

Hexatronic Group AB (publ)

Interim Report 1 July – 30 September 2019

(Reporting period January – September 2019)

The quarter (1 July – 30 September 2019)

- Net sales amounted to MSEK 473.1 (403.8), which represents 17% (20%) growth during the quarter.
- The operating result before interest, taxes and amortisation (EBITA) totalled MSEK 47.3 (36.9), which corresponds to an EBITA margin of 10.0% (9.1%).
- The operating result amounted to MSEK 40.3 (31.3).
- Net earnings totalled MSEK 27.2 (21.8).
- Earnings per share after dilution totalled SEK 0.73 (0.58).
- Cash flow from operating activities during the quarter amounted to MSEK 79.6 (10.1)

The period (1 January – 30 September 2019)

- Net sales amounted to MSEK 1,379.0 (1,154.6), which represents 19% (18%) growth during the period.
- The operating result before interest, taxes and amortisation (EBITA) totalled MSEK 108.3 (90.6), which corresponds to an EBITA margin of 7.9% (7.8%). The EBITA margin on a rolling 12-month basis was 7.3% (8.4%).
- The operating result amounted to MSEK 85.8 (75.2).
- Net earnings totalled MSEK 52.6 (52.9).
- Earnings per share after dilution totalled SEK 1.41 (1.40).
- Cash flow from operating activities during the period amounted to MSEK 115.8 (-36.0)

Comments from the CEO

Continued strong growth in Europe, strong cash flow and increased profitability

The third quarter of 2019 showed strong growth of 17%, of which organic growth was 8%. Excluding Sweden which declined by 7%, organic growth on other markets was 17%. The UK was the market with the strongest growth during the quarter, with organic growth of 100%.

Our focus is on winning more business in our strategic growth markets of the UK, Germany and North America, and on defending our market share in Sweden. Continued growth is expected to be driven primarily by our proprietary Matrix system, which enables cost-effective installation of fiber to the home (FTTH).

The UK market is developing well, and several operators have secured financing for fiber network construction during the quarter. The British government has also announced a GBP 5 billion investment in all UK households having fiber available by 2025. We have continued to build our stock in the UK during the quarter, to cope with at least three months of potential problems bringing goods into the country, linked to a possible hard Brexit.

The German market is cautious, and we do not expect investments in fiber networks to increase until the second half of 2020. Despite a cautious market, a fair amount of fiber network is being built and planned. Installation resources represent the main bottleneck in the projects. We continue to build up our local organisation and are actively seeking acquisitions to strengthen our presence in Germany. The pilot projects we informed about in August have now started being delivered.

Our operation in North America continues to develop positively. Duct business is developing strongly, and efforts to establish a second factory there are proceeding according to plan, with production planned to begin at the end of Q1 2020. Sales of systems are also developing positively, although from a low level. We anticipate good growth in system sales during 2020.

Profitability during the quarter amounted to 10% EBITA, an improvement from 9.1% in the corresponding quarter last year. We see good potential to increase profitability thanks to higher capacity utilisation at our production plants.

The Swedish FTTH market as a whole is continuing to slow, with sales about 10% down on last year. We believe that the figure for the year as a whole will be at around the same level. The decline on the Swedish market has, however, slowed compared to 2018 when it was around 20%, while our sales on the Swedish market now represent 29% of total sales, compared to 36% in the same quarter last year.

With reduced exposure to the Swedish FTTH market, combined with the developments we are seeing on other markets in Europe and North America where major investments are imminent, we believe the company is well positioned for continued good organic growth.

Cash flow from operating activities showed excellent development during the quarter at 80 MSEK, primarily driven by a strong underlying operating result.

We enter the fourth quarter of 2019 with an order book that is 6% higher organically than at the same point last year. The organic growth in the order book is driven by markets outside of Sweden.

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 moving forward.

Thank you for joining us on this journey.

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

Events during the quarter (1 July – 30 September 2019)

- Hexatronic signed several FTTH contracts on the German market amounting to a total order value of approximately 40 MSEK. The main part is system sales for delivery in the next 12 months.
- As a natural part of a succession process, and to lay a better foundation for further expansion, the following changes have been made to Hexatronic’s Executive Management during the quarter. Magnus Eidebo, previously Sales Manager and Vice President of Hexatronic Fiberoptic AB, took over as President of Hexatronic Fiberoptic AB from Anders Tessmann, who retired. Christian Priess replaced Peter Hem as Business Development Director of Hexatronic Group AB with the focus on Germany, the Middle East, Africa and marine cable. Christina Roman took on a new role at Hexatronic Group AB with responsibility for the Group’s purchasing.

Events since the end of the period

No significant events since the end of the period.

Financial information, Group

	Quarter July-Sept 2019	Quarter July-Sept 2018	Period Jan-Sept 2019	Period Jan-Sept 2018	Full year Jan-Dec 2018
MSEK					
Net sales	473.1	403.8	1,379.0	1,154.6	1,597.8
EBITA	47.3	36.9	108.3	90.6	114.9
EBITA margin	10.0%	9.1%	7.9%	7.8%	7.2%
Operating result	40.3	31.3	85.8	75.2	92.5
Net earnings	27.2	21.8	52.6	52.9	59.3
Earnings per share after dilution, SEK	0.73	0.58	1.41	1.40	1.62
Cash flow from operating activities	79.6	10.1	115.8	-36.0	15.6
Liquid assets	87.4	59.8	87.4	59.8	84.6

See other key metrics on page 18.

Net sales and results

The quarter (1 July – 30 September 2019)

Net sales during the quarter amounted to MSEK 473.1 (403.8). Net sales increased by 17% for the Group compared to the same quarter last year. The growth is partly attributable to the acquisitions of Opternus. The organic growth was 8% compared to the same quarter last year.

Other external expenses during the quarter amounted to MSEK 66.1 (68.7). 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.

EBITA totalled MSEK 47.3 (36.9), which corresponds to an EBITA margin of 10.0% (9.1%).

Net financial items during the quarter amounted to -4.2 MSEK (-1.4), whereof net interest amounted to -2.9 MSEK (-1.9), unrealised foreign exchange differences to -0.8 MSEK (1.0) and other financial items to -0.5 MSEK (-0.5).

The period (1 January – 30 September 2019)

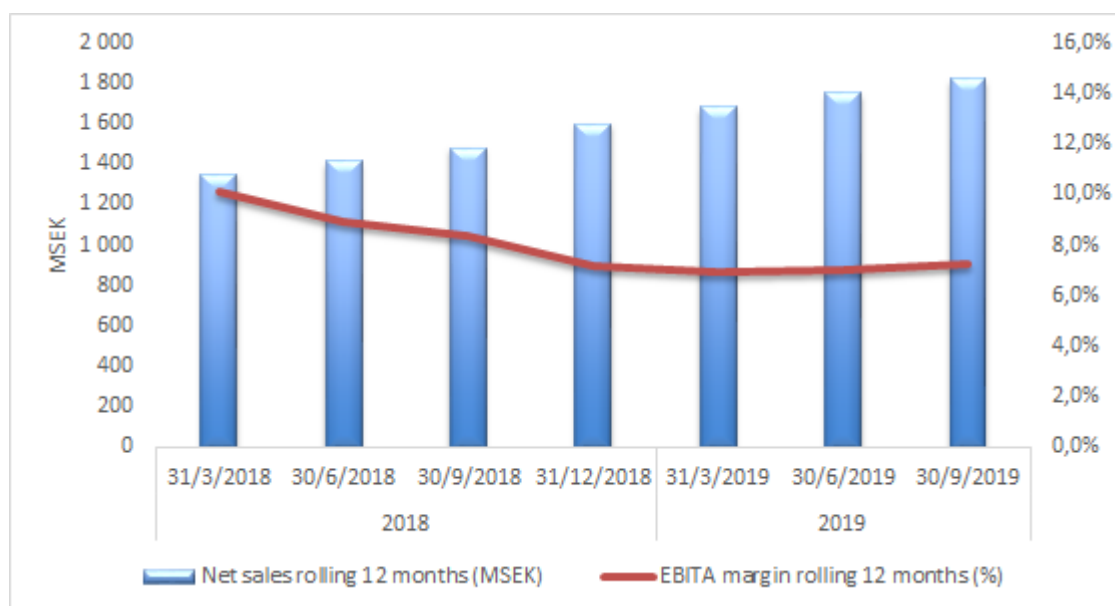
Net sales for the period amounted to MSEK 1,379.0 (1,154.6). Net sales increased by 19% for the Group compared to the same period last year. The growth in sales is primarily attributable to the acquisitions of PQMS, Gordon Franks Training, Smart Awards and Opternus. The organic growth was 6% compared to the same period last year.

Other external expenses during the period amounted to MSEK 192.4 (186.3). In accordance with IFRS 16, costs for leased premises during the period current year of approximately MSEK 27.3 have been replaced as depreciation of tangible assets and interest expenses.

EBITDA totalled MSEK 108.3 (90.6), which corresponds to an EBITA margin of 7.9% (7.8%).

Net financial items during the period amounted to -12.9 MSEK (-7.1), whereof net interest amounted to -9.2 MSEK (-5.0), unrealised foreign exchange differences to -2.5 MSEK (-1.0) and other financial items to -1.2 MSEK (-1.1).

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



Financial position and liquidity

Liquid assets

Liquid assets on 30 September 2019, excluding unutilised overdraft facilities, amounted to MSEK 87.4 (84.6). Unutilised overdraft facilities amounted to MSEK 86.9 on 30 September 2019.

Non-current assets

Non-current assets amounted to MSEK 796.6 on 30 September 2019 (594.7). MSEK 164.9 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 580.8 on 30 September 2019 (494.4), which equated to SEK 15.62 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 30 September 2019 totalled MSEK 406.3, and MSEK 349.3 of this is long-term borrowing. The debt falls due for payment on 15 December 2021 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 346.5 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 79.6 (10.1), including a change in working capital of MSEK 21.4 (-18.0).

Cash flow from operating activities during the period January-September amounted to MSEK 115.8 (-36.0), including a change in working capital of MSEK -27.6 (-111.9).

Cash flow from investing activities

Cash flow from investing activities during the quarter amounted to MSEK -42.6 (-9.1). The cash flow is primarily attributable to investments in tangible assets.

Cash flow from investing activities during the period January- September amounted to MSEK -72.4 (-264.8). 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 -33.7 (8.2). The cash flow from financing activities during the quarter is primarily attributable to decreased utilisation of overdraft facilities, change in lease liabilities and new working capital loan.

Cash flow from financing activities during the period January- September amounted to MSEK -38.2 (252.4). The cash flow from financing activities during the period is primarily attributable to amortisation of loans, change in lease liabilities, new working capital loan and 14.9 MSEK in dividend paid.

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 30 September 2019 was 7.3% (8.4%).

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 quarter was 17% (20%). Growth on a rolling 12-month basis was 23% (16%).

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 588 (536) employees in the Group on 30 September 2019. The increase in employees compared to the same time last year is primarily due to the acquisition of Opternus.

Parent Company

The Parent Company's main business consists of performing Group-wide services. Revenue for the period January-September amounted to MSEK 14.2 (18.1) and the result for the period was MSEK -45.5 (-21.7).

The Parent Company's financial assets amounted to MSEK 635.2 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 4.6 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.

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 Poland remain far down the list, with the UK at the very bottom having qualified for inclusion for the first time by achieving more than the 1% minimum required.

In terms of size, the North American market is comparable with Europe, and the rate of expansion is expected to be high in the next few years. During the period 2017–2018, the number of fiber users increased by 21% to a total of 17 million households, which indicates that the market is active.

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 have an effect on 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 November 2018, 5G is expected to be rolled out on a global level from 2020, and by 2024 there will be 1.5 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.

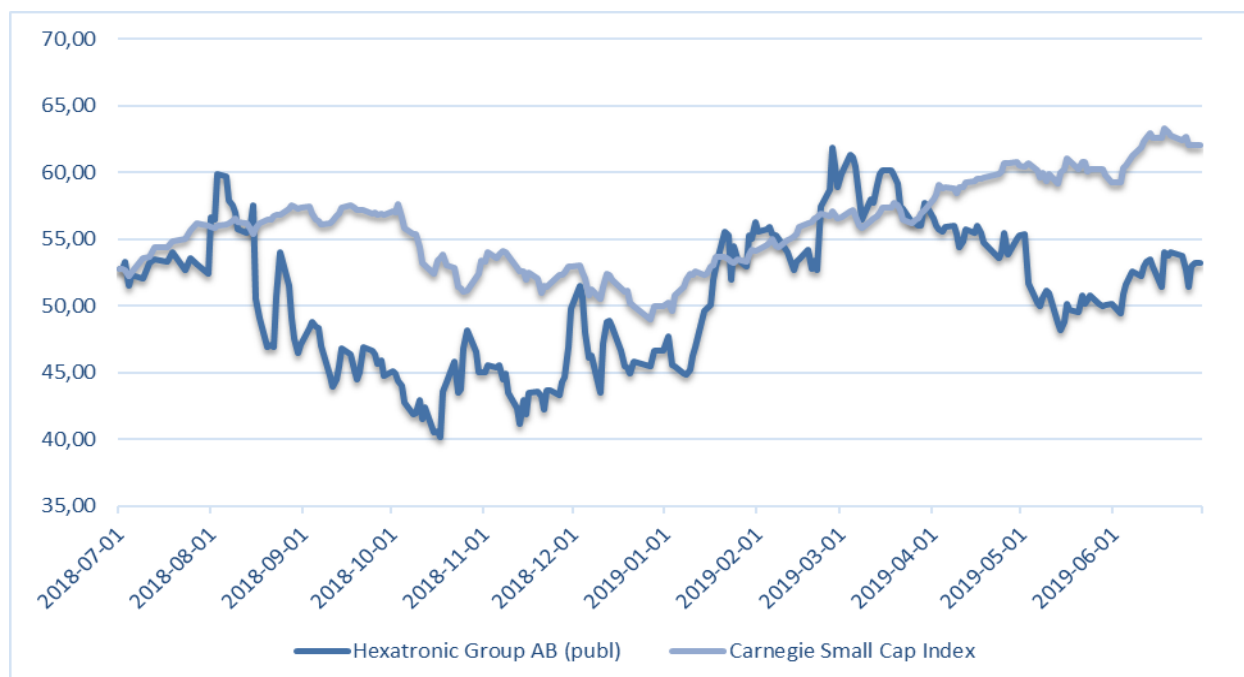
The fair value on the issued options, in all employee stock option programs, has been calculated according to the Black & Scholes model. Each option entitles the holder to buy one share.

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

- In 2016/17 an employee stock option programme was approved with 700,000 options available to the company's personnel; 346,500 of these options were subscribed at an issue price of SEK 51.65, with a redemption window of 15 January – 15 February 2020.
- 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 2,079.

The number of shareholders at period end, 6,827, is based on data from Euroclear. The shareholder structure of Hexatronic Group AB (publ) on 30 September is shown in the table below.

Shareholder	No. of ordinary shares	Votes %
Accendo Capital	4,063,447	10.9%
Handelsbanken Funds	3,208,500	8.6%
Jonas Nordlund, privately and corporately	3,000,000	8.1%
Martin Åberg and Erik Selin via Chirp AB	1,785,872	4.8%
Fondita Nordic Micro Cap	1,763,000	4.7%
Swedbank Robur, West Fund	1,361,947	3.7%
Länsförsäkringar Funds	1,347,021	3.6%
AMF Insurance & Funds	1,076,279	2.9%
Göran Nordlund, privately and corporately	1,070,154	2.9%
Avanza Pension - Insurance Company	999,401	2.7%
Other shareholders	17,508,204	47.1%
Total outstanding shares	37,193,825	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 6 November 2019 at 08:00 CET.

Financial calendar

Year-End Report: 21 February 2020

Interim Report January-March 2020: 29 April 2020

Interim Report April-June 2020: 14 August 2020

Interim Report July-September 2020: 6 November 2020

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, 6 November 2019

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 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

Auditor's report

Hexatronic Group AB (publ) corp. reg. no. 556168-6360

Introduction

We have reviewed the condensed interim financial information (interim report) of Hexatronic Group AB (publ) as of 30 September 2019 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Gothenburg, November 6, 2019

Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Authorized Public Accountant

Consolidated income statement (SEK thousand)	Quarter July-Sept 2019	Quarter July-Sept 2018	Period Jan-Sept 2019	Period Jan-Sept 2018	Full year Jan-Dec 2018
<u>Revenue</u>					
Net sales	473,068	403,787	1,379,030	1,154,609	1,597,768
Other operating income	6,278	977	8,540	2,537	17,526
	479,346	404,764	1,387,570	1,157,146	1,615,294
<u>Operating expenses</u>					
Raw materials and goods for resale	-267,427	-224,854	-767,799	-642,122	-906,639
Other external costs	-66,055	-68,657	-192,429	-186,290	-259,596
Personnel costs	-83,131	-68,345	-270,600	-221,505	-306,191
Other operating expenses	0	0	-695	0	-4,653
Depreciation of tangible assets	-15,458	-5,992	-47,698	-16,666	-23,281
Earnings before interest, taxes and amortisation (EBITA)	47,275	36,916	108,349	90,563	114,933
Depreciation of intangible assets	-7,013	-5,648	-22,585	-15,379	-22,388
Operating result (EBIT)	40,261	31,268	85,764	75,183	92,545
<u>Result from financial items</u>					
Financial income	102	0	184	0	194
Financial expenses	-4,329	-1,429	-13,113	-7,078	-10,988
Result after financial items	36,035	29,839	72,835	68,106	81,751
Income taxes	-8,806	-8,031	-20,257	-15,162	-22,472
Net result for the period	27,229	21,807	52,578	52,944	59,279
Attributable to:					
Parent Company shareholders	27,229	21,807	52,578	52,944	59,279
Earnings per share					
Earnings per share before dilution (SEK)	0.73	0.60	1.42	1.46	1.63
Earnings per share after dilution (SEK)	0.73	0.58	1.41	1.40	1.62
Consolidated statement of comprehensive income					
	Quarter July-Sept 2019	Quarter July-Sept 2018	Period Jan-Sept 2019	Period Jan-Sept 2018	Full year Jan-Dec 2018
Result for the period	27,229	21,807	52,578	52,944	59,279
Items which can later be recovered in the income statement					
Translation differences	20,749	-4,318	33,823	10,716	11,542
Cash flow hedge	0	0	0	3,077	3,077
Other comprehensive income for the period	20,749	-4,318	33,823	13,793	14,619
Comprehensive income for the period	47,978	17,489	86,401	66,737	73,898
Consolidated statement of comprehensive income					
	47,978	17,489	86,401	66,737	73,898

Consolidated balance sheet (SEK thousand)	30/9/2019	30/9/2018	31/12/2018
Assets			
<u>Non-current assets</u>			
Intangible assets	453,547	328,248	454,517
Tangible assets	341,320	133,576	139,197
Financial assets	1,722	982	1,015
Total non-current assets	796,589	462,805	594,729
<u>Current assets</u>			
Inventories	344,908	337,673	334,282
<u>Current receivables</u>			
Accounts receivable	299,747	312,957	261,774
Current tax receivables	0	0	1,594
Other receivables	4,900	3,334	2,553
Prepaid expenses and accrued income	18,439	19,820	23,582
Total current receivables	323,086	336,111	289,502
<u>Liquid assets</u>	87,407	59,810	84,621
Total current assets	755,400	733,593	708,405
Total assets	1,551,989	1,196,398	1,303,134
Equity	580,772	476,617	494,415
<u>Non-current liabilities</u>			
Liabilities to credit institutions	349,323	290,236	351,741
Deferred tax	60,912	37,176	62,630
Non-current lease liabilities	132,162	0	0
Total non-current liabilities	542,397	327,412	414,372
<u>Current liabilities</u>			
Liabilities to credit institutions	57,000	43,286	56,457
Current lease liabilities	34,158	0	0
Overdraft facilities	27,583	25,306	29,863
Accounts payable	171,880	200,896	173,772
Provisions	3,000	3,000	3,000
Current tax liabilities	2,379	3,890	0
Other liabilities	64,752	63,802	72,815
Accrued expenses and deferred income	68,069	52,189	58,440
Total current liabilities	428,821	392,369	394,347
Total equity, provisions and liabilities	1,551,989	1,196,398	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
Dividends 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	52,578	52,578
Other comprehensive income	0	0	33,823	0	33,823
Total comprehensive income	0	0	33,823	52,578	86,401
New shares related to employee stock option programme	34	12,795	0	0	12,828
Teckningsoptionsprogram	0	1,624	0	0	1,624
Share-based remuneration	18	0	0	359	377
Dividends paid	0	0	0	-14,874	-14,874
Total transactions with shareholders, reported directly in equity	52	14,419	0	-14,515	-44
Balance carried forward as of 30 June 2019	1,877	220,206	39,728	318,960	580,772

Consolidated statement of cash flows (SEK thousand)

	Quarter July-Sept 2019	Quarter July-Sept 2018	Period Jan-Sept 2019	Period Jan-Sept 2018	Full year Jan-Dec 2018
Operating result	40,261	31,268	85,764	75,183	92,545
Items not affecting cash flow	29,717	8,202	88,313	32,000	50,508
Interest received	102	0	184	92	194
Interest paid	-3,253	-1,892	-10,103	-5,129	-10,403
Income tax paid	-8,669	-9,559	-20,734	-26,219	-34,094
Cash flow from operating activities before changes in working capital	58,158	28,019	143,424	75,927	98,749
Increase (-)/decrease (+) in inventories	30,340	-24,547	-10,626	-79,350	-67,247
Increase (-)/decrease (+) in accounts receivable	-6,998	9,314	-37,973	-69,293	1,378
Increase (-)/decrease (+) in operating receivables	4,092	-629	4,390	-1,812	-4,627
Increase (+)/decrease (-) in accounts payable	-21,527	7,589	-1,892	41,768	5,183
Increase (+)/decrease (-) in operating liabilities	15,532	-9,689	18,516	-3,262	-17,872
Cash flow from changes in working capital	21,440	-17,961	-27,584	-111,948	-83,186
Cash flow from operating activities	79,598	10,057	115,840	-36,021	15,564
<u>Investing activities</u>					
Acquisition of tangible and intangible assets	-28,765	-8,016	-57,854	-31,118	-41,034
Acquisition of subsidiaries after deduction of acquired liquid assets	-13,809	-1,038	-13,809	-233,015	-319,776
Change in financial assets	-8	-24	-707	-670	-703
Cash flow from investing activities	-42,581	-9,078	-72,369	-264,802	-361,512
<u>Financing activities</u>					
Borrowings	20,000	0	20,000	261,622	348,728
Amortisation of loans	-9,026	0	-54,125	-21,720	-43,446
Changes in overdraft facilities	-44,634	8,188	-2,280	25,306	29,863
New share issues for the period	0	0	13,106	1,654	1,654
Dividends paid	0	0	-14,874	-14,469	-14,469
Cash flow from financing activities	-33,660	8,188	-38,172	252,394	322,330
<u>Cash flow for the period</u>	3,356	9,167	5,298	-48,429	-23,618
Liquid assets at the start of the period	84,878	50,643	84,621	108,239	108,239
Exchange rate difference in liquid assets	-827	0	-2,512	0	0
Liquid assets at the end of the period	87,407	59,810	87,407	59,810	84,621

Key metrics for the group	Quarter	Quarter	Period	Period	Full year
	July-Sept	July-Sept	Jan-Sept	Jan-Sept	Jan-Dec
	2019	2018	2019	2018	2018
Growth in net sales	17%	20%	19%	18%	23%
EBITA margin	10.0%	9.1%	7.9%	7.8%	7.2%
EBITA margin, 12 months rolling	7.3%	8.4%	7.3%	8.4%	7.2%
Operating margin	8.5%	7.7%	6.2%	6.5%	5.8%
Earnings per share before dilution (SEK)	0.73	0.60	1.42	1.46	1.63
Earnings per share after dilution (SEK)	0.73	0.58	1.41	1.40	1.62
Net sales per employee (SEK thousand)	798	752	2,361	2,286	3,090
Result per employee (SEK thousand)	46	41	90	105	115
Quick ratio	96%	102%	96%	102%	95%
Average number of employees	593	537	584	505	517
Number of shares at period end before dilution	37,183,825	36,293,049	37,183,825	36,293,049	36,511,825
Average number of shares before dilution	37,183,825	36,293,049	37,109,158	36,225,620	36,278,940
Average number of shares after dilution	37,210,169	37,857,866	37,185,969	37,790,437	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)

	Period Jan-Sept 2019	Period Jan-Sept 2018
<u>Revenue</u>		
Net sales	14,161	18,096
	14,161	18,096
<u>Operating expenses</u>		
Other external costs	-35,009	-17,376
Personnel costs	-19,543	-16,769
Depreciation of tangible assets	-161	-161
Operating result (EBITA)	-40,553	-16,211
<u>Result from financial items</u>		
Interest income	2,469	774
Interest expenses	-7,353	-6,332
Result after financial items	-45,437	-21,769
Appropriations	0	0
Result before tax	-45,437	-21,769
Tax on profit for the period	-76	95
Net result for the period	-45,513	-21,674

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

Parent Company balance sheet (SEK thousand)	30/9/2019	30/9/2018	31/12/2018
Assets			
Intangible assets	388	0	0
Tangible assets	386	601	548
Financial assets	635,212	523,814	630,239
Total non-current assets	635,986	524,416	630,786
<u>Current receivables</u>			
Receivables from Group companies	160,851	148,995	151,401
Current tax receivables	0	793	507
Other receivables	3,508	2,853	3,324
Prepaid expenses and accrued income	2,626	1,479	1,605
Total current receivables	166,985	154,121	156,837
<u>Cash and bank balances</u>	0	0	0
Total current assets	166,985	154,121	156,837
Total assets	802,971	678,536	787,623
<u>Equity, provisions and liabilities</u>			
<u>Equity</u>	155,333	165,425	192,922
<u>Untaxed reserves</u>	12,350	6,330	6,330
<u>Non-current liabilities</u>			
Liabilities to credit institutions	349,323	282,249	350,828
Total non-current liabilities	349,323	282,249	350,828
<u>Current liabilities</u>			
Liabilities to credit institutions	57,000	43,286	48,721
Overdraft facilities	27,583	25,306	29,863
Accounts payable	6,994	4,488	6,504
Liabilities to Group companies	150,811	114,195	98,914
Current tax liabilities	78	0	0
Other liabilities	33,415	30,502	49,104
Accrued expenses and deferred income	10,082	6,755	4,437
Total current liabilities	285,963	224,533	237,543
Total equity, provisions and liabilities	802,971	678,536	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	July-Sept 2019	Jan-Sept 2019
Decrease in other external costs	9,423	27,306
Increase in depreciation of tangible assets	-9,026	-26,514
Effect on operating profit	0,397	0,792
Increase in financial expenses	-0,710	-2,175
Effect on profit before tax	-0,313	-1,383
Decrease in income taxes	0,067	0,296
Effect on earnings for the period	-0,246	-1,087
Effect on earnings per share before dilution, SEK	-0.01	-0.03
Effect on earnings per share after dilution, SEK	-0.01	-0.03

Consolidated statement of cash flows		
SEK thousand	July-Sept 2019	Jan-Sept 2019
Increase in cash flow from operating activities	9,026	26,514
Decrease in cash flow from financing activities	-9,026	-26,514
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	180,473	180,473
Total assets	1,303,134	180,473	1,483,607
Shareholders' equity and liabilities			
Non-current lease liabilities	0	149,969	149,969
Current lease liabilities	0	30,504	30,504
Total shareholders' equity and liabilities	1,303,134	180,473	1,483,607

Note 3 Revenue

January to September 2019					
Geographical markets	Sweden	Rest of Europe	North America	Rest of the world	Total
Revenue from external customers	412,882	426,986	320,095	219,067	1,379,030
<u>Category</u>					
Goods	388,131	379,334	320,095	219,067	1,306,627
Services	<u>24,751</u>	<u>47,652</u>	<u>0</u>	<u>0</u>	<u>72,403</u>
Total	412,882	426,986	320,095	219,067	1,379,030
<u>Time for revenue recognition</u>					
At a given time	412,882	426,986	320,095	219,067	1,379,030
Over time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	412,882	426,986	320,095	219,067	1,379,030

January to September 2018					
Geographical markets	Sweden	Rest of Europe	North America	Rest of the world	Total
Revenue from external customers	447,559	175,636	284,351	247,062	1,154,608
<u>Category</u>					
Goods	427,974	151,577	284,351	247,062	1,110,964
Services	<u>19,585</u>	<u>24,059</u>	<u>0</u>	<u>0</u>	<u>43,644</u>
Total	447,559	175,636	284,351	247,062	1,154,608
<u>Time for revenue recognition</u>					
At a given time	447,559	175,636	284,351	247,062	1,154,608
Over time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	447,559	175,636	284,351	247,062	1,154,608

Note 4 Pledged assets

Pledged assets	Group			Parent Company		
	30/9/2019	30/9/2018	31/12/2018	30/9/2019	30/9/2018	31/12/2018
<i>Assets pledged for liabilities to credit institutions</i>						
Chattel mortgages	157,350	157,350	157,350	100	100	100
Shares in subsidiaries	324,444	296,392	281,484	82,645	82,504	82,504
Total	481,794	453,742	438,834	82,745	82,604	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, %	July-September	January-September
Net sales 2019	473,068	1,379,030
Acquisition driven	<u>-36,878</u>	<u>-151,192</u>
Comparable net sales	436,190	1,227,838
Net sales 2018	403,788	1,154,609
Net sales increase	69,280	224,421
%	17%	19%
Organic growth	32,402	73,229
%	8%	6%

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-September 2019	1,379,030
Net sales October-December 2018	<u>443,159</u>
<i>Net sales rolling 12 months</i>	<i>1,822,189</i>
Net sales January-September 2018	1,154,609
Net sales October-December 2017	<u>324,994</u>
<i>Net sales rolling 12 months</i>	<i>1,479,603</i>
Annual growth, rolling 12 months	23%

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			
%	30/9/2019	30/9/2018	31/12/2018
Current assets	755,400	733,593	708,405
Inventories	-344,908	-337,673	-334,282
<i>Current assets-inventories</i>	<i>410,492</i>	<i>395,920</i>	<i>374,123</i>
Current liabilities	428,821	392,369	394,347
Quick asset ratio	99%	101%	95%

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

Core working capital			
SEK thousand	30/9/2019	30/9/2018	31/12/2018
Inventories	344,908	337,673	334,282
Accounts receivable	299,747	312,957	261,774
Accounts payable	-171,880	-200,896	-173,772
Core working capital	472,775	449,734	422,284

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