

# Hexatronic

Sector: Capital Goods

## Positive Outlook in the US

Redeye raises its Base Case and forecasts following a Q4 report beating our estimates. The operational momentum grew even stronger than we expected and management's outlook, especially regarding the US, is positive.

### Sales and Adjusted EBITA Beat Our Forecasts - Again

Sales and adjusted EBITA beat our forecast, following stronger than expected growth in all regions. Although, Hexatronic experienced a negative effect from increased material and freight costs which has not fully been passed over to customers yet, the adjusted EBITA margin reached 12.3% (11.0). Thus, the increased EBITA margin target of >12% (>10%) already seems rather defensive. While we expect Hexatronic to offset cost increases gradually, the Russian invasion of Ukraine has put additional uncertainty on freight and material costs, which could delay the expected offset.

### Strong Outlook in the US

While management rightfully has had a positive view on the strategic growth market for a long, we get the impression the US is heading towards even greater activity near-term. The typically modest management expresses a very positive view of the US market. Considering the US market's significant size and above-average margins, a strong US market is especially encouraging.

### New Base Case SEK 330 – Bull Case Unchanged at SEK 500

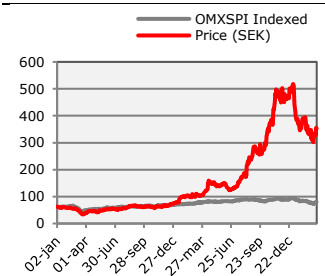
We raise our sales and EBITA forecasts by 6% and 8% for 2022E and 2023E, following the strong momentum in the strategic growth markets and management's positive outlook. We increase our Base Case to SEK 330 (290) following a more optimistic view on the high-margin US market. Our Bull Case remains at SEK 500, and considering Hexatronic's solid operational momentum, which we expect will continue, we would not be surprised to see a share price in line with our Bull Case.

Key Financials (SEI)	2020	2021	2022E	2023E	2024E
Revenue	2081	3492	4891	5967	7160
Revenue growth	13%	68%	40%	22%	20%
EBITA	205	394	602	756	925
EBITA margin	10%	11%	12%	13%	13%
EBIT	177	355	553	715	885
EPS	3.3	6.5	10.6	13.8	16.7
EV/Revenue	6.6	3.9	2.7	2.2	1.8
EV/EBITA	67.1	34.6	22.3	17.3	13.8
EV/EBIT	77.5	38.4	24.3	18.3	14.4

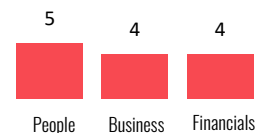
### FAIR VALUE RANGE

BEAR	BASE	BULL
210	330	500

### HTRO VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	HTRO
Market	Large Cap
Share Price (SEK)	352
Market Cap (SEKm)	13 420
Net Debt (SEKm)	0
Free Float (%)	84
Avg. daily volume ('000)	128 840

### ANALYSTS

Fredrik Nilsson
fredrik.nilsson@redeye.se
Jacob Svensson
jacob.svensson@redeye.se

## Stronger than Expected - Again

Hexatronic: Q4'21 y/y					
SEKm	Q4'21		Deviation		Q4'20
	Actual	Redeye	%	Abs.	Actual
<b>Net sales</b>	<b>1170</b>	<b>1012</b>	<b>16%</b>	<b>158</b>	<b>600</b>
<i>Sweden</i>	194	155	25%	39	188
<i>Rest of Europe</i>	512	441	16%	71	237
<i>North America</i>	305	290	5%	15	125
<i>RoW</i>	159	126	26%	33	50
Other income	10	4	n.a	6	4
COGS	-678	-563			-324
Gross profit	491	449	9%	42	276
OPEX	-345	-304			-195
<b>Adj. EBITA</b>	<b>144</b>	<b>117</b>	<b>23%</b>	<b>26</b>	<b>66</b>
<b>Net sales growth, y/y</b>	<b>95.0%</b>	<b>68.8%</b>			<b>29.5%</b>
Gross profit margin	42.0%	44.4%			46.0%
<b>Adj. EBITA margin</b>	<b>12.3%</b>	<b>11.6%</b>			<b>11.0%</b>

Source: Redeye Research

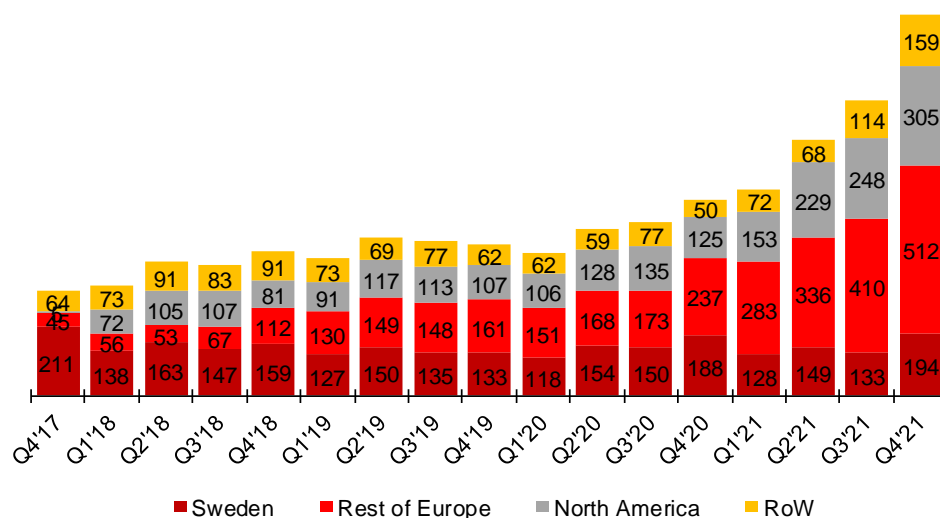
Sales beat our forecast by 16%, mainly due to stronger-than-expected growth in the Rest of Europe. Sales growth was 95% y/y, and the organic growth was impressive 48%. While the gross margin came in slightly below our forecast, solid scalability on OPEX resulted in an adjusted EBITA 23% above our expectations. The adjusted EBITA margin came in at 12.6% (11.0) (adjusted for SEK 21m related to incentive programs).

The gross margin, reaching 42% (46) | Q4, declined for two reasons. First, on average, the acquired businesses have a different sales mix than Hexatronic, with lower gross margins. Second, Hexatronic has not managed to fully offset increasing material costs by price increases at this point. According to management, the increased material costs had a negative effect of about 1-2%-points on the gross margin. Thus, while we are impressed by the 12.3% margin in the quarter, given that Hexatronic can pass on most price increases, which we find likely, there is potential for EBITA margins of about 13-14%. Also, yesterday, Hexatronic raised its EBITA margin target from >10% to >12%. While we believe the increase was expected, we get the impression that management very well could raise the target even further mid-term – and the statement about the negative impact from cost increases supports our view. While we expect Hexatronic to offset cost increases gradually, the Russian invasion of Ukraine has put additional uncertainty on freight and material costs, which could delay the expected offset.

The order book remains solid, and management's outlook seems very positive. The demand is strong in all three strategic growth markets, and management seems especially excited about the US, which is interesting considering the above-average margins in the US market. Momentum is also solid in the UK, highlighted by the extended order from City Fiber of GBP 100m over three years. The previous deal was GBP 40m over three years.

All in all, demand seems to remain solid in all strategic growth markets, and Sweden holds up well, increasing sales somewhat y/y. Despite increased costs for freight and materials, Hexatronic managed to raise its EBITA margin y/y. Thus, once again, we are impressed by the performance, and we have obviously underestimated the business.

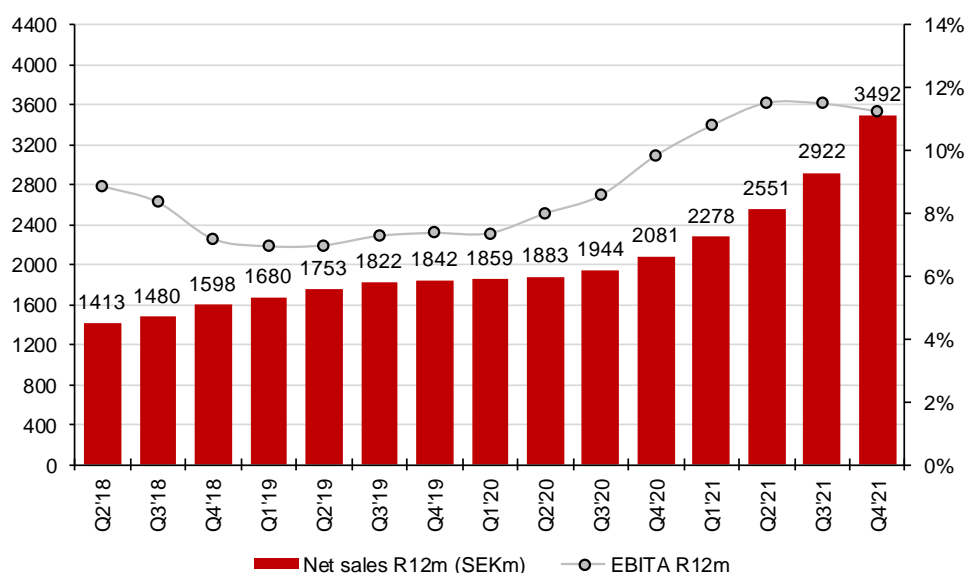
**Hexatronic: Net sales development per region, (SEKm)**



Source: Redeye Research

As seen in recent quarters, following strong organic growth and M&A, the Rest of Europe and North America continued to grow in importance. In 2021, the two regions generated 70% of Hexatronic's sales, and the share is likely to increase further in 2022. Thus, the investments made in new markets following the Swedish market peak in 2017 have started to pay off significantly in 2021, and we expect it to accelerate in 2022.

**Hexatronic: Net sales and EBITA-margin, R12m, Q2'18-Q4'21**



Source: Redeye Research

Note that the underlying margin has continued to improve during Q3 and Q4 2021, while the headline number was negatively affected by incentive program-related one-offs.

## Financial Forecasts

We raise our sales forecasts for 2022E and 2023E by 6%, mainly due to management's positive outlook for the US market. We increase our EBITA forecasts slightly, as we expect scale advantages and passed-on cost increases will help drive the margin higher. This assumption is also supported by management's raised EBITA margin target to >12%. Although, as mentioned, the Russian invasion of Ukraine could cause further cost increases, likely delaying the process somewhat.

### Hexatronic: Estimate changes, '22E-'23E

(SEKm, except per share data)	Old		New		Change	
	2022E	2023E	2022E	2023E	2022E	2023E
<b>Net sales</b>	<b>4626</b>	<b>5644</b>	<b>4891</b>	<b>5967</b>	<b>6%</b>	<b>6%</b>
<i>growth</i>	39%	22%	40%	22%		
<b>EBITA</b>	<b>564</b>	<b>699</b>	<b>602</b>	<b>756</b>	<b>7%</b>	<b>8%</b>
<i>margin</i>	12.0%	12.4%	12.3%	12.7%		
<b>EBIT</b>	<b>515</b>	<b>658</b>	<b>553</b>	<b>715</b>	<b>7%</b>	<b>9%</b>
<i>margin</i>	10.9%	11.7%	11.3%	12.0%		
<b>EPS (SEK)</b>	<b>9.84</b>	<b>12.70</b>	<b>10.59</b>	<b>13.77</b>	<b>8%</b>	<b>8%</b>

Source: Redeye Research

We expect operational momentum to continue over the next years. For 2022 and 2023, we estimate organic growth rates of about 20%, where 2022 also gets a substantial boost from acquisitions made last year.

We believe margins will continue to improve over the next years. While the utilization rates are high in many factories, we believe Hexatronic can obtain some scale advantages when expanding its current production facilities. Also, an increasing share of revenues from the USA should support margins going forward. As mentioned, Hexatronic's new EBITA target of >12% supports our assumption. While a raise was anticipated, it is still a clear sign management expects EBITA margins above 12% near-term.

### Hexatronic: P&L '19-'24E

(SEKm)	2019	2020	2021	2022E	2023E	2024E
<b>Net sales</b>	<b>1842</b>	<b>2081</b>	<b>3492</b>	<b>4891</b>	<b>5967</b>	<b>7160</b>
<i>growth y/y</i>	15%	13%	68%	40%	22%	20%
Other income	14	14	31	31	31	32
COGS	-1023	-1143	-1958	-2714	-3294	-3938
OPEX (excl. COGS)	-637	-679	-1075	-1492	-1814	-2169
Depreciation	-61	-69	-96	-114	-135	-160
<b>EBITA</b>	<b>136</b>	<b>205</b>	<b>394</b>	<b>602</b>	<b>756</b>	<b>925</b>
<i>margin</i>	7.4%	9.8%	11.3%	12.3%	12.7%	12.9%
Amortization	-30	-27	-39	-49	-41	-40
<b>EBIT</b>	<b>106</b>	<b>177</b>	<b>355</b>	<b>553</b>	<b>715</b>	<b>885</b>
<i>margin</i>	5.8%	8.5%	10.2%	11.3%	12.0%	12.4%
<b>EPS (SEK)</b>	<b>1.8</b>	<b>3.3</b>	<b>6.5</b>	<b>10.6</b>	<b>13.8</b>	<b>16.7</b>

Source: Redeye Research

## Investment Case

### Excellent position in exciting segment

Hexatronic has a strong and complete product offering in the attractive FTTH segment, with an excellent geographic market mix. High quality, unique yet cost-efficient solutions and a focus on systems sales, distinguish the company. It has managed to build a strong platform in its chosen growth markets, the US, UK, and Germany, through a series of successful acquisitions, and appears very well positioned to capitalise on the expected acceleration of growth.

### A real quality name in Redeye's universe

Applying Redeye's company rating model, we rate Hexatronic as a true quality name. It scores very well in all key areas, such as business fundamentals, financials, and people. It has a strong position and brand in the market, it is profitable and cash generative with a strong outlook and is also backed by a strong balance sheet. We feel the company is very well run, mixing favourable organic growth prospects with acquired growth for promising compounding effects. In addition, its ESG credentials are outstanding, in our view

### Core markets poised for structural growth

We believe the key, large, international markets, the US, UK, and Germany, are in an early stage of a prolonged and strong growth period. Activity levels are currently high and increasing, and we expect demand to continue to strengthen going forward.

### Strong momentum likely to further accelerate

Hexatronic enjoyed growing momentum in 2020, topped by a very strong final quarter – the order backlog is now extremely strong. We believe these trends have continued into the early part of 2021 and predict a strong demand environment for multiple years. Indeed, we may be observing an inflection point – should the corona crisis begin to fade, a further boost is, in fact, likely as Hexatronic has faced significant challenges due to the imposed restrictions.

## Counter Thesis

### Possible price pressure

Hexatronic operates in fiercely competitive markets, and some of its customers are large players. Cost and price are always a delicate dimension, and there is always the risk that some of the margin improvements the company achieves simply will filter through to its customers.

### Chinese imports

There is also the risk of ultra-cheap imports from China disturbing the European market especially. There is, however, a pending anti-dumping case which may lead to tariffs being implemented, lending protection.

### What about the very long term?

Hexatronic finds itself in the interesting situation of looking at a huge wave of demand approaching, but also not knowing what may come afterwards. When FTTH is fully deployed, there will not be much business left in that field. Management is fully aware of this, and efforts are being made to start exploring natural prospects that could be added to the concern in the very long term. *What does Hexatronic do in 2035?*

## Valuation

### Bear Case 210 SEK

- Average sales growth of ~11% 2023-2030
- Average EBITA margin of ~12% 2023-2030
- Average sales growth of ~11% 2031-2034
- Terminal growth rate of 2%
- Terminal EBITA margin of 4%

### Base Case 330 SEK

- Average sales growth of ~17% 2023-2030
- Average EBITA margin of ~13% 2023-2030
- Average sales growth of ~7% 2031-2034
- Terminal growth rate of 2%
- Terminal EBITA margin of 7%

### Bull Case 500 SEK

- Average sales growth of ~20% 2023-2030
- Average EBITA margin of ~15% 2023-2030
- Average sales growth of ~2% 2031-2034
- Terminal growth rate of 2%
- Terminal EBITA margin of 11%

We raise our Base Case to SEK 330 (290).

Our Bull Case remains at SEK 500. While the Bull Case assumes slightly higher growth and margins 2023-2030, the main difference is in the 2030-terminal period. Unlike our Base Case, where we expect the strategic growth markets to have negative sales growth from 2030 and onwards (like in Sweden post-2017), our Bull Case assumes flat sales and minor margin declines.

In our Bull Case, we expect Hexatronic to increase its sales from non-FTTH sources until 2030 fast enough to limit the expected downturn in FTTH. While Hexatronic has exposure to harsh environment, core networks, 5G, farming, and data centers, the bulk of revenues are generated from FTTH. However, Hexatronic has a solid M&A track record, and several recent acquisitions, such as DCS and Weterings have added exposure to non-FTTH segments. Also, there are likely at least ten years left until the FTTH-boom is over in the strategic growth markets. Thus, Hexatronic has plenty of time to add additional sources of revenue until then, and M&A will likely play a major role.

## Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report: None

#### **People: 5**

Hexatronic has a strong management team of entrepreneurial people with plenty of skin in the game. CEO has 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.

#### **Business: 4**

Due to the competitive situation, product differentiation appears to be difficult, thus the 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.

#### **Financials: 4**

In our view, Hexatronic is very financially stable and receives a good score in most subcategories. Overall we view Hexatronic's profitability levels as compelling and improving. We see some risks for new rights issues given the strong focus on acquisitions, still if the acquisition is done at good prices and creates value this will not be an issue.

## Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.



## Redeye Equity Research team

### Management

**Björn Fahlén**  
bjorn.fahlen@redeye.se

**Tomas Otterbeck**  
tomas.otterbeck@redeye.se

### Technology Team

**Hjalmar Ahlberg**  
hjalmar.ahlberg@redeye.se

**Henrik Alveskog**  
henrik.alveskog@redeye.se

**Alexander Flening**  
alexander.flening@redeye.se

**Douglas Forsling**  
douglas.forsling@redeye.se

**Forbes Goldman**  
forbes.goldman@redeye.se

**Jessica Grünewald**  
jessica.grunewald@redeye.se

**Jesper von Koch**  
jesper.vonkoch@redeye.se

**Anton Hoof**  
anton.hoof@redeye.se

**Rasmus Jacobsson**  
rasmus.jacobsson@redeye.se

**Viktor Lindström**  
viktor.lindstrom@redeye.se

**Fredrik Nilsson**  
fredrik.nilsson@redeye.se

**Mark Siöstedt**  
mark.siostedt@redeye.se

**Jacob Svensson**  
jacob.svensson@redeye.se

**Niklas Sävås**  
niklas.savas@redeye.se

**Danesh Zare**  
danesh.zare@redeye.se

**Fredrik Reuterhäll**  
fredrik.reuterhall@redeye.se

### Life Science Team

**Gergana Almquist**  
gergana.almquist@redeye.se

**Oscar Bergman**  
oscar.bergman@redeye.se

**Christian Binder**  
christian.binder@redeye.se

**Filip Einarsson**  
filip.einarsson@redeye.se

**Mats Hyttinge**  
mats.hyttinge@redeye.se

**Ethel Luvall**  
ethel.luvall@redeye.se

**Gustaf Meyer**  
gustaf.meyer@redeye.se

**Erik Nordström**  
erik.nordstrom@redeye.se

**Richard Ramanius**  
richard.ramanius@redeye.se

**Kevin Sule**  
kevin.sule@redeye.se

**Fredrik Thor**  
fredrik.thor@redeye.se

**Johan Unnerus**  
johan.unnerus@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, from the date Redeye publishes its analysis plus one trading day 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 (2022-03-18)

Rating	People	Business	Financials
5	32	15	4
3-4	150	132	47
0-2	5	40	136
<b>total</b>	<b>187</b>	<b>187</b>	<b>187</b>

### 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

Fredrik Nilsson owns shares in the company : No

Jacob Svensson 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.