

Hexagon AB – Minor Correction

PLEASE READ IMPORTANT [DISCLAIMER](#) – PAGE 3

July 20, 2023 – A keen eyed reader has spotted missing disposals from our acquisitions.

We have now backed in the corresponding revenues for the highlighted disposal, substantially all of which occurred on the 00's. **This correction has no significant impact on our findings or conclusions.**

We note that a back-envelope calculation shows Hexagon's organic growth, per its claimed figures, should be **at least €2.4b since 2004 (when the figure was introduced)**. This figure is conservative, given that prior-year period calculations will not fully account for intra-period annualized acquired growth (also subject to organic growth).

Our analysis shows that Hexagon has only accrued ~€1.1b of organic growth since 1998.

Organic Growth Analysis	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	98-'10	(EUR)
Acquisition consideration				1,893	231	8	916	8,757	204	4,878	874	71	15,804		
less: cash acquired				(109)	(12)	1	(58)	(38)	(6)	(1,101)	(73)	-	(741)		
Net acquisition consideration	442	367	190	1,784	219	9	858	8,719	198	3,777	801	71	15,063	32,498	3,606
Prior period revenue	4,218	4,946	4,667	5,099	6,204	6,997	7,103	8,256	9,637	13,469	14,587	14,479	11,811	4,218	468
Acquired revenue	821	120	1,100	3,265	510	20	375	4,641	220	2,143	413	68	6,003	19,700	2,186
Disposed revenue			(1,980)				(51)	(1,248)		(1,246)	(2,730)			(7,255)	(805)
Revenue (estimate)	5,039	5,066	3,787	8,364	6,714	7,017	7,427	11,649	9,857	14,366	12,270	14,547	17,814	16,663	1,849
Revenue (reported)	4,946	4,667	5,099	6,204	6,997	7,103	8,256	9,637	13,469	14,587	14,479	11,811	14,096	14,096	1,564
Delta (organic growth)	(93)	(399)	1,312	(2,160)	283	86	778	(3,260)	3,612	(1,025)	(521)	(2,736)	(3,718)	(2,567)	(285)
Revenue acquisition multiple	0.5	3.1	0.2	0.5	0.4	0.5	2.3	1.9	0.9	1.8	1.9	1.0	2.5	1.65	1.65

Hexagon Organic Growth Anal	'98-'10	2011	2012	2013	2014	2015	2016	2017	'11-'17	'98-'17
Acquisition consideration		111	65	88	649	245	208	954		
less: cash acquired		(4)	(1)	(11)	(50)	(4)	(9)	(38)		
Net acquisition consideration	3,606	107	64	77	598	242	199	916	2,203	5,809
Prior period revenue	468	1,481	2,169	2,380	2,429	2,622	3,043	3,149	1,481	468
Acquired revenue	2,186	11	34	24	194	83	116	276	738	2,923
Disposed revenue	(805)				(60)				(60)	(865)
Revenue (estimate)	1,849	1,492	2,203	2,404	2,563	2,705	3,159	3,425	2,159	2,526
Revenue (reported)	1,564	2,169	2,380	2,429	2,622	3,043	3,149	3,448	3,448	3,448
Delta (organic growth)	(285)	677	177	25	60	338	(10)	23	1,289	922
Revenue acquisition multiple	1.65	9.7	1.9	3.2	3.1	2.9	1.7	3.3	2.99	1.99
Reported organic growth		13%	5%	5%	7%	5%	2%	5%		

Hexagon Organic Growth Anal	'98-'17	2018	2019	2020	2021	2022	'18-'22	Total
Acquisition consideration		555	394	860	2,589	1,252		
less: cash acquired		(10)	(38)	(35)	(5)	(22)		
Net acquisition consideration	5,809	545	356	825	2,583	1,230	5,539	11,348
Prior period revenue	468	3,448	3,761	3,908	3,764	4,341	3,448	468
Acquired revenue	2,923	182	119	275	646	308	1,529	4,452
Disposed revenue	(865)	-	-	-	-	-	-	(865)
Revenue (estimate)	2,526	3,630	3,879	4,183	4,410	4,649	4,977	4,055
Revenue (reported)	3,448	3,761	3,908	3,764	4,341	5,161	5,161	5,161
Delta (organic growth)	922	131	28	(418)	(69)	512	184	1,105
Revenue acquisition multiple	1.99	3.0	3.0	3.0	4.0	4.0	3.62	2.55
Reported organic growth		8%	-1%	-4%	12%	8%		



Key takeaways

There is no doubt in our minds that Hexagon has made some great acquisitions of best-in-class assets. Similarly, we have no doubt that many acquisitions and internally generated IP have been profitable. We even firmly believe that Hexagon can genuinely provide synergies in the acquisitions it has made. This is not in dispute.

Hexagon is not a zero, but it has major problem:

- The finesse of a streamlined tech-savvy business is lost on hundreds of acquisitions of distributors which appear to underperform post-acquisition and revenue run-off streams of mature market operators.
- The premise of vast organic growth repeatedly represented by management is simply untrue. Hexagon buys safe, mature revenues, acquires R&D, and reaps earnings over relatively short technological life cycles. It is an industrial conglomerate.
- Hexagon's short technological life cycles appear to accelerate the redundancy and inefficiency of its assets, as dictated by asset turnover.
- It is not in the management's interest to generate organic growth or spend money on R&D. It is in their interest to acquire earnings, as this dictates management bonuses.
- Acquisition of distributors may not have a significant impact on revenue immediately but will impact margins.
- Hexagon has enormous governance issues, and its **management appears to be committing fraud.**

On this note: we believe a valuation of Hexagon shares is a futile exercise. There is simply not enough information and transparency from Hexagon management to conduct any meaningful valuation analysis.

Viceroy believes this report details significant downside to the share price and enormous risk in HEXA-B.



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