>5</b>	<b>54</b>	<b>70</b>	<b>78</b>	<b>96</b>	<b>108</b>	<b>106</b>	<b>115</b>	<b>139</b>	<b>147</b>	<b>150</b>	<b>152</b>
Tax	0	-13	-18	-17	-21	-24	-23	-25	-31	-32	-33	-33
<b>Net profit</b>	<b>5</b>	<b>41</b>	<b>52</b>	<b>61</b>	<b>75</b>	<b>84</b>	<b>83</b>	<b>90</b>	<b>108</b>	<b>114</b>	<b>117</b>	<b>119</b>
<b>Growth rates and margins</b>												
Revenue growth		601%	29%	12%	12%	12%	9%	9%	9%	9%	9%	5%
Gross profit margin	34%	41%	39%	39%	41%	41%	40%	40%	41%	41%	40%	40%
EBITDA-Margin	6%	12%	12%	12%	13%	13%	12%	12%	13%	13%	12%	11%
EBIT-Margin	8%	11%	11%	11%	12%	12%	11%	10%	12%	11%	10%	10%
CAPEX	0	1	18	10	14	12	18	20	16	17	13	14
NWC	12	11	18	119	167	172	193	216	235	262	286	311

Source: Redeye Research & Hexatronic

## Valuation

The net effect our changes in CAPEX and net working capital is small and the impact on our valuation is marginal 24.8 (24.5). In our valuation we expect sales CAGR of 11.4% during the forecast period. The company has a goal of growing 20% both organically and by acquisitions annually. We have estimated an average EBITDA margin of 12.2% during the period. As the company operates in a growth industry it is likely that Hexatronic will not have reached “maturity” by the year 22/23, and as such we have used a terminal growth rate of 5.5% in our valuation.

Our terminal value indicates a RONIC (Return on new invested capital) in line with WACC and an implied EV/EBITDA exit multiple of 7.1x. We find this reasonable. Based on our forecast for 2014/15 Hexatronic now trades at an EV/EBITDA multiple of 5.6x, our motivated value indicates an multiple of 8.8x, we do not find our valuation to optimistic given those multiple levels. Most of Hexatronics international peers trade above an EV/EBITDA of 10x. Previously we have treated the upcoming payment to Ericsson for the HCI acquisition as debt. We now have adjusted the future cash flows instead and used the stated debt and cash values by the company instead.

*Our fair value estimate indicates a EV/EBITDA multiple for next year of 8.8x*

Our fair value estimate implies a margin of safety of around 33%. Given the great prospects for Hexatronic we find that the share is attractively priced at today's levels. We continue to argue that Hexatronic as a growth company at an attractive price. The most likely reason for the company's undervaluation is that the "new" Hexatronic is still a young company. The market wants to see that the company can deliver good results. Assuming Hexatronic continues to perform as they have done, we find it likely that the market will take notice and value the company close to our fair value estimate.

Fair value estimate of  
24.8 SEK per share,  
margin of safety of 33%

<b>Base-case</b>			
<b>Assumptions:</b>	<b>2014/15-23</b>	<b>DCF-Value</b>	
CAGR Sales	11.4%	WACC	10.5%
EBITDA-margin	12.2%	Present value of FCF	271
Avrage RONIC	30%	Present value of Terminal Value	415
Avrage Reinvestment rate	44%		
<b>Terminal</b>		EV	686
Terminal Growth of FCF	5.5%	Net debt	28
Reinvestment rate in perpetuity	52%	<b>DCF-value</b>	<b>714</b>
RONIC in perpetuity	11%	<b>Value per share</b>	<b>24.8</b>
Implied EV/EBITDA Exit multipel	7.1x	Today's share price	18.7
		<b>Margin of saftey</b>	<b>33%</b>
<b>Multiple valuations (Actual &amp; Implied)</b>			
<b>Actual multipel valuation</b>		<b>Implied multipel valuation</b>	
EV/SALES2014/15E	0.7x	Implied EV/SALES2014/15E	1.1x
EV/EBIT2014/15E	6.0x	Implied EV/EBIT2014/15E	9.4x
EV/EBITDA2014/15E	5.6x	Implied EV/EBITDA2014/15E	8.8x

Source: Redeye Research

## Bear- and Base-case

Redeye uses a scenario based analysis with three different scenarios. Our Base-case is the scenario that we find most likely, Bull-case the most optimistic and Bear-case the most pessimistic.

### Bear-case

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, like Nexans and Draka expanding their offerings. Lower growth, profitability and no acquisitions this give rise to a lower ROIC and lower terminal growth rates. Our pessimistic Bear-case indicates a price of 12.7 SEK per share, which corresponds to a margin of safety of -32%. The case implies no multiple expansions and a terminal growth of around 3%.

Bear-case estimate of 12.7  
SEK per share

<b>Bear-case</b>			
<b>Assumptions:</b>	<b>2014/15-23</b>	<b>DCF-Value</b>	
CAGR Sales	6.6%	WACC	10.5%
EBITDA-margin	9.9%	Present value of FCF	162
Avrage RONIC	-2%	Present value of Terminal Value	169
Avrage Reinvestment rate	36%		
<b>Terminal</b>		EV	331
Terminal Growth of FCF	3.0%	Net debt	28
Reinvestment rate in perpetuity	42%	<b>DCF-value</b>	<b>359</b>
RONIC in perpetuity	7%	<b>Value per share</b>	<b>12.7</b>
Implied EV/EBITDA Exit multipel	5.5x	Today's share price	18.7
		<b>Margin of saftey</b>	<b>-32%</b>
<b>Multiple valuations (Actual &amp; Implied)</b>			
<b>Actual multipel valuation</b>		<b>Implied multipel valuation</b>	
EV/SALES2014/15E	0.7x	Implied EV/SALES2014/15E	0.5x
EV/EBIT2014/15E	6.3x	Implied EV/EBIT2014/15E	4.8x
EV/EBITDA2014/15E	5.8x	Implied EV/EBITDA2014/15E	4.4x

Source: Redeye Research & Hexatronic

### Bull-case

*Bull-case estimate of 32.6 SEK per share*

In our Bull-case we assume that the company can sustain a higher growth level and a higher EBITDA margin from a better product mix. The assumptions in this scenario are the company continues to make good acquisitions and not overpaying for them and the strong underlying market growth continues. Our fair value estimate in our Bull-case is about 32.6 SEK per share. The implied EV/EBITDA<sub>14/15E</sub> multiple is 11.1x, which do not seems to unlikely in a positive scenario.

<b>Bull-case</b>			
<b>Assumptions:</b>	<b>2014/15-23</b>	<b>DCF-Value</b>	
CAGR Sales	13.1%	WACC	10.5%
EBITDA-margin	13.8%	Present value of FCF	346
Avrage RONIC	46%	Present value of Terminal Value	566
Avrage Reinvestment rate	46%	EV	912
		Net debt	28
<b>Terminal</b>		<b>DCF-value</b>	<b>940</b>
Terminal Growth of FCF	5.5%	<b>Value per share</b>	<b>32.6</b>
Reinvestment rate in perpetuity	51%	Today's share price	18.7
RONIC in perpetuity	11%	<b>Margin of saftey</b>	<b>74%</b>
Implied EV/EBITDA Exit multipel	7.1x		
<b>Multiple valuations (Actual &amp; Implied)</b>			
<b>Actual multipel valuation</b>		<b>Implied multipel valuation</b>	
EV/SALES <sub>2014/15E</sub>	0.6x	Implied EV/SALES <sub>2014/15E</sub>	1.4x
EV/EBIT <sub>2014/15E</sub>	5.7x	Implied EV/EBIT <sub>2014/15E</sub>	11.9x
EV/EBITDA <sub>2014/15E</sub>	5.3x	Implied EV/EBITDA <sub>2014/15E</sub>	11.1x

Source: Redeye Research & Hexatronic

### Sensitivity analysis

In this sensitivity analysis we have varied the variables during the forecast period. The analysis is based on percentage point changes in the EBITDA margin and growth rates.

*Future margin levels crucial for Hexatronic's valuation*

The valuation of Hexatronic is sensitive to changes in the EBITDA margins; still a level around 10.5-11%% supports a share price in the region of 17-20 SEK per share. But we find it crucial that the margin levels can be sustained around the company's goal of 10-12%.

		<b>Implied Share Price</b>				
		<b>EBITDA Margin (pp change)</b>				
		<b>-2%</b>	<b>-1%</b>	<b>0%</b>	<b>+1%</b>	<b>+2%</b>
<b>WACC</b>	<b>9.5%</b>	18	25	31	37	43
	<b>10.0%</b>	16	22	27	33	38
	<b>10.5%</b>	15	20	<b>24.8</b>	30	35
	<b>11.0%</b>	14	18	23	27	32
	<b>11.5%</b>	13	17	21	25	29

Source: Redeye Research

We also have adjusted the assumed growth rates and WACC to see their effect on our fair value estimate.

Our model suggest that the company could have quite a large drop in the year on year growth rates and still support a valuation the is around today's share price. Today we estimate a growth around 12% during the period. Given the high growth fiber infrastructure industry this might be somewhat conservative.



We can clearly see here that today's share price is motivated by a much lower growth. If the company reaches the goal of 20% growth rate per year this would imply a large revaluation of the share price.

		Implied Share Price				
		Growth rate (pp change Y/Y)				
		-8%	-4%	0%	+4%	+8%
WACC	9.5%	22	26	31	37	45
	10.0%	20	23	27	33	39
	10.5%	18	21	24.8	29	35
	11.0%	17	19	23	27	32
	11.5%	16	18	21	25	29

*The market seems to undervalue the future growth prospects of Hexatronic, given our valuation model*

Source: Redeye Research

### Market implied growth rates and EBITDA margins

Our sensitivity analysis indicates that today's share price implies a drop in the EBITDA margin by around 1 percentage points and the year on year growth rate by 3-4 percentage points. We are comfortable with the margin levels and we find it likely that the market is under valuing the future growth of Hexatronic.

		Implied Share Price								
		EBITDA Margin (Avreage)								
		8%	9%	10%	11%	12%	13%	14%	15%	16%
Growth rate (CAGR)	3%	5.2	8.4	11.6	14.8	18.0	21.2	24.4	27.6	30.8
	5%	5.2	8.7	12.3	15.9	19.4	23.0	26.6	30.1	33.7
	7%	5.2	9.1	13.1	17.1	21.1	25.0	29.0	33.0	37.0
	9%	5.1	9.5	14.0	18.4	22.9	27.3	31.7	36.2	40.6
	11%	5.0	10.0	14.9	19.9	24.8	29.8	34.8	39.7	44.7
	13%	4.9	10.4	16.0	21.5	27.0	32.6	38.1	43.7	49.2
	15%	4.7	10.9	17.1	23.3	29.5	35.7	41.9	48.1	54.3
	17%	4.4	11.4	18.3	25.2	32.2	39.1	46.0	52.9	59.9
	19%	4.1	11.9	19.6	27.4	35.1	42.9	50.6	58.4	66.1

Source: Redeye Research

## Summary Redeye Rating

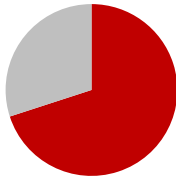
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The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

### Rating changes in the report

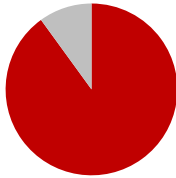
No changes in rating.

Management 7,0p



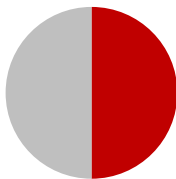
Hexatronic has a strong management team of entrepreneurial people with plenty of skin in the game. CEO and chairman have significant experience from the telecom industry and have held their positions for several years. Staff at other key positions, that joined the group through last year's acquisitions, is also intact. In terms of delivering on guidance or targets, the track record is not entirely convincing and leaves room for further potential

Ownership 9,0p



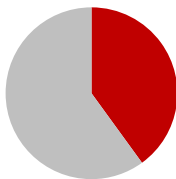
Top scores in almost all subcategories for our Ownership rating. The entire board and top management have large stakes in the company. Over 50 percent of the shares are held by active owners, including Chairman of the board and CEO. The only thing missing in order to get a full score is a large institutional owner.

Growth prospect 5,0p



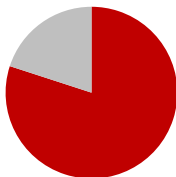
The rating for Growth Outlook is only average, in spite of good overall market prospects. The reason is mainly the competitive situation. Product differentiation appears to be difficult, thus price will always be an issue. Hexatronic is a small player compared to some of the dominant multinational companies.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

Profitability 4,0p



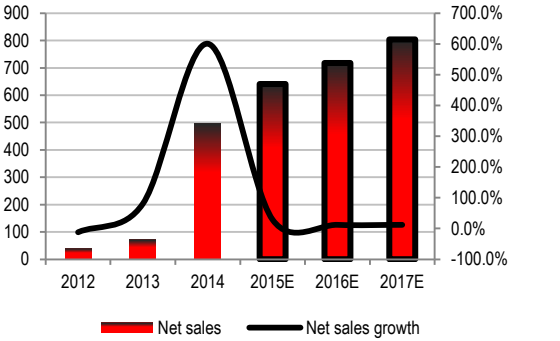
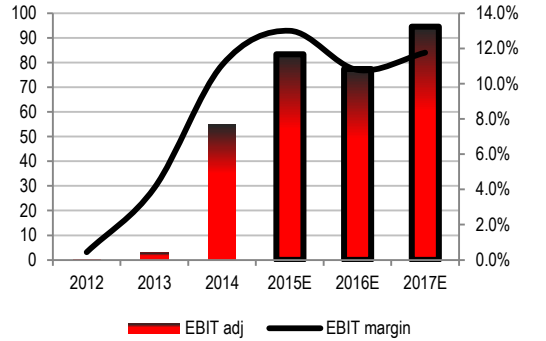
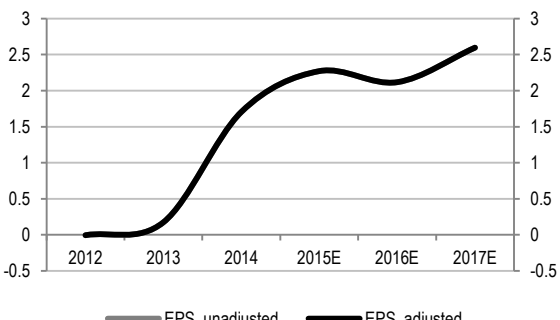
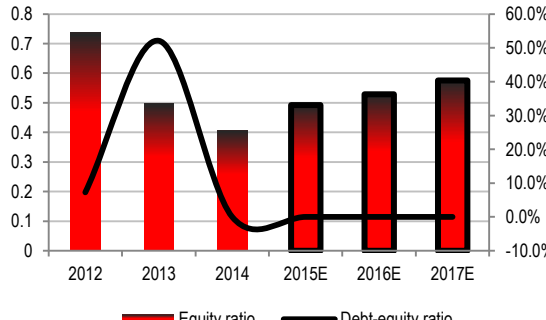
Our rating for profitability is not forward looking and historically, last 3-5 years, profitability has been mediocre. Return on equity has averaged below 10 percent and EBITDA-margin between a high of 5 per cent and negative numbers. However, this will most likely improve. Hexatronics own target is an EBITDA-margin of at least 10 per cent.

Financial strength 8,0p



The net cash position is positive and the business is cash generating and profitable. Consequently Hexatronic scores high in most subcategories for Financial Strength. It is merely the size of the company that does not fulfill the requirement for a top grade. Reaching their 500 MSEK turnover goal set for year 2017, will improve our rating. But full score requires a 10 bn SEK turnover.

<b>Income statement</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
Net sales	71	497	641	717	804
Total operating costs	-67	-437	-552	-633	-699
<b>EBITDA</b>	<b>4</b>	<b>60</b>	<b>89</b>	<b>84</b>	<b>104</b>
Depreciation	-1	-5	-5	-7	-10
Amortization	-1	0	0	0	0
Impairment charges	0	0	0	0	0
<b>EBIT</b>	<b>3</b>	<b>55</b>	<b>83</b>	<b>77</b>	<b>94</b>
Share in profits	0	0	0	0	0
Net financial items	-1	-1	0	1	1
Exchange rate dif.	0	0	0	0	0
<b>Pre-tax profit</b>	<b>2</b>	<b>54</b>	<b>84</b>	<b>78</b>	<b>96</b>
Tax	0	-13	-18	-17	-21
<b>Net earnings</b>	<b>2</b>	<b>41</b>	<b>65</b>	<b>61</b>	<b>75</b>
<b>Balance</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
<b>Assets</b>					
<i>Current assets</i>					
Cash in banks	0	28	42	90	142
Receivables	11	141	179	201	225
Inventories	11	78	103	115	129
Other current assets	3	7	13	14	16
<b>Current assets</b>	<b>26</b>	<b>255</b>	<b>336</b>	<b>420</b>	<b>511</b>
<i>Fixed assets</i>					
Tangible assets	1	13	18	25	27
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	4	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
<b>Total fixed assets</b>	<b>5</b>	<b>13</b>	<b>18</b>	<b>25</b>	<b>27</b>
Deferred tax assets	0	0	0	0	0
<b>Total (assets)</b>	<b>31</b>	<b>268</b>	<b>354</b>	<b>445</b>	<b>538</b>
<b>Liabilities</b>					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	4	54	64	86	96
O current liabilities	3	54	64	72	80
<b>Current liabilities</b>	<b>7</b>	<b>108</b>	<b>128</b>	<b>158</b>	<b>177</b>
Long-term debt	8	0	0	0	0
O long-term liabilities	0	32	32	32	32
Convertibles	0	0	0	0	0
<b>Total Liabilities</b>	<b>15</b>	<b>140</b>	<b>160</b>	<b>190</b>	<b>209</b>
Deferred tax liab	0	0	0	0	0
Provisions	0	19	19	19	19
Shareholders' equity	15	109	174	235	310
Minority interest (BS)	0	0	0	0	0
<b>Minority &amp; equity</b>	<b>15</b>	<b>109</b>	<b>174</b>	<b>235</b>	<b>310</b>
<b>Total liab &amp; SE</b>	<b>31</b>	<b>268</b>	<b>354</b>	<b>445</b>	<b>538</b>
<b>Free cash flow</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
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Taxes on EBIT	0	-13	-18	-17	-21
<b>NOPLAT</b>	<b>3</b>	<b>42</b>	<b>65</b>	<b>60</b>	<b>74</b>
Depreciation	1	5	5	7	10
<b>Gross cash flow</b>	<b>4</b>	<b>47</b>	<b>70</b>	<b>67</b>	<b>84</b>
Change in WC	-7	-101	-47	-6	-21
Gross CAPEX	-6	-14	-10	-14	-12
<b>Free cash flow</b>	<b>-9</b>	<b>-67</b>	<b>13</b>	<b>47</b>	<b>51</b>
<b>Capital structure</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
Equity ratio	50%	41%	49%	53%	58%
Debt/equity ratio	52%	0%	0%	0%	0%
Net debt	8	-28	-42	-90	-142
Capital employed	23	81	133	146	168
Capital turnover rate	2.3	1.9	1.8	1.6	1.5
<b>Growth</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
Sales growth	81%	601%	29%	12%	12%
EPS growth (adj)	-3 554%	880%	33%	-7%	23%
<b>DCF valuation</b>	<b>WACC (%)</b> 10,5 %		<b>Cash flow, MSEK</b>		
					NPV FCF (2013-2015) 37
					NPV FCF (2016-2022) 233
					NPV FCF (2023-) 415
					Non-operating assets 28
					Interest-bearing debt 0
					Fair value estimate MSEK 714
<b>Assumptions 2015-2021 (%)</b>					
Average sales growth	8,4 %	<b>Fair value e. per share, SEK</b> 24,8			
EBIT margin	10,9 %	Share price, SEK 18,7			
<b>Profitability</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
ROE	18%	67%	46%	30%	27%
ROCE	16%	83%	59%	38%	35%
ROIC	26%	181%	80%	45%	51%
EBITDA margin	6%	12%	14%	12%	13%
EBIT margin	4%	11%	13%	11%	12%
Net margin	3%	8%	10%	8%	9%
<b>Data per share</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
EPS	0.17	1.70	2.27	2.12	2.60
EPS adj	0.17	1.70	2.27	2.12	2.60
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	0.57	-1.16	-1.45	-3.12	-4.93
Total shares	13.50	24.34	28.74	28.74	28.74
<b>Valuation</b>	<b>12/13</b>	<b>13/14E</b>	<b>14/15E</b>	<b>15/16E</b>	<b>16/17E</b>
EV	264.2	434.2	452.2	404.3	352.4
P/E	109.3	11.2	8.2	8.8	7.2
P/E diluted	109.3	11.2	8.2	8.8	7.2
P/Sales	3.6	0.9	0.8	0.7	0.7
EV/Sales	3.7	0.9	0.7	0.6	0.4
EV/EBITDA	61.5	7.2	5.1	4.8	3.4
EV/EBIT	91.1	7.9	5.4	5.2	3.7
P/BV	16.7	4.2	2.8	2.1	1.6
<b>Share performance</b>	<b>Growth/year</b>				<b>12/14E</b>
1 month	-1.1 %	Net sales			200.4 %
3 month	5.1 %	Operating profit adj			435.8 %
12 month	340.0 %	EPS. just			261.4 %
Since start of the year	89.9 %	Equity			236.8 %
<b>Shareholder structure %</b>	<b>Capital</b>				<b>Votes</b>
Gert Nordin	0.0 %				25.4 %
Göran Nordlund	0.0 %				13.0 %
Jonas Nordlund	0.0 %				10.7 %
Erro Holding AB	0.0 %				8.6 %
Vision Invest sprl	0.0 %				4.1 %
Xingu förvaltning	0.0 %				2.0 %
Champe AB	0.0 %				1.5 %
Anders Ljung	0.0 %				0.9 %
Leif Karlsson	0.0 %				0.8 %
Peter Lo Curzio	0.0 %				0.8 %
<b>Share information</b>	Reuters code				
	List				
	Share price 18.7				
	Total shares. million 26.4				
	Market Cap. MSEK 494.0				
<b>Management &amp; board</b>	CEO Gert Nordin				
	CFO				
	IR				
	Chairman Göran Nordlund				
<b>Financial information</b>	<b>Analysts</b>				
	Kristoffer Lindström				<b>Redeye AB</b>
	kristoffer.lindstrom@redeye.se				Mäster Samuelsgatan 42. 10tr
					111 57 Stockholm
	Henrik Alveskog				
	henrik.alveskog@redeye.se				

Revenue & Growth (%)	EBIT (adjusted) & Margin (%)																																										
 <p>Net sales (red bars) and Net sales growth (black line) from 2012 to 2017E. Net sales are shown in million SEK on the left axis (0-900), and growth is on the right axis (-100.0% to 700.0%).</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Net sales (M SEK)</th> <th>Net sales growth (%)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>~50</td> <td>~0.0%</td> </tr> <tr> <td>2013</td> <td>~80</td> <td>~100.0%</td> </tr> <tr> <td>2014</td> <td>~480</td> <td>~600.0%</td> </tr> <tr> <td>2015E</td> <td>~650</td> <td>~100.0%</td> </tr> <tr> <td>2016E</td> <td>~720</td> <td>~100.0%</td> </tr> <tr> <td>2017E</td> <td>~800</td> <td>~100.0%</td> </tr> </tbody> </table>	Year	Net sales (M SEK)	Net sales growth (%)	2012	~50	~0.0%	2013	~80	~100.0%	2014	~480	~600.0%	2015E	~650	~100.0%	2016E	~720	~100.0%	2017E	~800	~100.0%	 <p>EBIT adj (red bars) and EBIT margin (black line) from 2012 to 2017E. EBIT adj is shown in million SEK on the left axis (0-100), and margin is on the right axis (0.0% to 14.0%).</p> <table border="1"> <thead> <tr> <th>Year</th> <th>EBIT adj (M SEK)</th> <th>EBIT margin (%)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>~2</td> <td>~0.0%</td> </tr> <tr> <td>2013</td> <td>~5</td> <td>~4.0%</td> </tr> <tr> <td>2014</td> <td>~55</td> <td>~10.0%</td> </tr> <tr> <td>2015E</td> <td>~85</td> <td>~12.0%</td> </tr> <tr> <td>2016E</td> <td>~78</td> <td>~10.0%</td> </tr> <tr> <td>2017E</td> <td>~95</td> <td>~12.0%</td> </tr> </tbody> </table>	Year	EBIT adj (M SEK)	EBIT margin (%)	2012	~2	~0.0%	2013	~5	~4.0%	2014	~55	~10.0%	2015E	~85	~12.0%	2016E	~78	~10.0%	2017E	~95	~12.0%
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Conflict of interests	Company description																																										
<p><b>Kristoffer. Lindström. owns shares in the company : No</b></p> <p>Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.</p>	<p>The Hexatronic group of companies are active in the optical fiber infrastructure market. They offer a complete line of products for passive and complementary active products for optical networks. Home market is Skandinavia and main costumers are large telecom operators such as Telia and Telenor. Partners like ABB and Ericsson give Hexatronic access to the world market.</p>																																										

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**Redeye Rating (2014-06-10)**

Rating	Management	Ownership	Growth Prospect	Profitability	Financial Strength
7,5p - 10,0p	22	28	11	4	16
3,5p - 7,0p	43	32	54	30	26
0,0p - 3,0p	1	6	1	32	24
Company N	66	66	66	66	66

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