

# Hexatonic Group

A Comprehensive Financial Analysis

Kungliga Tekniska Högskolan

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# 1. The Company

## 1.1 Background

Hexatronic Group, founded in 1993 and headquartered in Gothenburg, Sweden is an original equipment manufacturer company specializing in fiber technology. Hexatronic designs, manufactures, and distributes various components and systems related to fiber optics. The company offers essential solutions for the construction and maintenance of high-speed data and communication networks, including fiber optic cables, microducts, and connectors, all tailored for passive fiber networks (*Get to Know Us*). Apart from their fiber optics division, the company also has operations in 3 other areas: wireless, data center and harsh environment (*Annual and Sustainability Rapport, 2022*).

In 2015 the company was listed on the Nasdaq OMX Stockholm stock exchange (*The Share*) and as of 2023 Hexatronic Group comprises a network of 37 operational entities, together employing a workforce of more than 1,900 dedicated individuals. Its key markets include North America, The United Kingdom, Germany and the Nordics (*The Purpose of Hexatronic Group*) .

## 1.2 Vision

Hexatronic Group's vision is to establish a “lasting link to the future” by expanding digital access, believing that a more inclusive digital world will lead to a better tomorrow. This vision signifies their commitment to ensuring uninterrupted global connectivity for communities and contributing positively to the future (*Annual and Sustainability Rapport, 2022*).

## 1.3 Competitors

Hexatronic Group faces competition in the global market from companies that share its specialization. One of these companies, Corning Inc, headquartered in the United States, which stands out as a prominent competitor. Corning is a leading company in the fiber optic industry globally, renowned for its extensive product portfolio that encompasses not only fiber optics but

also a diverse range of cables and glass products. Their wide range of products allows them to serve a broader customer base, and a similar target market makes them a versatile and competitive player in the market (*At a Glance*).

## 1.4 Organization

Hexatronic Group's internal operations are structured hierarchically, with a clear chain of command. The company's highest decision-making body is the Board of Directors, is responsible for setting the company's overall strategy and overseeing its operations. The company's daily operations are managed by the Group Executive Management team, which is led by the CEO. They are responsible for developing and executing the company's strategy and managing its financial and operational performance (*Corporate governance, 2022*). (Hexatronic Group is divided into different business units (*The purpose of Hexatronic Group*). Each business unit is led by a Managing Director, who reports to the CEO. The Managing Directors are responsible for developing and executing their respective business unit strategies.

Each business unit has corresponding functional departments, such as sales, marketing, product development. The departments are led by a head of department, responsible for managing their respective department's operations and performances as well as reporting to the Managing Director. (*Corporate governance, 2022*).

## 1.5 Value Creation

Hexatronic Group's primary business model is centered on in-house development, manufacturing, and selling a wide range of passive fiber optic products(*Annual and Sustainability Rapport, 2022, P.10*). Hexatronic Group's value proposition includes offering a broad portfolio of high-quality fiber optic products, complemented by cost-effective technical assistance and robust customer support. The product portfolio includes fiber optic cables, microduct systems, installation accessories, fiber optic components, network monitoring and management solutions, among others(*Annual and Sustainability Rapport, 2022, P. 11-13*). Along with these products, Hexatronic also provides cost-effective technical support to its customers in order to assist with installation, maintenance and operation of their networks. The support is provided both remote and on-site support. This emphasizes the company's commitment to

providing strong customer service to its customers, which includes being responsive to customer inquiries and resolving any issues that customers may have in a timely and efficient manner.

Hexatronic Group brings value to its clients through several key avenues, notably product innovation and quality, a diverse product portfolio, global presence and scale, and strong technical support and customer services(*Annual and Sustainability Rapport*, 2022, P.10). In terms of product innovation and quality, the company makes substantial investments in research, development, and rigorous product testing to ensure its offerings remain at the forefront of fiber optic technology(*Annual and Sustainability Rapport*, 2022, P.15). Additionally, Hexatronics' extensive global reach increases customers' ability for support services and also gives them access to a wide range of suppliers and resources.

Hexatronic Group captures value from its customers through the sale of its products based on customer-specific requirements and selling of spare parts and accessories (*Annual and Sustainability Rapport*, 2022, P. 101). By leveraging its extensive manufacturing capabilities on a large scale, the company effectively lowers its production costs, ultimately leading to increased profitability. Moreover, Hexatronic's long establishment along with their quality products enables them to build a strong customer relationship, in turn allowing them to charge premium prices for its products.

## 1.6 Marketing Mix

Hexatronic Group effectively segments its market into categories based on customer type, network classification, and geographic region. For instance, the customer base is categorized into telecom operators, network owners, contractors, data center operators, and industrial clients in Sweden. By employing this strategy, Hexatronic identifies key decision-makers and influencers for each category, allowing for the creation of customized marketing and sales strategies tailored to specific regions and network types(*Annual and Sustainability Rapport*, 2022, P.4).

In the Swedish market, Hexatronic Group focuses on providing robust fiber optic products like "super slim air-blown" capacity cables designed to endure extreme humidity changes. These offerings also include containment systems and cable management solutions for Data Center and Wireless businesses(*Annual and Sustainability Rapport*, 2022, P.15 & 16).

Regarding pricing, Hexatronic's strategy is to offer top-quality products at competitive prices through enhanced product development and manufacturing efficiency, along with

cost-effective installation solutions. This balance between quality and affordability strengthens the company's position in the Swedish fiber optic communication solutions market(*Annual and Sustainability Rapport*, 2022, P.4 & 105).

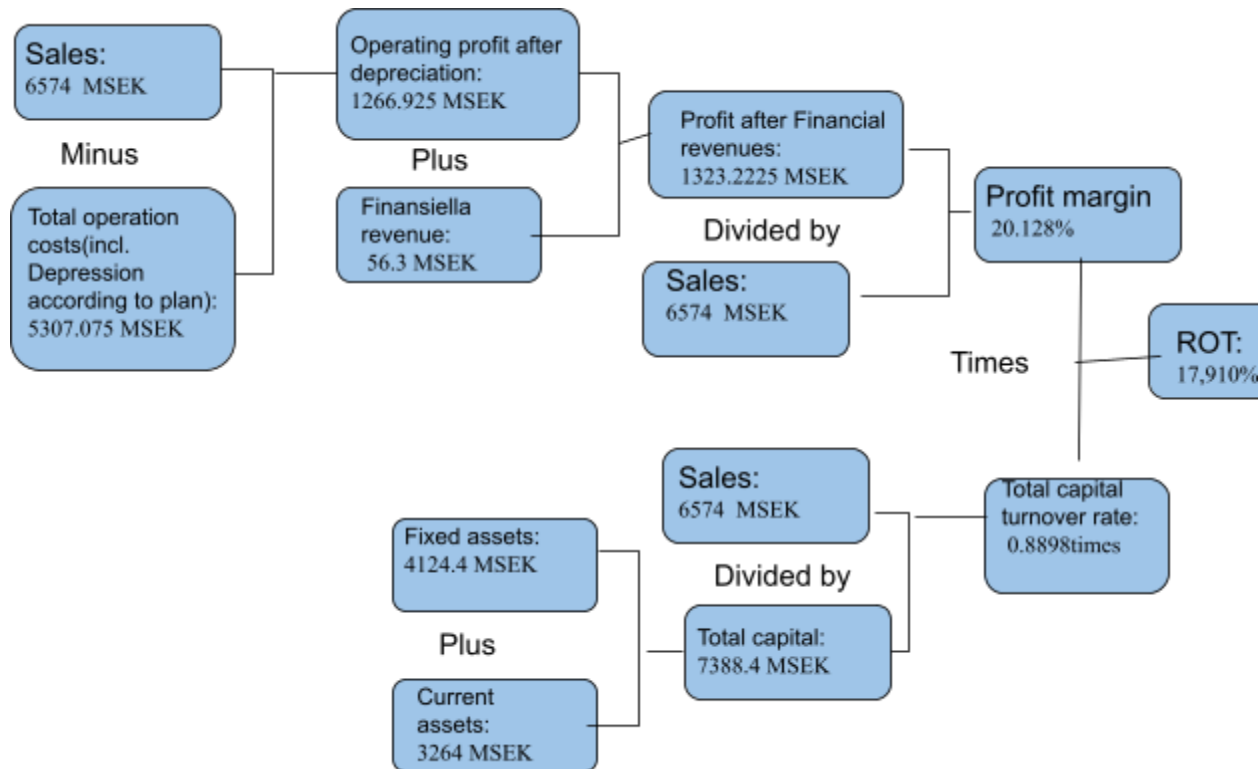
Hexatronic reaches its Swedish customers through an established network of resellers, distributors, and online platforms. The company's internet presence promotes its offerings, and they also source third-party products like test instruments and fiber optic fusion splicers to simplify one-stop shopping for clients(*Annual and Sustainability Rapport*, 2022, P.4).

Hexatronic Group markets its product portfolio through various channels, including trade exhibitions, advertising, and social media engagement on platforms like LinkedIn and Twitter. Additionally, the company supports its distributors and resellers with training and assistance to enhance product promotion(*Annual and Sustainability Rapport*, 2022, P.4-5).

## 2. Financial Analysis

### 2.1 Financial Ratios

#### 2.1.1 Calculations



**Diagram 1:** A visual representation illustrating the process of calculating the Return on Total Capital (ROT)

$$R_L(\text{Average interest rate on liabilities}) = \frac{\text{Financial costs(expenses)}}{\text{Liabilities}} = \frac{-67.3 \text{ MSEK}}{4583.25 \text{ MSEK}} \approx -0.014684$$

$$\frac{D}{E}(\text{Debt/ equity ratio}) = \frac{\text{Liabilities}}{\text{Equity}} = \frac{4583.25 \text{ MSEK}}{2805.1 \text{ MSEK}} \approx 1.6339 \text{ times}$$

$$ROE(\text{Return on equity}) = ROT + (ROT - R_L) \times \frac{D}{E}$$

$$= 0.17910 + (0.17910 - 0.014684) \times 1.6339 \approx 0.4477 = 44.77\%$$

$$\text{Equity ratio 1} = \frac{\text{Adjusted equity}}{\text{Total capital}} = \frac{2805.1 \text{ MSEK}}{7388.4 \text{ MSEK}} \approx 0.3797 = 37.97\%$$

$$\text{Equity ratio 2} = \frac{\text{Risk-bearing equity}}{\text{Total capital}} = \frac{\text{Untaxed reserves}}{\text{Total capital}} = \frac{29.0 \text{ MSEK}}{7388.4 \text{ MSEK}} \approx 0.003925 \approx 0.39\%$$

$$\begin{aligned} \text{Acid test ratio} &= \frac{\text{Current assets} - \text{Inventory and finished product} - \text{Products in progress} - \text{Advance payments to suppliers}}{\text{Current liabilities}} \\ &= \frac{3264 \text{ MSEK} - 1,596.1 \text{ MSEK} - 46.7 \text{ MSEK} - 7.9 \text{ MSEK}}{1,758.6 \text{ MSEK}} \approx 0.9174 \end{aligned}$$

$$\text{Tax rate} = \frac{\text{Total tax expense}}{\text{Earning before taxes(EBT)}} = \frac{223.7 \text{ MSEK}}{1016.6 \text{ MSEK}} \approx 0.22 = 22\%$$

$$\begin{aligned} \text{Debt to equity ratio(D/E)} &= \frac{\text{Liabilities} + \text{Untaxed reserves} \times \text{Tax rate}}{\text{Adjusted equity}} = \frac{4583.25 \text{ MSEK} + 29.0 \text{ MSEK} \times 0.22}{2805.1 \text{ MSEK}} \approx 1.64 \\ &\approx 164\% \end{aligned}$$

### 2.1.2 Financial Analysis

Hexatronic Group's annual report highlights a significant profit of 793 MSEK, showcasing its strong financial performance and ability to sustain profitability. This profit has substantially strengthened the company's equity, reinforcing its financial stability.

Examining key financial metrics, a profit margin of 20.128% reflects efficient cost and asset management, a healthy ROE of 44.77%, and optimal use of equity capital. However, the relatively high debt-to-equity ratio (D/E) at 1.64 indicates increased financial risks and interest obligations.

Despite the elevated D/E ratio, Hexatronic Group maintains a low average interest rate of 1.46%, indicating effective debt management that can enhance profitability. Crucially, the D/E ratio remains below the industry-recommended threshold of 2.0, signifying a stronger equity position and reduced default risk.

Furthermore, the acid test ratio at 0.917 demonstrates the company's capacity to cover most current liabilities with liquid assets, reflecting prudent financial management. This ratio aligns with the recommended 1-to-1 ratio between liquid assets and current liabilities, illustrating Hexatronic's avoidance of excess idle cash.

In summary, Hexatronic Group's substantial profit, efficient equity utilization, and responsible debt management contribute to its financial robustness. Simultaneously, it maintains a solid liquidity position and complies with industry standards for solvency and financial efficiency.



### 2.1.3 The Company as a Prospective Employer

Hexatronic Group offers attractive employment opportunities driven by its strong financial performance, value-focused approach, and growth strategy. The company prioritizes flexibility, responsibility, and customer proximity (*Annual and Sustainability Rapport*, 2022, P. 51-54).

Prospective employees would be drawn to roles related to the company's growth and strategy due to its commitment to value creation and sustainable growth. Hexatronic also emphasizes workplace safety, work-life balance, and support for social and environmental causes, reflecting a comprehensive approach to corporate responsibility that resonates with potential future employees (*Annual and Sustainability Rapport*, 2022, P. 51-54).

# 3. Strategic Analysis

## 3.1 SWOT & TOWS

### 3.1.1 SWOT Analysis

Hexatronic Group exhibits a variety of notable strengths which contribute to its success in the fiber optic industry. The company is known for its strong brand reputation built on quality, innovation, and reliability. This reputation inspires confidence in its customers and also establishes it as a trusted industry leader. Hexatronic's global presence across four continents is a significant advantage, allowing it to effectively serve diverse geographic regions (*The purpose of Hexatronic Group*). Their extensive product range highlights their ability to meet a wide range of customer needs. Their substantial investments in research and development ensure they stay at the forefront of technology. Lastly, their experienced workforce consistently delivers high-quality products and services, solidifying their position as a reliable and competitive player in the industry (*Annual and Sustainable Rapport, 2022, P.11*)

Hexatronic Group also faces several notable weaknesses that warrant consideration. Firstly, its relatively smaller size compared to some industry competitors can pose challenges, potentially affecting its ability to compete effectively in terms of pricing and scale. Additionally, the company's limited exposure to specific markets, notably the United States, may hinder its overall growth prospects (*Annual and Sustainable Rapport, 2022, P.23*). Hexatronic's product portfolio, while extensive, can be bewildering for customers, creating challenges in the selection of the most suitable products. Moreover, the company's reliance on a select few key customers for a substantial portion of its revenue places it in a vulnerable position, as fluctuations can significantly impact Hexatronic's financial stability. Addressing these weaknesses will be crucial for the company's competitiveness in the dynamic fiber optic industry (*Interim Report Q2, 2022*).

Hexatronic Group is well-positioned to seize various opportunities in the dynamic fiber optic industry. The increasing demand for fiber optic networks presents a substantial growth avenue for the company. Additionally, Hexatronic has the potential to embark on expansion initiatives into new markets, including the United States, diversifying its market presence and reducing dependency on select regions (Lyon, 2023). The development of innovative fiber optic

products and services tailored to burgeoning markets, such as 5G and cloud computing, remains a promising opportunity to both maintain its competitive edge and expand market share. Furthermore, forging strategic partnerships with other players in the telecommunications sector holds the potential to offer integrated solutions to customers, broadening the company's product offerings and customer base. These opportunities position Hexatronic for continued growth and relevance in a rapidly evolving industry (*Interim Report Q2, 2022*).

The Hexatronic Group also faces several significant threats that require consideration. The presence of formidable competition from larger and well-established companies within the fiber optic industry poses a challenge, as they can gain a competitive edge through superior resources and scale. Furthermore, the vulnerability to economic downturns is a concern, as it could dampen the demand for Hexatronic's offerings, affecting the company's revenue and profitability (*Annual and Sustainability Rapport, 2022, P.23*). The ever-present risk of technological disruption is another threat, as it may render Hexatronic's products and services obsolete, necessitating constant innovation and adaptation. Lastly, regulatory changes can significantly impact the company's operations, whether through increased operational costs or reduced demand stemming, underscoring the need for vigilance and adaptability in navigating a dynamic regulatory landscape. Mitigating these threats is essential to safeguard Hexatronic's market position (*Interim Rapport, 2022*).

### 3.1.2 TOWS Analysis

The Hexatronic Group possesses a multitude of strengths that can be strategically harnessed to seize emerging opportunities in the fiber optic industry. One of the company's most valuable assets is its strong brand reputation and global reach. Leveraging this, Hexatronic can swiftly penetrate new markets by positioning itself as a trusted provider of fiber optic products, thereby expediting the process of building a customer base in these burgeoning regions (*The Purpose of Hexatronic Group*). Furthermore, the company can capitalize on its extensive research and development expertise to design innovative fiber optic products tailored to the unique requirements of these expanding markets (*Interim Rapport Q2, 2022*).

To fortify its market presence and offer comprehensive solutions to customers, Hexatronic Group can establish partnerships with fellow telecommunications industry players.

This collaborative approach allows Hexatronic to diversify its product portfolio and reach a wider customer base (Linden, 2022).

To address potential weaknesses and maximize its ability to capitalize on opportunities, the company can streamline its product portfolio to enhance customer comprehension and selection. Investment in marketing and sales activities will further augment product and service visibility in new markets (*Interim Rapport*, 2022). Additionally, Hexatronic should proactively seek new customers across various industries and geographic regions to diversify revenue streams and gain valuable market insights, reinforcing its reputation as a versatile provider (*Annual and Sustainable Rapport*, 2022, P.11).

In the face of looming threats, Hexatronic can leverage its commitment to innovation and continuous improvement to maintain a competitive edge and adapt to technological disruptions. Allocating resources to research and development enables the creation of novel fiber optic products and services that align with evolving market demands. Broadening the product range and expanding the customer base enhances revenue streams while mitigating risks associated with economic fluctuations and regulatory changes (Linden, 2022).

To effectively mitigate threats, Hexatronic Group should first address existing weaknesses. Maintaining a strong track record of profitability and financial performance discourages competitors from seeking acquisition, emphasizing the company's long-term value and autonomy. Expanding its geographic footprint reduces reliance on a single market and provides resilience against localized economic challenges and regulatory shifts.

Additionally, Hexatronic can enhance supply chain management by optimizing processes, improving reliability, and increasing efficiency. This proactive approach minimizes the risk of disruptions to production and delivery, ensuring a consistent flow of products and services to customers, even in the face of unforeseen challenges (*Purpose of Hexatronic Group*)

In summary, Hexatronic Group's strengths, such as its brand reputation, global reach, and innovation capabilities, provide a robust foundation for seizing opportunities and confronting threats in the dynamic fiber optic industry. By strategically leveraging these strengths and addressing weaknesses, Hexatronic can position itself for sustained growth and competitiveness in a constantly evolving market landscape.

### 3.2 PESTLE Analysis

Hexatronic Group is in consideration of expanding its operations to Egypt. The company should conduct a thorough PESTLE analysis to assess the political, economic, social, technological, legal, and environmental factors in order to get a clear picture of the Egyptian market's potential challenges and opportunities.

The Egyptian government actively encourages foreign investment and has put policies in place to make it easier for international companies to enter and operate in Egypt. Furthermore, the nation has experienced a period of political stability in recent years, a favorable condition as political stability is a vital prerequisite for business operations. On the other hand, Egypt is also renowned for its bureaucratic processes, which could pose challenges for foreign enterprises, potentially leading to complexities and delays in securing the required permits and licenses (Anon, 2018) (*Egypt's Economic*, 2021).

Hexatronic Group's potential expansion into Egypt is influenced by several economic factors. The projected GDP growth of 4.5% in 2023 signifies an expanding Egyptian economy and an increasing demand for goods and services (*International Monetary Fund report on Egypt*, 2018) (*World Bank report on Egypt*, 2021). However, a potential challenge lies in Egypt's high inflation rate, currently standing at approximately 15%. Such inflation can pose difficulties for businesses in terms of cost control (*International Monetary Fund report on Egypt*, 2018).

Several social factors also play a role in the expansion of Hexatronic, such as Egypt's rapid population growth presenting a promising scenario for the company. This growth translates to an expanding customer base for Hexatronic's products and services. Furthermore, Egypt's increasing urbanization signals a rising demand for fiber optic infrastructure in urban areas, aligning with Hexatronic's expertise. Moreover, the presence of a young and educated population in Egypt offers a valuable resource pool of skilled workers for the company to tap into (*Egypt's Economic*, 2021) (*Demography*, 2022).

The potential expansion of the Hexatronic Group into Egypt is influenced by various technology-related factors. Egypt's relatively low internet penetration, at approximately 40%, presents a challenge, indicating a limited market for the company's products and services (*Egypt's Economic*, 2021) (*Telecom Egypt*). However, Hexatronic's fiber optic products and services, align with the potential in the Egyptian market.

Another factor to consider is the legislative situation of Egypt. The Egyptian government's recent introduction of foreign investment laws, offering tax incentives and other benefits to foreign investors presents a positive outlook for the company. Additionally, Egypt's robust intellectual property laws ensure that Hexatronic can effectively protect its intellectual property rights in the market (*InvestEgypt website*) (*Egypt's Economic*, 2021).

Egypt faces environmental challenges such as sea level rise and desertification which can create difficulties for businesses aiming to establish a presence in Egypt. Moreover, Egypt has several environmental laws regarding various factors, such as emissions making it imperative for Hexatronic to address environmental regulations as part of its expansion to the Egyptian market(*Intergovernmental Panel on Climate Change (IPCC) report on Egypt*, 2022).

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