

Milestone reached in Q2

Win in England's first floating wind auction

On July 7, UK authorities confirmed that Hexicon had won the first floating wind technology auction regarding a guaranteed inflation-adjusted price level over 15 years for its 32 MW Twinhub project. This milestone is extremely important, as it will be Hexicon's first commercial project with its own technology.

The value of the project portfolio increases

Since the reporting period, Hexicon has increased its ownership in the large MunmuBaram project to 20% (previously 9.8% indirectly). Hexicon's partner in South Korea, Coens, which owns 51% of Hexicon Korea, works with the entire oil and gas sector, and it has become a disadvantage to co-own a large project with one of the players in the industry. Shell owns 80% of MunmuBaram, which is well-known. Hexicon strongly believes in the project, and is positive about increasing its interest at this stage. MunmuBaram is nearing new milestones, and based on price references from bottom-fixed projects, the interest could be worth over SEK 1 billion before a final investment decision is made (preliminarily 2024). Income from divestment has not been taken into account in the forecast table as the timing is uncertain, but the project value is an important part of our valuation of Hexicon. Hexicon Korea has also divested its 40 percent stake in Yeonggwang (1200 MW gross in the early phase) on terms that the company believes are favourable. Overall, the company has increased the net capacity of the project portfolio, and also replenished with prospects. With incremental progress in the projects, higher electricity prices, and increased interest in floating offshore wind power, this contributes to an increased value.

Various possibilities for financing

Hexicon had net cash of MSEK 195 at the end of June. Favorable business opportunities have resulted in the company increasing the pace compared to the plan, in conjunction with the IPO, including a venture in the USA and larger project ownership. In the short term, this leads to increased negative cash flow, which, during the first half of the year, amounted to MSEK -86. The company will likely need additional capital in 2023, and this could come, for example, via the divestment of the large MunmuBaram project, partners in the first construction of full-scale platforms, development grants from the EU's Horizon programme or the Swedish Energy Agency, loans, or a new share issue. A combination of several of these sources is most likely. Considering the low share price, it is advantageous that there are several possibilities, and divestments from the project portfolio are a great opportunity.

Price target: SEK 4.00 (3.60).

Note: A Swedish version of this report was published on August 22th.

Hexicon

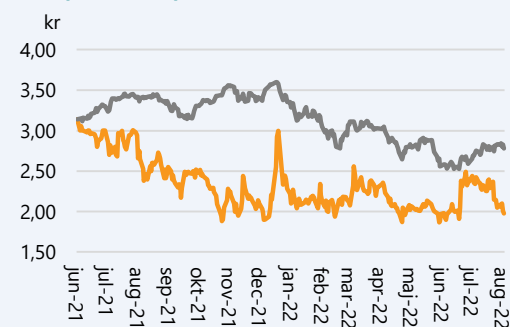
Q2-update 2022

Date 31 augusti 2022
Analyst Magnus Lindell

Facts

Industry Wind Power
Chairman of the Board Hans von Uthmann
CEO Marcus Thor
Year of Listing 2021
Stock List Nasdaq First North
Ticker HEXI
Share price 1,98 SEK
No. of shares, mln 363,8
Market cap, MSEK 720
Net debt, MSEK -195
Enterprise value (EV) 525
Web site www.hexicon.eu

Share price development after Hexicon's IPO



Source: Börsdata

Forecasts and key figures, MSEK

	2021	2022p	2023p	2024p
Net revenue	23	25	75	125
Gross profit	-13	-75	5	47
EBITDA	-46	-115	-43	-11
EBIT	-50	-135	-73	-35
Pre-tax profit	-51	-135	-75	-50
CF. After financing	-101	-225	-243	-30
Financing	283	-4	250	0
Cash	290	61	68	38
Earnings per share	neg	neg	neg	neg
Dividends per share	-	-	-	-
Revenue growth		9%	200%	67%
Operating margin	neg	neg	neg	neg
Net debt	-288	-165	78	150
P/E	-	-	-	-
EV/EBIT	-	-	-	-
EV/Sales		21,0	7,0	4,2

Source: The Company, Analysguiden

Investment case

Two business prongs on the emerging market

Hexicon's strategy is based on creating value by developing technology-independent projects for floating wind power, while developing the patented and pioneering technology "TwinWind". The project development already generates revenue, which should be possible to increase in 2022-2024. The technology solution is potentially the long-term value driver, with recurring license revenues from partners that manufacture the TwinWind platform. Hexicon applies a distinct partner strategy in both projects and technology. This, and the focus on early project phases, limits the capital requirement.

Interesting and diversified project portfolio

Hexicon has a project in South Korea, MunmuBaram, which has passed the initial phase. Based on relatively conservative assumptions from existing price references, Hexicon's share in 2024 could be worth over SEK 1 billion. The company's second largest maximum capacity is located in Sweden and is in an early phase. If we include other projects in England, Scotland, South Korea, and prospects in South Africa, Spain, Italy, Ireland, and others, we can see an interesting and well-diversified portfolio. The company's establishment with a local organization in the USA opens up opportunities, not only on the project side but, above all, in the long term for TwinWind. The objective is to have ongoing revenues from Europe, Asia and the USA by 2025.

The technology is still unproven

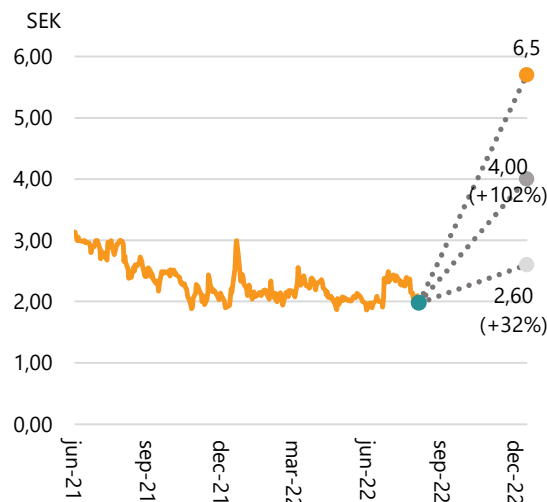
With a market that is expected to grow rapidly, and where highly capitalized players have already made commitments strengthening this, good technical solutions will have great opportunities. Hexicon is at the forefront with its two-turbine solution, though a few years behind other solutions. A demonstrator project with a budget of MSEK 400-450 is still needed, among other things, before the technology approaches commercialization. Once at that point, the business model with license revenue is both scalable and potentially very profitable. The company is currently considering whether it would be best to go straight to the Twinhub project and skip, or alternatively reconfigure, the demonstration project in Norway. The 32 MW commercial project, Twinhub, is likely to be strong proof of the solution's long-term competitiveness.

High potential, but also high risk

The strategy of a well-diversified project portfolio, that is often co-owned together with local and highly capitalized partners, has a good chance of creating value. Not all will develop according to plan, but those that do are expected to grow in value. The project activities allow for faster commercialization when the technology is proven. Together, this creates great opportunities for Hexicon, while the risk may be considered high.

Tempting potential

The stock's upside/downside in three different scenarios



Source: Analysguiden, Börsdata 220821

Munmu Baram on a path towards MSEK 1000

Possibly high value if the project is developed according to plan

MunmuBaram Floating Offshore Project

- Location : 65 km away from Ulsan City, Korea
- Project Area : ~ 240 km²
- Water Depth : 120 ~ 150m
- High Load Factor : ~ 40%
- Total Capacity : 1.3GW

Source: MunmuBaram.com, MunmuBaram Co., Ltd.

Targets for 2025

- Projects**
 Ongoing revenue generating operations in Europe, North America and Asia.
- Technology**
 The TwinWind™ is verified and tested confirming its benefits.
- Financial**
 EBITDA positive.

Source: The Company, ÅR 2021

Important auction win in England

The UK is one of the most mature markets in the world when it comes to offshore wind power. Auctions, in which the authorities allow certified players to participate and indicate the guaranteed level of compensation they can accept, have been important in building up the country's large offshore wind fleet. The auction at the beginning of July was the first with a dedicated pot for floating wind technology. The UK's target is to have 5 GW of floating wind as early as 2030.

Hexicon won the auction, which means the company now has a guaranteed inflation-adjusted remuneration level for 15 years for the Twinhub project, the first commercial project with its own platform. The project's capacity of 32 MW entails two platforms with two 8 MW turbines each. If all goes well, the first could be launched by the end of 2024. Hexicon runs this with construction partner Bechtel, and additional partners and co-owners are expected to join.

Hexicon's hope is that its own technology will become a "game changer" for offshore wind power, bearing in mind the positive environmental effects that floating technology can create, and also that the flexibility of the location can take into account the interests of the fishing industry, the military, and the general public.

The win also opens up a new decision-making situation for Hexicon relating to prioritization between the demonstration project in Norway and Twinhub. They differ somewhat with regard to sea depth and turbine size, among other things, and the question is whether the company wants to run both projects at full speed. Time, cost, and evidential strength from a long-term perspective are just some of the parameters to consider.

Exciting developments in South Korea

Hexicon was one of the pioneers in floating wind technology projects in South Korea, together with local partner Coens, which has other operations focused on servicing the oil and gas sector. South Korea, like many countries, has ambitious targets for renewable energy, and is particularly positive about floating wind technology far offshore. This is due to the fact that it in part offers many alternative locations, but also can coexist with other interests in a good way.

MunmuBaram is intended to be one of the world's largest floating wind parks, with a capacity of 1.3 GW that can supply around one million households with electricity. From 2018, it has been run as an increasingly large project, currently with around 40 employees. Hexicon's current CEO, Marcus Thor, was Project Manager until 2020, and since then it has been run with South Korean management. The project is technology-independent, where Hexicon's own platform is only one of the options. This is important for the market value of the project.

Total investment is estimated to be around 50 billion. Hexicon will probably divest its share before hardware investments need to be made, while the strategy for the project's primary owner, Shell, is long-term. Shell is a strong partner, equally in terms of financial strength, extensive experience from oil/gas in deep water, and its

TwinWind

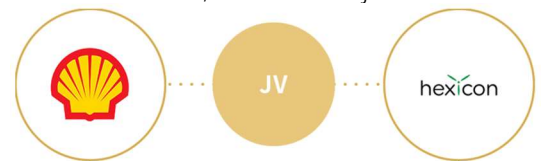
Patented floating platform with two turbines



Source: The Company

MunmuBaram increasing in importance

Hexicon now has 20%, Shell 80% in this joint venture



Source: MunmuBaram.com, MunmuBaram Co., Ltd.

strong relationships with shipyards in South Korea. Shell also has major ongoing projects for floating wind technology in Scotland and Ireland.






A price level for electricity and production licenses are in place for MunmuBaram. Grid connection agreements are expected within six months, and there is already a memorandum of understanding in place with the relevant authority. Step by step, the project is approaching the investment decision, which is estimated for 2024, although there are always risks before all licenses are in place.

It is on the basis of the above that one should view the high value that Analysguiden sees in this very large project. There are at present no price references for late-stage floating projects. The difference between floating and bottom-fixed in an early phase (for example, from the big Scotwind auction earlier this year) is 17%. A bottom-fixed late-stage reference that is comparable in size is SSE's divestment of 10% of the Doggerbank 1200 MW project a number of years ago for MUSD 90. If we apply that price level with a 17% discount, it means SEK 1.7 billion for Hexicon's 20% of MunmuBaram. There are a number of differences that will affect the price, but it should be noted that it is possible to add a substantial margin of safety and still end up well above Hexicon's market value. For the time being, Analysguiden assumes that the holding will be worth over one billion at the time of the final investment decision.

In addition to MunmuBaram, the company also holds 30% in a 900 MW project on the east coast. This project is around 1.5 years behind MunmuBaram. The company also has 30% in a prospect of around 1200 MW, which is an example of Hexicon being able to continue its "early-mover-advantage".

Hexicon continuously adds project candidates which, in favorable cases, can lead to new projects similar to MunmuBaram. Notable of late is that a number of rights to sea areas in Italy have been applied for. Ireland is also of interest, with possible projects on the same level as in South Korea. In this respect, Hexicon has signed a cooperation agreement during Q2 with the largest industry association within fishing. This means that the local fishing industry will participate in project planning at an early stage, for example, with regards the choice of location. Environmental organizations will also participate.

Large and diversified project portfolio

	PROJECTS				
	 South Korea	 Scotland	 Sweden	 England	 South Korea
Name	MunmuBaram	Pentland Floating Wind Farm	Freja Offshore	TwinHub	TBA
Location	Ulsan	Dounreay	Multiple	Cornwall	East coast
Estimated gross capacity	~1,300 MW	100 MW	+3,000 MW	32 MW	900 MW
Hexicon's stake	20%	10%	50%	100%	30%
Site(s)	Secured	Secured	Identified	Secured	Secured
Partner(s)	Shell Overseas Investments B.V	CIP	Aker Offshore Wind	Bechtel	Hexicon Korea
Target FID/COD	2024/2026	2024/2026	2026→/2028→	2023/2025	TBA
				Gross projects: +5,000 MW Net projects: +2,000 MW	

FID – Final investment decision

COD – Commercial operational date

Source: The Company, Q2-report 2022

	PROSPECTS				
	 South Africa	 Spain/ Portugal	 South Korea	 Ireland	 Italy
Name	TBA	TBA	TBA	TBA	TBA
Location	Richards Bay	Canary Islands, NW Portugal	East coast	West Ireland	Sardinia, Sicily, and Puglia
Estimated gross capacity	800 MW	TBA	1,200 MW	2,000 MW	+3,000 MW
Hexicon's stake	50%	75%	30%	100%	50%
Site(s)	Identified	Selection ongoing	Identified	Identified	Identified
Partner(s)	GenesisHexicon	WunderHexicon	Hexicon Korea	TBA	AvenHexicon
				Gross prospects: +7,000 MW Net prospects: +4,000 MW	

1 MW ≈ 1,000 households, 'rule of thumb' industry standard

Source: The Company, Q2-report 2022

Financial position

Hexicon currently has a stable financial position, with net cash of MSEK 195. Hexicon has historically had a relatively low burn rate. In line with the establishment of the organization and increased investments, the negative cash flow after investments is now increasing. The company sees that now is a good time to be proactive, which is exemplified, among other things, via new projects, increased ownership interests, and clear investments in new markets, such as the USA. In this respect, the news about the most recent decision on the Biden package, which contains clear sea-based initiatives, is positive. Hexicon has secured a small, strong team on location in order to take advantage of the opportunities that are now opening up. The team consists of five people with a strong network and relevant experience.

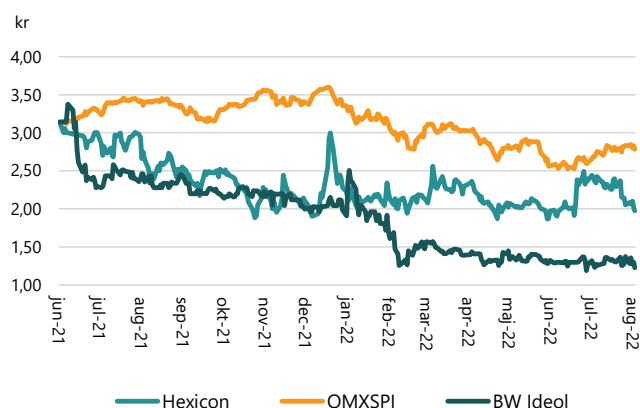
In the latest quarter, the cash flow amounted to MSEK -50, and in the last 12 months to MSEK -174, excluding the new share issue. The most important items for cash flow in the coming years are how the company solves the financing of the first complete TwinWind, income from the sale of project rights, and the capital requirement for the acquisition of new projects and the further development of existing projects. Hopefully, this can also be supplemented with development funds from the EU's Horizon programme or the Swedish Energy Agency. The latter may be in place during the Autumn.

Analysguiden estimates that additional capital will be raised in 2023, either through loans or a new share issue. An alternative possibility is significant divestments in projects. The latter could be a good opportunity, given the current low share price. Positive cash flow prior to financing is estimated to be achieved no later than 2025.

Share performance

The share was listed in June 2021, following an oversubscribed issue, at a subscription price of SEK 3.00. The share has since mainly traded below SEK 3.00, with SEK 1.87 as the lowest closing price. The business has developed according to plan, and the weak price development is mainly explained by the weak development of "speculative companies". Of our comparable industry peers, Norwegian BW Ideol has fallen over 50%.

Share price development after Hexicon's IPO



Source: Börsdata 220821

Valuation

The approach with regard valuation is dealt with in detail in the initial analysis. It is based on a supposed Hexicon in 2024. In recent months, comparable companies, such as BW Ideol, have had a weak price development, which has a negative effect on the relative valuation. The required rate of return on companies with profits far into the future has generally increased, which is also negative for the valuation.

On the other hand, the positive development of the project portfolio and the higher USD exchange rate have a positive effect. Analysguiden's forecast for the potential of the technology component is unchanged compared to March. The technology component is estimated to have a value of around MSEK 700 at the end of 2024. However, the forecast for cash flow and results for 2022-2024 has been lowered. The company has increased pace to take advantage of the current favorable business situation, which costs in the short term but benefits the long-term value if everything goes as planned.

The valuation results in a raised price target to SEK 4.00 (SEK 3.60). The wide range in the price within 12 months, from reaching a low of 2.60 in a negative scenario to 6.50, reflects both the potential and uncertainty.

Another way of highlighting the currently low valuation is to only base it on the value of the projects that have reached the "Mid" phase, and focus on the lowest part of the price range reported in the initial analysis. The value of the project portfolio will then be MSEK 634. This can be compared with a company value of MSEK 525 at a price of SEK 1.98. Therefore, we have not included the technology component, projects in early phases, or all the project candidates found in several different markets. With regard risk, there is, among other things, a risk that the price trend is uncertain up to the point we start to see divestments of floating wind technology projects in late phases. All of Hexicon's projects have several major milestones remaining. The next of crucial importance is the electricity connection contract in MunmuBaram, which is estimated to be achieved within six months. Divestment of the entirety or parts may be necessary after that.

Today's project portfolio

Project august 2022	Country	Status	Capacity (MW)	Hexicon's share	Net capacity (MW)	Value low (MSEK)*	Value high (MSEK)*
Munmu Baram	South Korea	Mid	1300	20%	260	546	1365
Pentland	Scotland	Mid	100	10%	10	21	53
Twinhub	England	Mid	32	100%	32	67	168
Freja Offshore	Sweden	Early	3000	50%	1500	284	3150
Sydkorea 2	South Korea	Early	900	30%	270	51	567
Prospekt	Several	Prospect	4000	50%	4000	?	?
Total "Mid-Late"						634	1586
Total "Early"						335	

*Value low refers to the lowest level in the price range that exists based on previous transactions. The price range that Analysguiden uses is for precautionary reasons lower than what Hexicon presented in connection with the Q3 report 2021.

Cashflow improves from 2024

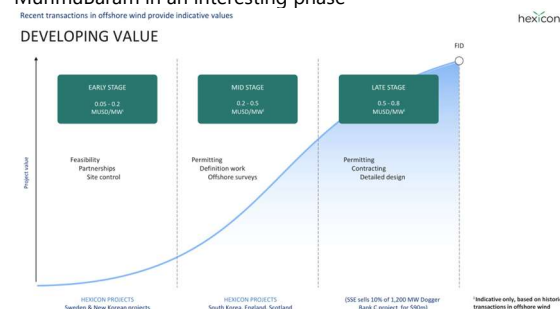
Income from projects is gradually increasing

	2021	2022p	2023p	2024p
Net revenue	23	25	75	125
Gross profit	-13	-75	5	47
EBITDA	-46	-115	-43	-11
EBIT	-50	-135	-73	-35
Pre-tax profit	-51	-135	-75	-50
CF. After financing	-101	-225	-243	-30
Financing	283	-4	250	0
Cash	290	61	68	38

Source: Analysguiden

Possible value development in projects

MunmuBaram in an interesting phase



Source: Hexicon Q3-report 2021

Risks

Hexicon is a high-risk investment with great potential. The company's two business prongs reduce the risk compared with if it had been, for example, purely a technology company. The projects have a value regardless of whether the technology is successful, and vice versa. Examples of significant risks are market, pricing, technology, and financing.

The market for floating offshore technology has bright prospects, but is at an early stage. It is still not certain if this energy source will be sufficiently competitive. The market risk can be considered to have decreased somewhat in the past year. One example is the significant interest in the Scottish auction regarding rights to areas of water where highly capitalized players eventually shared 15 GW of potential capacity for floating technology, for a price of around SEK 5 billion. The Swedish government has clarified that offshore wind power is an important component in climate transition by commissioning the Swedish Power Plant Network (Affärsverket Svenska Kraftnät) to secure the infrastructure. The South Korean market, which is important to Hexicon, has granted new rights. Another market risk is that local resistance sometimes puts a stop to projects, even if the risk far offshore is lower than for bottom-fixed and onshore wind power.

The price level for the various stages of the projects is starting to settle somewhat, with gradually increasing references. The price level will be affected by many factors, including subsidy systems, and may appear lower than Analysguiden has assumed.

The company's technical solution, TwinWind, is, due to its turbines, a different solution than those that have already been launched. Hexicon is convinced that the solution is very competitive. It is patented, theoretically tested from many perspectives, and has been feasibility verified by DNV. Worley is contracted to handle the development of the first full-scale version. However, there is still a lot to be done before it can be proven.

Hexicon has shown that the strategy of divesting parts of the project portfolio works, and in that way keeps down the capital requirement. The company's current net cash creates some latitude, which is good as it provides the opportunity to sell at the right time and to the right party. Ongoing consulting revenues also help to keep down the "burn rate". The timing of divestments and the capital market's interest in financing companies that are not yet profitable is, however, a factor of uncertainty.

Hexicon's major ownership in what is intended to be one of the world's largest parks with floating technology, MunmuBaram, currently accounts for a significant part of Analysguiden's valuation. In the event of unexpected stops or delays, this would significantly affect the price target.

Are the market forecasts too bright?

The price level in areas intended for floating wind power is still uncertain

TwinWind is in an early phase

Additional capital requirements

MunmuBaram is important for the valuation

Previous updates

Initial coverage report – 28 April 2022

<https://www.aktiespararna.se/analysguiden/nyheter/initial-coverage-report-hexicon-great-potential-offshore-wind-technology>

Q1 update – 23 May 2022

<https://www.aktiespararna.se/analysguiden/nyheter/analysis-hexicon-value-project-portfolio-increases>

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