

Hexatronic Group AB (publ)

Interim Report July – September 2018

(Reporting period January – September 2018)

The quarter (July-September 2018)

- Net sales amounted to MSEK 403.8 (336.9), which represents 20% (30%) growth during the quarter.
- The operating result before interest, taxes, depreciation and amortisation (EBITDA) totalled MSEK 42.9 (42.9), which corresponds to an EBITDA margin of 10,6% (12.7%).
- The operating result amounted to MSEK 31.3 (35.7).
- Net earnings totalled MSEK 21.8 (26.8).
- Earnings per share after dilution totalled SEK 0.58 (0.71).
- Cash flow from operating activities during the quarter amounted to MSEK 10.1 (54.3)

The period (January-September 2018)

- Net sales amounted to MSEK 1,154.6 (974.4), which represents 18% (34%) growth during the period.
- The operating result before interest, taxes, depreciation and amortisation (EBITDA) totalled MSEK 107.2 (113.1), which corresponds to an EBITDA margin of 9.3% (11.6%). The EBITDA margin on a rolling 12-month basis was 9.8% (11.4%).
- The operating result amounted to MSEK 75.2 (91.9).
- Net earnings totalled MSEK 52.9 (66.7).
- Earnings per share after dilution totalled SEK 1.40 (1.76).
- Cash flow from operating activities during the period amounted to MSEK -36.0 (77.3)

Comments from the CEO

Continued strong international growth and strategic acquisition in Germany

Hexatronic Group's growth during the quarter was 20%, 32% related to acquisitions and 12% to negative organic growth. The pattern of the previous quarter, with good growth outside of the Nordics and a weak Swedish market, persisted during the third quarter. Growth outside of the Nordics was 135% during the quarter, compared to a 28% decline in the Nordic region. We still believe that the Swedish market for 2018 will be around 20% lower than in 2017. The third quarter last year was very strong in Sweden, which partly explains the negative organic growth.

Outside of Sweden we are continuing to grow, both organically and through acquisitions. Development of our operations in New Zealand remains strong. In the USA our acquisition of Blue Diamond is developing very well, and market forecasts suggest a continued positive trend in the infrastructure market over the next five to six years. Sales of systems are continuing to increase, although from a low level. We still predict stronger system sales in the USA during 2019.

One very positive piece of news during the quarter was that we won a contract worth around MSEK 70 to deliver our FTTH system to a major British operator. This is the first large-scale deal for our FTTH system and a very pleasing development. Deliveries related to this contract increased during the quarter but were lower than planned as our customer started some projects later than estimated.

We are seeing positive effects from British training company PQMS, a strategic acquisition that we made last quarter. This relates both to higher demand for training, as well as the effect on sales and marketing of our FTTH system, which includes training of operators and their installers. We see training of FTTH installers as a robust growth area, or even a must bearing in mind the investments planned in several major European countries. A lack of qualified installers currently presents a bottleneck in several countries.

With the acquisition of Opternus the Group is now establishing a firm foothold on the German FTTH market, which is growing strongly with far-reaching national investment programs. Opternus is a market leader in the sale of fiber optic fusion splicing and measuring instruments. This is a position that creates a good basis for cross-sales of Hexatronic's broad offering, thanks to Opternus' well-established relations with many German network owners and installers. We also believe that Opternus' current business has excellent potential for growth in the years to come.

We enter the fourth quarter with an order book 24% lower than at the same point in 2017, and on a comparable basis. Last year we had an extensive stock of long-term orders from the Swedish market with good notice; with a weaker Swedish market this year, customers are not ordering anything like as far in advance. We expect to see continued strong development outside of the Nordics during the fourth quarter, and a Swedish market that remains weak compared to 2017.

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 (July – September 2018))

- Hexatronic signed an agreement with a UK operator totalling 6 MGBP regarding delivery of fibre optic FTTH system. The agreement covers deliveries in 2018.
- Hexatronic received a notice of discontinuance from the High Court of New Zealand regarding an alleged infringement by Hexatronic New Zealand Limited and Hexatronic Cables & Interconnect Systems AB in New Zealand. The lawsuit, which was communicated July 8, 2016, was related to air-blown fiber.

Events since the end of the period

- Hexatronic acquired 100% of the German fiber optic company Opternus GmbH. The company is included in the group consolidation from 1 November 2018.

Financial information, Group

	Quarter 180701 180930	Quarter 170701 170930	Period 180101 180930	Period 170101 170930	Full year 170101 171231
MSEK					
Net sales	403.8	336.9	1,154.6	974.4	1,299.4
EBITDA	42.9	42.9	107.2	113.1	151.0
EBITDA margin	10,6%	12.7%	9.3%	11.6%	11.6%
Operating result	31.3	35.7	75.2	91.9	122.3
Net earnings	21.8	26.8	52.9	66.7	90.4
Earnings per share after dilution, SEK	0.58	0.71	1.40	1.76	2.38
Cash flow from operating activities	10.1	54.3	-36.0	77.3	133.4
Liquid assets	59.8	61.7	59.8	61.7	108.2

See other key metrics on page 18.

Net sales and results

The quarter (July – September 2018)

Net sales during the quarter amounted to MSEK 403.8 (336.9). Net sales increased by 20% for the Group compared to the same quarter last year. The growth is attributable to the acquisitions of Blue Diamond Industries, PQMS, Gordon Franks Training and Smart Awards. The organic growth was -12% compared to the same quarter last year as a consequence of a weaker Swedish market compared to last year.

EBITDA totalled MSEK 42.9 (42.9), which corresponds to an EBITDA margin of 10.6% (12.7%).

Net financial items during the quarter amounted to -1.4 MSEK (0), whereof net interest amounted to -1.9 MSEK (-0.5), unrealised foreign exchange differences to 1.0 MSEK (0.5) and other financial items to -0.5 MSEK (0).

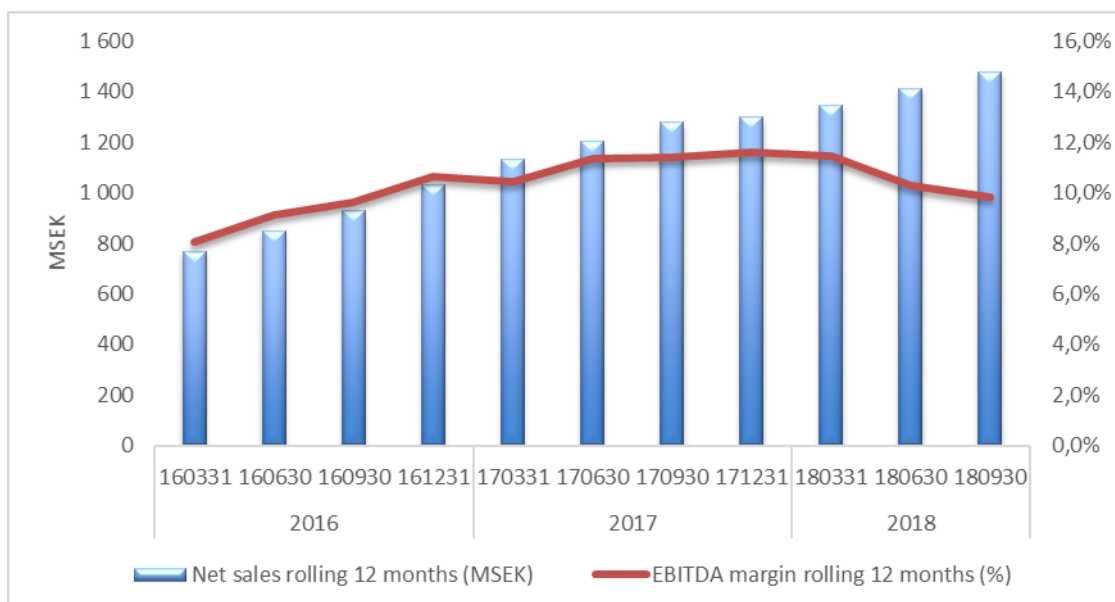
The period (January – September 2018)

Net sales for the period amounted to MSEK 1,154.6 (974.4). Net sales increased by 18% for the Group compared to the same period last year. The growth in sales is attributable to the acquisitions of Blue Diamond Industries, PQMS, Gordon Franks Training and Smart Awards.

EBITDA totalled MSEK 107.2 (113.1), which corresponds to an EBITDA margin of 9.3% (11.6%). The EBITDA margin on a rolling 12-month basis was 9.8% (11.4%).

Net financial items for the period amounted to -7.1 MSEK (-3.8), whereof net interest amounted to -5.0 MSEK (-1.5), unrealised foreign exchange differences to -1.0 MSEK (-2.3) and other financial items to -1.1 MSEK (0).

Net sales 12 months, MSEK and EBITDA margin rolling 12 months (%)



Financial position and liquidity

Liquid assets

Liquid assets on 30 September 2018, excluding overdraft facilities, amounted to MSEK 59.8 (compared to MSEK 108.2 at the beginning of the year). Unutilised overdraft facilities amounted to MSEK 44.7 on 30 September 2018.

Non-current assets

Non-current assets amounted to MSEK 462.8 on 30 September 2018 (compared to MSEK 212.8 at the beginning of the year). The increase is primarily related to acquired assets in connection with the acquisitions of Blue Diamond Industries, PQMS, Gordon Franks Training and Smart Awards.

Equity

Equity amounted to MSEK 476.6 on 30 September 2018 (MSEK 415.3 as per 31 December 2017), which equated to SEK 13.13 per outstanding share before dilution at the end of the reporting period.

Borrowing

The Parent Company has an acquisition facility of MSEK 500 with Danske Bank. The utilised amount on 30 September 2018 totalled MSEK 333.5, and MSEK 290.2 of this is long-term borrowing. The debt falls due for payment on 15 December 2020 with an option to extend. The Parent Company's loan agreements include the usual conditions, commitments and provisos.

Net debt totalled MSEK 299.0 at the end of the reporting period compared to MSEK 14.2 in net cash as per 31 December 2017.

Equity ratio

The equity ratio on 30 September 2018 was 40% compared to 53% at the beginning of the year.

Cash flow

Cash flow from operating activities

Cash flow from operating activities during the quarter amounted to MSEK 10.1 (54.3), including a change in working capital of MSEK -18.0 (22,2). The lower cash flow is attributable to increased capital tied up in inventories.

Cash flow from operating activities during the period January-September amounted to MSEK -36.0 (77.3), including a change in working capital of MSEK -111.9 (-17.6). The negative change in working capital is primarily attributable to increased capital tied up in inventories.

Cash flow from investing activities

Cash flow from investing activities during the quarter amounted to MSEK -9.1 (-6.7). The cash flow is primarily attributable to investments in tangible and intangible assets.

Cash flow from investing activities during the period January- September amounted to MSEK -264.8 (-36.2). The cash flow is primarily attributable to the acquisition of Blue Diamond Industries, PQMS, Gordon Franks Training and Smart Awards and to some extent to investments in tangible and intangible assets.

Cash flow from financing activities

Cash flow from financing activities during the quarter amounted to MSEK 8.2 (-8.4). The cash flow during the quarter is attributable to utilisation of overdraft facilities.

Cash flow from financing activities during the period January- September amounted to MSEK 252.4 (-19.0). The cash flow from financing activities during the period January- September is attributable to new borrowing related to the acquisition of Blue Diamond Industries, PQMS, Gordon Franks Training and Smart Awards, amortisation of loans, utilisation of overdraft facilities and dividend paid.

The Group's financial goals

Profitability

An EBITDA margin (EBITDA as a percentage of net sales) of at least 10% on a rolling 12-month basis. The EBITDA margin on a rolling 12-month basis on 30 September 2018 was 9.8% (11.4%).

Growth

The Group shall grow more than its market organically. The Group strives for an average annual growth of at least 20%. The growth will be both organic and acquisition-driven. Growth during the quarter was 20% (30%). Growth on a rolling 12-month basis was 16% (38%).

Financial stability

The Group shall have an equity ratio of at least 30%. The equity ratio was 40% at the end of the reporting period.

In acquisitions, the equity ratio may fall below 30% for a period of less than 12 months. This may occur when the Board deems that the profitability and cash flow from acquired companies will cause a swift improvement in the equity ratio.

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, data centre companies, telecom companies, installers and system houses, and many of the Group's products are distributed via wholesalers. The Group mainly sells its products in the Nordic market but is also represented in several European countries and in the rest of the world.

Employees

There were 536 (380) employees in the Group on 30 September 2018. The increase in employees compared to the same time last year is primarily due to the acquisition of Blue Diamond Industries, PQMS and Gordon Franks Training.

Parent Company

The Parent Company's main business consists of performing Group-wide services. Revenue for the period January-September amounted to MSEK 18.1 (15.2) and the result for the period was MSEK -21.7 (-9.8).

The Parent Company's financial assets amounted to MSEK 523.8 at the end of the period (compared to MSEK 221.8 at the beginning of the year). The increase is related to the value of shares in the acquired companies Blue Diamond Industries, PQMS, Gordon Franks Training and Smart Awards.

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 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 2016/17 on page 32-35.

Patent dispute

Hexatronic received in August 2018 a notice of discontinuance from the High Court of New Zealand regarding an alleged infringement by Hexatronic New Zealand Limited and Hexatronic Cables & Interconnect Systems AB in New Zealand. The lawsuit, which was communicated July 8, 2016, was related to air-blown fiber.

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 acquisition of Opternus

Since the end of the period, Hexatronic acquired 100% of the German fiber optic company Opternus GmbH. Opternus is consolidated into the Hexatronic Group from November 1, 2018.

Opternus is a market leader in the sale and servicing of fiber optic fusion splicing and measuring equipment on the fast-growing German market for fiber optic communication. The company has distribution rights in Germany and Austria for world-leading manufacturers Fujikura and EXFO. The company had net sales of approximately MEUR 15 in the last twelve months, with anticipated strong growth in the years to come.

See note 5 Business acquisitions for more information.

The market

Broadband expansion is in full swing all around the world. Some nations have come a long way, while several major countries have barely begun.

At EU level, and in many individual countries, there are digitalisation goals that include a certain bandwidth per household at a point in time. “The Digital Agenda for Europe” stipulates the goals up to 2025. The global economy is changing quickly, and it is important to the competitiveness of individual countries and the whole of the EU that the goals are accomplished.

There is still high activity on the global FTTH market worldwide, and especially on our focus markets of the Nordics, Central Europe and North America. In an FTTH Council Europe report presented in February 2018, relating to the percentile coverage of FTTH/FTTB by country, small countries such as the United Arab Emirates, Singapore and South Korea are at the top of the rankings for the percentage of fiber households. In Europe, Latvia is in the lead with 50.6% followed by Sweden with 43.4% and lagging far behind are major nations like Germany and Italy with just 2.3% each, while the UK has under 1%.

In terms of size, the North American market is comparable to Europe, and expansion there is expected to be strong in the next few years. During 2017, the number of ‘homes passed’ increased by 20% to 50 million households in total, which indicates that the market is active.

On the Swedish market, it is primarily connection in rural areas that is yet to be completed. Since the material requirement for rural connection is about 2.6 times higher for duct and cable than in built-up areas, this means that even though the market is in the final stages of development and the number of connections is falling, the need for materials is not decreasing at the same rate.

5G is imminent – a technological shift that is required to provide sufficient support for new services and connected products that need higher transfer speeds in the networks, such as driverless vehicles. Video currently comprises around 50% of all traffic, and this is expected to rise to 75% by 2023. The transition to 5G entails a dramatic condensation of senders/receivers, which has an effect on the fiber networks as these are largely connected to fiber, and the need for fiber will increase.

The development of 5G is in its infancy and is expected to gather real momentum in two to three years’ time. The number of mobile users is expected to increase from around 8 billion to around 9 billion by 2023, according to the Ericsson Mobility Report.

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 arising. The opportunities and potential applications are virtually endless.

The segments expected to grow the most in IoT are the 'short range' ones, i.e. products with a wireless range of up to 100 m, often with a connection to WiFi, Bluetooth and Zigbee. The number of IoT products is expected to grow by about 20% a year up to 2023, which would then result in 20 billion connected devices worldwide – a clear indication of the dramatic growth that's anticipated in this segment.

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 was moved to the Mid cap segment on Nasdaq Stockholm on January 2, 2018. The change of segment is a result of Nasdaq's annual review of the average market values within the Nordic market segments. The Mid Cap segment consists of companies with a market value between MEUR 150 and MEUR 1,000.

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 1,814,652.15, distributed among a total of 36,293,049 shares, before dilution from existing employee stock option programmes.

At the Annual General Meeting (AGM) on 19 April 2018, 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 26 April 2018.

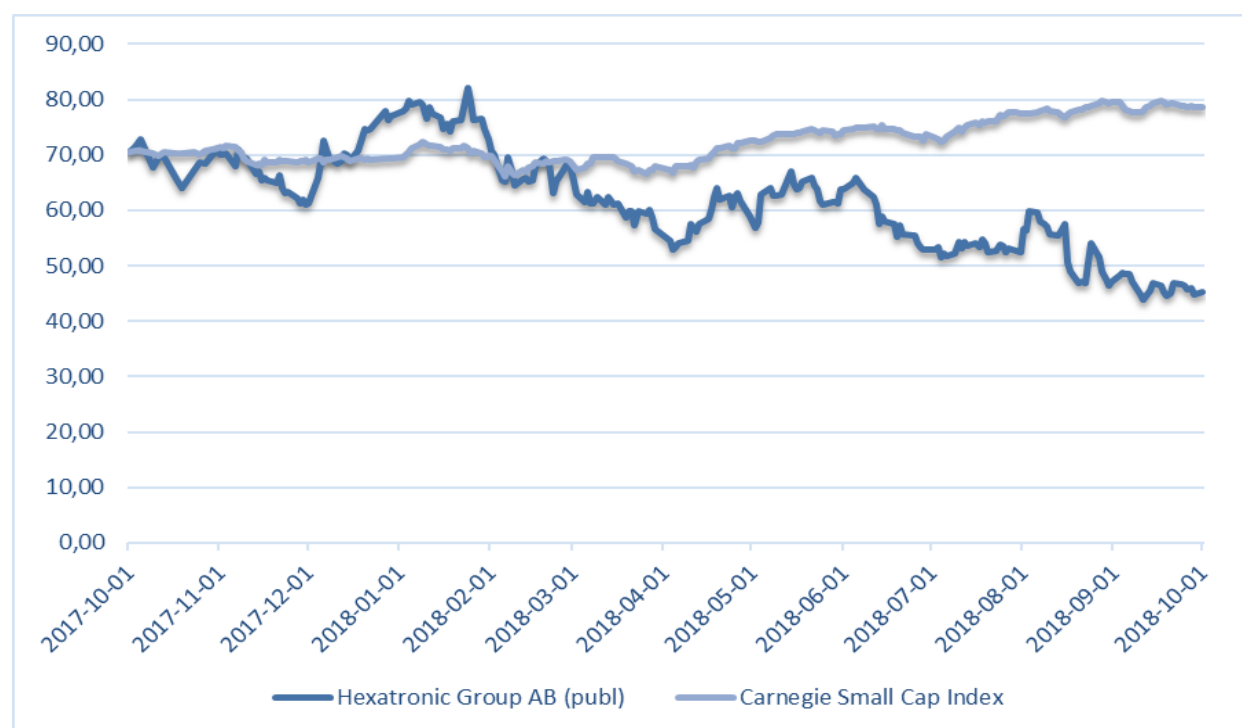
The fair value on the issued options, in all employee stock option programs, has been calculated according to the Black & Scholes model. Each option entitles the holder to buy one share.

Employee stock option programmes active at the time of this report's publication are:

- In 2015/16 an employee stock option programme was approved with 1,000,000 options available to the company's personnel; 672,000 of these options were subscribed at an issue price of SEK 19.09, with a redemption window of 15 January – 15 February 2019.
- 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; 428,000 of these options were subscribed at an issue price of SEK 82.20, with a redemption window of 15 May – 15 June 2021.

Share price development in the past 12 months (SEK)



The company's market value at the end of the period was MSEK 1,624.

The number of shareholders at period end, 8,713, is based on data from Euroclear. The shareholder structure of Hexatronic Group AB (publ) on 30 September 2018 is shown in the table below.

Shareholder	No. of shares	Capital & votes %
Accendo Capital	4,658,447	12.8%
Jonas Nordlund, privately and corporately	2,989,841	8.2%
Handelsbanken Funds	2,850,000	7.9%
Fondita Nordic Micro Cap	1,800,000	5.0%
Martin Åberg and Erik Selin via Chirp AB	1,785,872	4.9%
Swedbank Robur, West Fund	1,342,039	3.7%
Avanza Pension - Insurance Company	1,210,847	3.3%
Göran Nordlund, privately and corporately	1,187,454	3.3%
Nordea Funds	1,017,762	2.8%
Henrik Larsson Lyon	791,666	2.2%
Other shareholders	16,659,121	45.9%
Total outstanding shares	36,293,049	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 person named below, on 7 November 2018 at 08:00 CET.

Financial calendar

Interim Report July-September 2018: 7 November 2018

Year-End Report: 22 February 2019

Interim Report January-March 2019: 3 May 2019

Interim Report April-June 2019: 16 August 2019

Interim Report July-September 2019: 6 November 2019

Annual General Meeting

The AGM will be held on 9 May 2019.

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, 7 November 2018

Anders Persson
Chairman

Erik Selin
Board member

Jaakko Kivinen
Board member

Malin Frenning
Board member

Malin Persson
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 Ribbonet®, Micronet™, Drytech™, Lightmate®, FibreHub™, Matrix, Viper, Stingray and Wistom®. The Group has its headquarters in Gothenburg, Sweden and has sales offices and/or subsidiaries in Sweden, Norway, Finland, 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 September 30, 2018 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 7, 2018

Öhrlings PricewaterhouseCoopers AB

Johan Palmgren
Authorized Public Accountant

Consolidated income statement (SEK thousand)	Quarter	Quarter	Period	Period	Full year
	180701	170701	180101	170101	170101
	180930	170930	180930	170930	171231
<u>Revenue</u>					
Net sales	403,787	336,940	1,154,609	974,425	1,299,419
Other operating income	977	1,964	2,537	1,915	19,003
	404,764	338,903	1,157,146	976,340	1,318,423
<u>Operating expenses</u>					
Raw materials and goods for resale	-224,854	-193,220	-642,122	-547,254	-728,476
Other external costs	-68,657	-41,827	-186,290	-124,678	-176,801
Personnel costs	-68,345	-59,865	-221,505	-189,147	-259,950
Other operating expenses	0	-1,131	0	-2,191	-2,191
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	42,909	42,859	107,229	113,070	151,004
Depreciation of tangible assets and amortisation of intangible assets	-11,641	-7,152	-32,045	-21,218	-28,704
Operating result	31,268	35,708	75,183	91,851	122,300
<u>Result from financial items</u>					
Financial income	0	17	0	78	230
Financial expenses	-1,429	0	-7,078	-3,832	-6,399
Result after financial items	29,839	35,725	68,106	88,097	116,130
Income taxes	-8,031	-8,880	-15,162	-21,352	-25,699
Net result for the period	21,807	26,845	52,944	66,745	90,432
Attributable to:					
Parent Company shareholders	21,807	26,845	52,944	66,745	90,432
Earnings per share					
Earnings per share before dilution (SEK)	0.60	0.74	1.46	1.85	2.50
Earnings per share after dilution (SEK)	0.58	0.71	1.40	1.76	2.38
Consolidated statement of comprehensive income					
	Quarter	Quarter	Period	Period	Full year
	180701	170701	180101	170101	170101
	180930	170930	180930	170930	171231
Result for the period	21,807	26,845	52,944	66,745	90,432
Items which can later be recovered in the income statement					
Translation differences	-4,318	-1,938	10,716	-2,709	-2,687
Cash flow hedge	0	0	3,077	0	-3,077
Other comprehensive income for the period	-4,318	-1,938	13,793	-2,709	-5,765
Comprehensive income for the period	17,489	24,907	66,737	64,036	84,667
Attributable to:					
Parent Company shareholders	17,489	24,907	66,737	64,036	84,667

Consolidated balance sheet (SEK thousand)	2018-09-30	2017-09-30	2017-12-31
Assets			
<u>Non-current assets</u>			
Intangible assets	328,248	121,011	118,585
Tangible assets	133,576	92,365	93,933
Financial assets	982	286	312
Total non-current assets	462,805	213,663	212,830
<u>Current assets</u>			
Inventories	337,673	220,951	236,925
<u>Current receivables</u>			
Accounts receivable	312,957	270,998	204,062
Other receivables	3,334	1,983	1,649
Prepaid expenses and accrued income	19,820	13,709	13,394
Total current receivables	336,111	286,691	219,104
<u>Liquid assets</u>			
	59,810	61,710	108,239
Total current assets	733,593	569,352	564,268
Total assets	1,196,398	783,015	777,098

Consolidated balance sheet (SEK thousand)

	2018-09-30	2017-09-30	2017-12-31
Equity			
<u>Equity attributable to Parent Company shareholders</u>			
Share capital	1,815	1,807	1,809
Other contributed capital	195,165	184,301	186,077
Reserves	5,079	-5,327	-8,714
Result brought forward, including comprehensive Income for the period	274,559	212,401	236,087
Equity	476,617	393,182	415,259
<u>Non-current liabilities</u>			
Liabilities to credit institutions	290,236	76,408	70,530
Deferred tax	37,176	31,133	35,372
Total non-current liabilities	327,412	107,541	105,903
<u>Current liabilities</u>			
Liabilities to credit institutions	43,286	17,633	23,510
Overdraft facilities	25,306	0	0
Accounts payable	200,896	147,093	140,886
Provisions	3,000	5,000	3,000
Current tax liabilities	3,890	19,498	11,779
Other liabilities	63,802	47,143	26,215
Accrued expenses and deferred income	52,189	45,926	50,546
Total current liabilities	392,369	282,292	255,936
Total equity, provisions and liabilities	1,196,398	783,015	777,098

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 2017	1,807	182,924	-158	145,774	330,347
Result for the period	0	0	-2,792	90,432	87,640
Other comprehensive income	0	0	-5,765	-118	-5,883
Total comprehensive income	0	0	-8,556	90,313	81,757
New share issue relating to business acquisitions	2	1,627	0	0	1,629
Employee stock option programme	0	1,526	0	0	1,526
Total transactions with shareholders, reported directly in equity	2	3,153	0	0	3,155
Balance carried forward as of 31 December 2017*	1,809	186,077	-8,714	236,087	415,259
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	52,944	52,944
Other comprehensive income	0	0	13,793	0	13,793
Total comprehensive income	0	0	13,793	52,944	66,737
New share issue relating to business acquisitions	6	7,033	0	0	7,039
Employee stock option programme	0	2,055	0	0	2,055
Dividends paid	0	0	0	-14,473	-14,473
Total transactions with shareholders, reported directly in equity	6	9,088	0	-14,473	-5,378
Balance carried forward as of 30 September 2018	1,815	195,165	5,079	274,559	476,617

* Other capital contributions have been decreased and result brought forward including result for the period has been increased by MSEK 4.751, compared to the last annual report regarding incorrect accounting of adjustment within the item Equity.

Consolidated statement of cash flows (SEK thousand)	Quarter	Quarter	Period	Period	Full year
	180701	170701	180101	170101	170101
	180930	170930	180930	170930	171231
Operating result	31,268	35,708	75,183	91,851	122,300
Items not affecting cash flow	8,202	1,985	32,000	10,948	16,534
Interest received	0	9	92	12	164
Interest paid	-1,892	1,955	-5,129	905	-2,025
Income tax paid	-9,559	-7,477	-26,219	-8,822	-16,299
Cash flow from operating activities before changes in working capital	28,019	32,181	75,927	94,894	120,674
Increase (-)/decrease (+) in inventories	-24,547	6,275	-79,350	-13,957	-29,931
Increase (-)/decrease (+) in accounts receivable	9,314	-9,128	-69,293	-74,662	-7,726
Increase (-)/decrease (+) in operating receivables	-629	3,270	-1,812	7,718	8,369
Increase (+)/decrease (-) in accounts payable	7,589	15,494	41,768	41,819	35,613
Increase (+)/decrease (-) in operating liabilities	-9,689	6,252	-3,262	21,500	6,360
Cash flow from changes in working capital	-17,961	22,163	-111,948	-17,582	12,684
Cash flow from operating activities	10,057	54,343	-36,021	77,312	133,358
<u>Investing activities</u>					
Acquisition of tangible and intangible assets	-8,016	-1,962	-31,118	-26,459	-33,087
Acquisition of subsidiaries after deduction of acquired liquid assets	-1,062	-4,733	-233,684	-9,692	-12,683
Cash flow from investing activities	-9,078	-6,695	-264,802	-36,152	-45,770
<u>Financing activities</u>					
Borrowings	0	0	261,622	0	0
Amortisation of loans	0	0	-21,720	0	0
Changes in overdraft facilities	8,188	-8,403	25,306	-20,277	-20,277
New share issues for the period	0	0	1,654	1,239	1,340
Dividends paid	0	0	-14,469	0	0
Cash flow from financing activities	8,188	-8,403	252,394	-19,038	-18,937
<u>Cash flow for the period</u>	9,167	39,246	-48,429	22,122	68,650
Liquid assets at the start of the period	50,643	22,465	108,239	39,589	39,588
Liquid assets at the end of the period	59,810	61,710	59,810	61,710	108,239

Key metrics for the Group	Quarter	Quarter	Period	Period	Full year
	180701	170701	180101	170101	170101
	180930	170930	180930	170930	171231
Growth in net sales	20%	30%	18%	34%	26%
EBITDA margin	10.6%	12.7%	9.3%	11.6%	11.6%
EBITDA margin, 12 months rolling	9.8%	11.4%	9.8%	11.4%	11.6%
Operating margin	7.7%	10.6%	6.5%	9.4%	9.4%
Equity ratio	39.8%	50.2%	39.8%	50.2%	53.4%
Earnings per share before dilution (SEK)	0.60	0.74	1.46	1.85	2.50
Earnings per share after dilution (SEK)	0.58	0.71	1.40	1.76	2.38
Net sales per employee (SEK thousand)	752	884	2,286	2,605	3,456
Result per employee (SEK thousand)	41	70	105	178	241
Quick ratio	1.0	1.3	1.0	1.3	1.3
Average number of employees	537	381	505	374	376
Number of shares at period end before dilution	36,293,049	36,140,785	36,293,049	36,140,785	36,171,677
Average number of shares before dilution	36,293,049	36,140,785	36,225,620	36,140,785	36,148,508
Average number of shares after dilution	37,857,866	37,662,408	37,790,437	37,820,098	37,942,528

For the definition of key metrics, see the Annual Report for 2016/17.

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, EBITDA margin, equity ratio) 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	Period
	180101	170101
	180930	170930
<u>Revenue</u>		
Net sales	18,096	15,227
	18,096	15,227
<u>Operating expenses</u>		
Other external costs	-17,376	-8,650
Personnel costs	-16,769	-15,505
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	-16,049	-8,928
Depreciation of tangible assets	-161	-168
Operating result	-16,211	-9,096
<u>Result from financial items</u>		
Interest income	774	1,242
Interest expenses	-6,332	-1,969
Result after financial items	-21,769	-9,823
Appropriations	0	0
Result before tax	-21,769	-9,823
Tax on profit for the period	95	13
Net result for the period	-21,674	-9,810

Parent Company balance sheet (SEK thousand)	2018-09-30	2017-09-30	2017-12-31
Assets			
Tangible assets	601	819	762
Financial assets	523,814	231,016	221,847
Total non-current assets	524,416	231,834	222,609
<u>Current receivables</u>			
Receivables from Group companies	148,995	125,902	128,644
Current tax receivables	793	740	0
Other receivables	2,853	421	2,871
Prepaid expenses and accrued income	1,479	1,287	1,144
Total current receivables	154,121	128,350	132,659
<u>Cash and bank balances</u>	0	21,615	51,348
Total current assets	154,121	149,965	184,007
Total assets	678,536	381,800	406,616
Equity, provisions and liabilities			
<u>Equity</u>	165,425	170,029	193,480
<u>Untaxed reserves</u>	6,330	3,740	6,330
<u>Non-current liabilities</u>			
Liabilities to credit institutions	282,249	76,408	70,530
Total non-current liabilities	282,249	76,408	70,530
<u>Current liabilities</u>			
Liabilities to credit institutions	43,286	17,633	23,510
Overdraft facilities	25,306	0	0
Accounts payable	4,488	1,898	2,488
Liabilities to Group companies	114,195	92,341	101,166
Current tax liabilities	0	0	1,050
Other liabilities	30,502	14,642	1,839
Accrued expenses and deferred income	6,755	5,108	6,222
Total current liabilities	224,533	131,622	136,276
Total equity, provisions and liabilities	678,536	381,800	406,616

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 with regard to the relationship between accounting and taxation.

For full accounting policies, see the Annual Report for 2016/17.

New standards applied from 1 January 2018

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are applied from 1 January 2018.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 presents a new model for classification and measurement of financial instruments, a forward-looking impairment model based on expected credit losses, and a reformed approach to hedge accounting. The new standard also entails a change in the character of the Group's disclosures relating to financial instruments. The Group has deemed that the standard does not entail any material effects on the consolidated financial statements, and the transition therefore involves no adjustment to the opening balance for 2018.

IFRS 15 establishes principles for reporting useful information to users of financial reports regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

Revenue in the Hexatronic Group's standard operation comprises the sale of goods and services. The Group's sales consist primarily of products, the sale of which is identified at a point in time. The sales that have been identified over time partly comprise training, the extent of which in relation to the Group's total net sales is deemed to involve insignificant amounts and is therefore reported at a point in time, and partly sales of submarine cables which are reported according to the percentage-of-completion method.

Hexatronic Group meets the requirements that IFRS 15 places on revenue recognition as regards the sale of goods. Since submarine cable contracts occur only to a limited extent, the new standard does not have a significant effect on the Group's accounting. Consequently, the opening balances for 2018 have not been recalculated.

New standards not yet applied

IFRS 16 Leases will replace IAS 17 Leases and the accompanying interpretations. The standard will be applied from 1 January 2019

The standard entails that all lessee leases are recognised in the balance sheet, with the exception of short-term leases and leases of low value. Hexatronic's operating leases, as a lessee, primarily relate to the hire of premises.

Implementing the new standard will lead to higher total assets and a positive impact on EBITDA, since lease expenses will be recognised as amortisation and interest expense rather than operating expenses. IFRS 16 will entail a significant impact on the financial statements mainly regarding increase in the balance sheet total, although at this stage the Group is unable to quantify this impact. The standard will be applied using the modified retroactive method, which means that the cumulative effect of the transition to IFRS 16 will be recognised as an adjustment of the opening balance in equity on 1 January 2019.

Note 3 Revenue

January to September 2018					
Geographical markets	Nordic countries	Europe (excl. Nordic)	North America	Rest of the world	Total
Revenue from external customers	517,818	165,854	273,030	197,907	1 154,609
<u>Category</u>					
Goods	498,233	141,795	273,030	197,907	1 110,965
Services	<u>19,585</u>	<u>24,059</u>	<u>0</u>	<u>0</u>	<u>43,644</u>
Total	517,818	165,854	273,030	197,907	1 154,609
<u>Time for revenue recognition</u>					
At a given time	517,818	165,854	273,030	197,907	1 154,609
Over time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	517,818	165,854	273,030	197,907	1 154,609

January to September 2017

Geographical markets	Nordic countries	Europe (excl. Nordic)	North America	Rest of the world	Total
Revenue from external customers	669,879	137,862	7,830	158,854	974,425
<u>Category</u>					
Goods	631,951	137,862	7,830	158,854	936,497
Services	<u>37,928</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>37,928</u>
Total	669,879	137,862	7,830	158,854	974,425
<u>Time for revenue recognition</u>					
At a given time	669,879	137,862	7,830	158,854	974,425
Over time	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	669,879	137,862	7,830	158,854	974,425

Note 4 Pledged assets

		Group		Parent Company	
Pledged assets	180930	170930	171231	180930	170930
<i>Assets pledged for liabilities to credit institutions</i>					
Chattel mortgages	157,350	57,166	57,166	100	100
Shares in subsidiaries	296,392	340,619	338,190	82,504	143,427
Total	453,742	397,785	395,356	82,604	143,527

Note 5 Business acquisitions

Business acquisitions 2018

Blue Diamond Industries LLC

On 2 January 2018, the Group acquired 100% of the share capital in Blue Diamond Industries LLC for MUSD 26.8. There may be a possible additional purchase price of a maximum of MUSD 2.5 based on the EBITDA of the forthcoming two financial years.

The table below summarises the purchase price paid for Blue Diamond Industries and the fair value of acquired assets and assumed liabilities recognised on the acquisition date.

Purchase price as of 2 January 2018

Liquid assets	222,898
Contingent purchase consideration (not paid)	16,450
Total purchase price	239,348

Recognised amounts for identifiable acquired assets and taken-over liabilities

Liquid assets	4,601
Tangible assets	23,932
Customer contracts and customer relations	71,066
Inventories	21,397
Accounts receivable	30,432
Other receivables	512
Accounts payable	-15,035
Other payables	-2,668
Total identifiable net assets	134,237
Goodwill	105,111

Acquisition-related costs of SEK 2,900 thousand are included in other external costs in the consolidated statement of comprehensive income for the 2018 financial year. Total cash flow, excluding acquisition related costs, attributable to the business acquisition amounted to SEK -218,296 thousand. Goodwill is attributable partly to the added earning capacity the company is expected to bring, and partly to the anticipated synergistic effects of merging the Group's operations with those of Blue Diamond Industries.

Under the terms of the conditional purchase price, the Group will pay a maximum of SEK 20,750 thousand, up to a maximum of SEK 11,676 thousand based on EBITDA in the period 2 January 2018 – 31 December 2018, and a maximum of SEK 9,081 thousand based on EBITDA in the period 1 January 2019 – 31 December 2019.

The fair value of the conditional purchase price of SEK 16,450 thousand was estimated by applying the return of value approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed EBITDA in Blue Diamond Industries. The fair value of accounts receivable totals SEK 30,432 thousand. No accounts receivable is deemed to be doubtful.

Blue Diamond Industries net sales have been included in the consolidated income statement since 2 January 2018 and amount to SEK 235,312 thousand. Blue Diamond Industries also generated a net profit of SEK 17,718 thousand in the same period on group level.

Professional Quality Management Services Ltd. ("PQMS")

On 8 June 2018, the Group acquired 100% of the share capital in PQMQ for MGBP 1.5. There may be a possible additional purchase consideration of a maximum of MGBP 1.95 based on the EBITDA of the forthcoming three financial years.

The table below summarises the purchase price paid for PQMS and the fair value of acquired assets and assumed liabilities recognised on the acquisition date.

Purchase price as of 8 June 2018

Liquid assets	11,376
Equity instruments (91,029 shares, based on the share price per acquisition date)	5,279
Contingent purchase consideration (not paid)	10,357
Total purchase price	27,012

Recognised amounts for identifiable acquired assets and taken-over liabilities

Liquid assets	755
Tangible assets	2,684
Customer contracts and customer relations	13,078
Trademarks	3,799
Accounts receivable	9,051
Other receivables	4,915
Trade creditors	-3,253
Other liabilities	-10,818
Total identifiable net assets	20,221
Goodwill	6,753

Acquisition-related costs of SEK 1,324 thousand are included in other external costs in the consolidated statement of comprehensive income for the 2018 financial year. Total cash flow, excluding acquisition related costs, attributable to the business acquisition amounted to SEK -10,620 thousand. Goodwill is attributable to the added earning capacity the company is expected to bring.

Under the terms of the conditional purchase price, the Group will pay a maximum of SEK 22,877 thousand, up to a maximum of SEK 7,919 thousand based on EBITDA in the period 1 May 2018 – 30 April 2019, a maximum of SEK 7,919 thousand based on EBITDA in the period 1 May 2019 – 30 April 2020, and a maximum of SEK 7,039 thousand based on EBITDA in the period 1 May 2020 – 30 April 2021.

The fair value of the conditional purchase price of SEK 10,357 thousand was estimated by applying the return of value approach. The fair value estimates are based on a discount rate, which is based on a two-year government bond of approximately 0.2%, and an assumed EBITDA in PQMS. The fair value of accounts receivable totals SEK 9,051 thousand. No accounts receivable is deemed to be doubtful.

PQMS net sales have been included in the consolidated income statement since 8 June 2018 and amount to SEK 21,108 thousand. PQMS also generated a net profit of SEK 330 thousand in the same period on group level.

Had PQMS been consolidated from 1 January 2018, the consolidated income statement for the period 1 January 2018 to 30 September 2018 would have shown increased net sales amounting to SEK 41,921 thousand and a net profit of SEK 2,416 thousand.

Gordon Franks Training Ltd. (GFT)

As part of the acquisition of PQMS, on 8 June 2018 the Group acquired 100% of the share capital in GFT for MGBP 0.1. There may be a possible additional purchase price of a maximum of MGBP 0.13 based on the EBITDA of the forthcoming three financial years.

Smart Awards Ltd. (SAL)

As part of the acquisition of PQMS, on 8 June 2018 the Group acquired 100% of the share capital in SAL for MGBP 0.4. There may be a possible additional purchase price of a maximum of MGBP 0.52 based on the EBITDA of the forthcoming three financial years.

Business acquisitions 2018 (post balance date)

Opternus GmbH ("Opternus")

On 1 November 2018, the Group acquired 100% of the share capital in Opternus GmbH for EUR 10,000 thousand. There may be a possible additional purchase consideration of a maximum of EUR 2,500 thousand based on the EBITDA of the forthcoming three financial years.

There are no definitive admission accounts at the time of publication of this interim report. Detailed acquisition calculation will be included in the next interim report which will be published on 22 February 2019.

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 2018	403,787	1,154,609
Acquisition driven	<u>-108,783</u>	<u>-259,846</u>
Comparable net sales	295,004	894,763
Net sales 2017	336,940	974,425
Net sales increase	66,847	180,184
%	20%	18%
Organic growth	-41,936	-79,662
%	-12%	-8%

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 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>

Net sales January-September 2017	974,425
Net sales October-December 2016	<u>305,142</u>
<i>Net sales rolling 12 months</i>	<i>1,279,567</i>

Annual growth, rolling 12 months **16%**

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

Equity ratio			
%	2018-09-30	2017-09-30	2017-12-31
Equity	476,617	393,182	415,259
Balance sheet total	<u>1,196,398</u>	<u>783,015</u>	<u>777,098</u>
Equity ratio	40%	50%	53%

Equity ratio is calculated as equity as a percentage of balance sheet total.

Quick asset ratio			
%	2018-09-30	2017-09-30	2017-12-31
Current assets	733,593	569,352	564,268
Inventories	<u>-337,673</u>	<u>-220,951</u>	<u>-236,925</u>
<i>Current assets-inventories</i>	<i>395,921</i>	<i>348,401</i>	<i>327,343</i>
Current liabilities	392,369	282,292	255,936
Quick asset ratio	101%	123%	128%

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

Core working capital			
SEK thousand	2018-09-30	2017-09-30	2017-12-31
Inventories	337,673	220,951	236,925

Accounts receivable	312,957	270,998	204,062
Accounts payable	-200,896	-147,093	-140,886
Core working capital	449,733	344,856	300,101

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



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