



19 July 2023

ATT: Mr. Bo Karlsson

Partner – Audit & Assurance
PricewaterhouseCoopers LLP

By email: bo.karlsson@pwc.com

Dear Mr. Karlsson

Hexagon AB

As you may be aware, Viceroy Research published its findings from a lengthy investigation into Hexagon AB on July 19, 2023. A full copy of our report, Six Sides to Every Story (“**Report**”) and subsequent updates/reports can be found in the link below:

<https://viceroyresearch.org/category/hexagon-ab-stohexab/>

In summary, our Report highlights the following:

- 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 industrials 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**.

Greenbridge

Ola Rollén, Hexagon’s current Chairman, former CEO, and board member since 2000, **sold half of his interests in Hexagon** to finance an investment vehicle called **Greenbridge**.

Greenbridge’s has raised hundreds of millions of Euros from MSAB, Hexagon management (CFO, CTO, COO, VPs), independent nomination/election committee members, third party distributors, and other significant Hexagon and **MSAB** shareholders. We are yet to determine the identity of a few Greenbridge shareholders but expect them to be insiders. Our investigations experience leads us to believe there are more conflicts.

Greenbridge has front-run Hexagon investments for the self-enrichment of Greenbridge investors (i.e. Hexagon insiders) and to the detriment of Hexagon’s other shareholders. One example is Hexagon’s investment in Divergent Technologies.

- We highlight that Hexagon’s investment in Divergent Technologies may represent an undisclosed related party transaction under IAS 24.9.
- We believe the investment constitutes fraud. It is clear that management have used deception to gain an unjust advantage.
- It would be easy to draw a conclusion from this that the company is being run in alignment with the interests of a single shareholder group which appears to prejudice other shareholders.

Details of the above can be found in our Report.



Underperforming Subsidiaries

A vast number of Hexagon acquisitions are underperforming. Representative samples of well-documented Hexagon acquisitions appear to show negative growth at the subsidiary level post-acquisition.

A vast number of Hexagon acquisitions are immediately dissolved and merged into existing Hexagon umbrella companies. Many post-acquisition filings are therefore not available, and acquired revenues in reporting periods would presumably be indistinguishable from organic growth.

Viceroy has documented dozens of case studies to the above effect.

Impairment of Goodwill

In its aggressive acquisition spree, Hexagon has acquired an eye-watering €9.6b of Goodwill. This figure represents 98% of net book value. **Goodwill is Hexagon's largest asset class.**

Goodwill Analysis	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Opening	8,214	5,713	5,358	4,977	4,412	4,027	3,813	3,418	2,596	2,642	2,666
Investments	1,023	2,106	692	291	441	792	149	171	568	76	34
Impairment	(8)	(8)	(9)	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	23	-	2	(23)
Translation differences	371	394	(336)	90	124	(407)	65	201	254	(123)	(35)
Closing	9,600	8,206	5,706	5,358	4,977	4,412	4,027	3,813	3,418	2,597	2,642

Figure 1 – Viceroy Analysis

Section 5 of the Report shows that a vast portion of well-documented Hexagon acquisitions show negative growth & performance post-acquisition.

Section 4 of the Report illustrates that substantially all revenue growth is driven by acquisitions.

The poor performance of Hexagon's acquisitions over time, which we have evidenced, has not properly been impaired in Goodwill. We ask the following:

- Considering that various Hexagon acquisitions' financial performance is indistinguishable from group performance as they are merged with existing Hexagon companies, how is goodwill tested in these circumstances?
- Considering that Viceroy have evidenced dozens upon dozens of acquisitions which individually appear to underperform and that these businesses represent significant portions of Goodwill, what is management and & audit's reasoning behind not making any significant Goodwill impairments over 25 years of acquisitions?

<p>Goodwill and other intangible assets with indefinite useful lives <i>Key audit matter</i></p> <p>The carrying value of goodwill, and other intangible assets with indefinite useful lives represent some 65 percent of reported total assets. IFRS require annual impairment tests or when there is an indication that values could be impaired, given that the carrying value of these assets are not amortised.</p> <p>Market data, Hexagon's business plans and forecasts on future development forms the expectations on sales, earnings and cash flows that are central in the model to calculate a recoverable value to be compared to the booked carrying value.</p> <p>We have focused on the valuation of goodwill and intangible assets with indefinite useful lives as these items involve a large degree of judgment on behalf of management in assessing future cash flows.</p>	<p>The key assumptions used and management's sensitivity analysis for how changes in key assumptions would affect the value in use are presented in Note 8. As stated in Note 2 the impairment test require management estimates and assumptions such as projected cash flows, future market conditions and discount rates.</p> <p><i>How our audit addressed the Key audit matter</i></p> <p>Our audit procedures included amongst others a review of management impairment tests of goodwill and intangible assets with indefinite lives. We have examined whether Hexagon's impairment test is based on the divisions' (cash generating units) financial forecasts approved by management. We also evaluated the sensitivity analysis for changes in significant parameters, which, individually or on a collective basis, could imply the existence of an impairment requirement. Valuation experts have been involved to challenge the assumptions and estimates made by management. We have also assessed that disclosures are appropriate.</p>
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Figures 2 & 3 – Hexagon 2022 auditors report extract

We understand that the valuation of goodwill requires significant judgement, but we fail to see how a rudimentary check of acquisition entity performance did not immediately indicate that an impairment of value was required on a future-cash flow test. This is the largest asset class of Hexagon.



IFRS 3 – Business Combinations

The major change to IFRS 3 and how businesses account for business combinations under the new conceptual framework required companies to better define business combinations from asset acquisitions. IFRS 3 (Revised) introduced enhanced disclosure requirements regarding the nature and financial effects of business combinations. These disclosures aim to provide users of financial statements with information to evaluate the financial impact and risks associated with any business combinations.

We believe this is potentially problematic for Hexagon who:

- Acquires a significant number of businesses, notably for their assets, from insolvency proceedings.
- Acquires a significant number of distributors, whose only discernable assets appear to be customer relationships, and does not take on their staff.

To the above, can PWC clarify in which circumstances purchase of distributors would be considered an asset purchase and not a business combination?

Data Room

We are happy to make available a data room containing financial statements of Hexagon AB subsidiaries; however we presume management would make these available to you.

We believe Hexagon's audit deserves great scrutiny. Our team are happy to field questions or provide documentation which may assist in your audit.

Please do not hesitate to contact us via email at vicero@viceroymresearch.com.

Yours faithfully

Viceroy Research Team

cc. Mr. Peter Nyllinge
Chair – PwC Sweden
peter.nyllinge@pwc.com