

Long-term value becomes visible in 2023

Potentially important breakthroughs

2023 is set to be the year when Hexicon proves the long-term value of the business by achieving two breakthroughs:

1. Significant revenue from partial divestments in the global project portfolio, which enables full speed ahead in project development and the own patented technology without the need for additional capital raising.
2. Agreement with financing partner for the first plant with proprietary technology. The contracted revenue level for electricity produced and the main permits are already in place.

These two potential successes would both highlight the value of the total project portfolio, which has grown significantly since the IPO, and give credibility to the technology and its potential to capture a share of the rapidly growing floating wind power market.

Positive developments in Italy

With its total project and prospect net capacity of 9 GW, Hexicon is the largest player in the country, which is now investing heavily in offshore wind power. The company has quickly gained preferential access to water areas of 2.5 GW and was recently given the green light to connect these and other areas to the grid. Projects in this market are expected to be partially divested during the year. Like Hexicon's other large markets, South Korea and Sweden, Italy is also unregulated. Hexicon has the strongest competitive advantages in this market environment as the regulated markets typically become very capital-intensive in order to run comparable projects.

Financial position and cash flow

Hexicon is now in a phase where partial divestments are a prerequisite for business development, given the current plan to avoid a new share issue. Cash flow in Q4 was MSEK +31 due to the convertible share issue of MSEK 82. Cash amounted to MSEK 87, compared with MSEK -53, which was the cash flow excluding financing items, and this included investments of MSEK 36. Hexicon can keep the burn rate and investments down somewhat in Q1/Q2, but revenue from project divestments is part of the plan for the year's first half.

Analysguiden assumes that Hexicon succeeds with the breakthroughs mentioned above and achieves a positive result already in 2023 thanks to major capital gains from the projects. However, it is worth noting that both the divestments' timing and scale are uncertain.

The target price remains unchanged at SEK 4.

Note: A Swedish version of this report was published on March 13th.

Hexicon

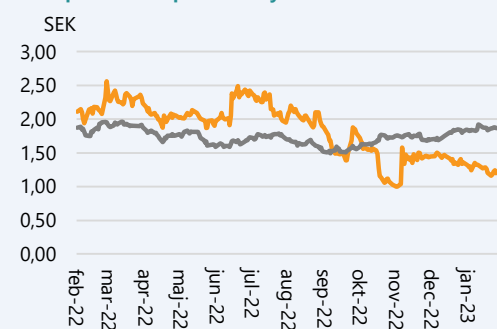
Q4-update 2022

Date 14 mars 2023
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 1,16 SEK
No. of shares, mln 363,8
Market cap, MSEK 422
Net debt, MSEK -8
Enterprise value (EV) 414
Web site www.hexicon.eu

Share price development last year



Source: Börsdata

Forecasts and key figures, MSEK

	2021	2022	2023p	2024p
Net revenue	23	12	250	300
EBITDA	-46	-126	40	55
EBIT	-50	-161	20	35
Pre-tax profit	-51	-171	10	30
CF. After financing	-101	-274	5	10
Financing	283	81	0	0
Cash	290	87	92	102
Earnings per share	neg	neg	0,02 kr	0,05 kr
Dividends per share	-	-	-	-
Revenue growth		-50%	2055%	20%
Operating margin	neg	neg	8%	neg
Net debt	-288	-8	-92	-102
P/E	-	-	65	22
EV/EBIT	-	-	21	12
EV/Sales		35,7	1,7	1,4

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 2023–2024. 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 also has large projects in Sweden and Italy. If we include projects in England, Scotland, South Korea and prospects in South Africa, Spain, Portugal, Greece, 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

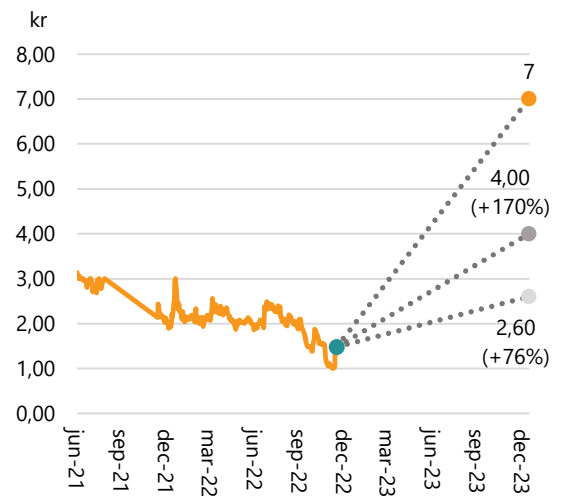
With a market expected to grow rapidly, where highly capitalized players have already made commitments to support this, good technical solutions will have great opportunities. Hexicon is at the forefront with its two-turbine solution, though a few years behind other solutions. The technology will be proven in the UK TwinHub project. The 32 MW commercial project is planned to be operational in 2025, which requires, among other things, that contracts with financing partners are concluded in the first half of 2023.

High potential, but also high risk

The strategy of a well-diversified project portfolio, often co-owned 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 221204

Munmu Baram on a path towards MSEK 1000

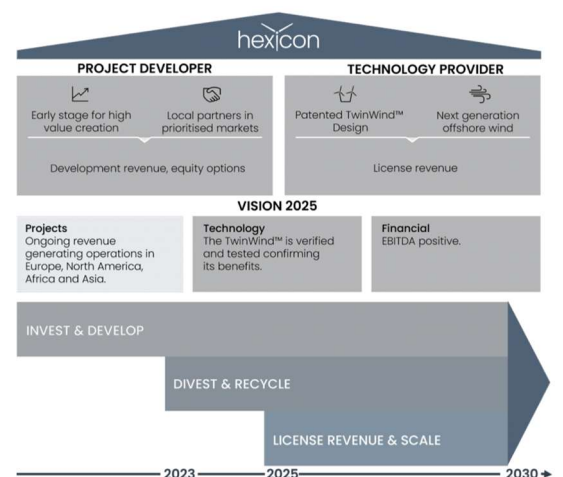
Possibly high value if the project is developed according to plan

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.

The company's strategy & vision



Source: The Company, ÅR 2021

Twinhub

Hexicon won an auction in July 2022, which means the company now has a guaranteed inflation-adjusted remuneration level over 15 years for the TwinHub project, the first project with its own platform. The project's capacity of 32 MW entails two platforms with two 8 MW turbines each. An important milestone is to have all main partners in place to take the investment decision in 2023. Operations are expected to start in 2025. Hexicon is pursuing this with Bechtel, London Marine Consultants, and additional partners. Chinese Mingyang will supply turbines with a rotor diameter of 180 meters. The area is located in the southwest of England.

TwinHub has secured revenue, a strong commercial proof-of-concept, and can be replicated in other projects in terms of scale. The company is negotiating with several potential financing partners, and a co-financing agreement would be an important milestone. The need for investment in this project is in the order of SEK 2 billion. The idea is that a financing partner will provide a large part of this amount.

The project will be the first full-scale test of the validity of the patented TwinWind technology. The technology optimizes energy production in a given sea area by mounting two wind turbines on a floating foundation. The company also received a patent for the technology in the USA in September and now holds patents in over 20 countries. The patent in the USA is particularly valuable as the Biden-Harris administration announced big ambitions of 30 gigawatts (GW) of offshore wind by 2030 and up to 110 GW by 2050. In December, it was announced that the European Patent Office will grant a patent for the anchoring technology, which is an important component of TwinWind.

Rapid progress in Italy

Hexicon operates in Italy in a joint venture with a local partner. The company has applied for a grid connection and a maritime concession for seven projects off the coast of Italy. The green light was given in January by Italy's counterpart to Svenska Kraftnät for grid connection to six of these. In October, two of them were already granted a preferential right for maritime concession. Hexicon has thus secured grid connection and the right to water areas for a potential capacity of 2 550 MW. Additional rights to water areas are expected in 2023, and altogether the potential capacity of these projects amounts to 7.1 GW. In addition, there are identified prospects of around 2 GW.

Floating wind power is well suited in Italy, with its long coastline, deep waters, and high need for renewable energy. The country aims to generate 55% of its total electricity production from renewable energy by 2030. The EU Green Deal program contributes to the current high level of progress in the area. With its total projects and prospects of 9 GW, Hexicon is the largest player. The rapid process and otherwise positive signals are leading Hexicon to intensify its presence in the country.

There will also likely be a partial divestment from this portfolio during the year. Price level and approach are difficult to assess. The right to water areas has been highly valued in large auctions on regulated markets. For example, the average final bid in the large auction of 2022 in Scotland was MSEK 440/GW for floating wind power areas.

TwinWind

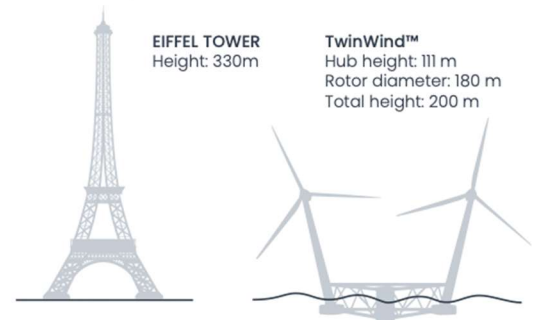
Patented floating platform with two turbines



Source: The Company

The Twinhub project

First full-scale plant



Source: The Company

Italy is an unregulated market, so early-stage price levels will likely be much lower. Partial divestments are most likely in those projects where Hexicon has secured rights to both grid connection and water areas (currently at 2.5 GW), which are two important milestones.

Vestas supplies to MunmuBaram

Hexicon was one of the pioneers in floating wind technology projects in South Korea, together with the 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, as it offers many alternative locations and 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. Since 2018, it has been run as an increasingly larger project, with some 60 employees, mainly from Shell, currently working on it. On November 29, it was announced that Vestas will deliver 84 turbines with a capacity of 15 MW, subject to further project development. Vestas is one of the world's largest turbine suppliers and intends to be a leader in offshore wind power.

Total investment is estimated to be around SEK 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 strong relationships with shipyards in South Korea. Shell also has major ongoing projects for floating wind technology in Scotland and Ireland.

Pricing policies and production licenses are in place for MunmuBaram. A grid connection agreement has been slightly delayed but is now expected in Q2. There is already a memorandum of understanding in place with the relevant authority. The next step after the grid connection agreement is to secure the key part of the supply chain and complete the environmental impact assessment, which is expected to take place in the second half of 2023. A final investment decision is expected in 2025, with production starting in 2027.

It is on the basis of the above that one should view the high value that Analysguiden sees in this very large project. For the time being, Analysguiden estimates that the holding will be worth over one billion at the time of the final investment decision. Previous divestments are expected to take place at a lower level. Background to the valuation appears in previous analyses.

MunmuBaram

Vestas appointed as supplier

VESTAS – PREFERRED SUPPLIER OF TURBINES

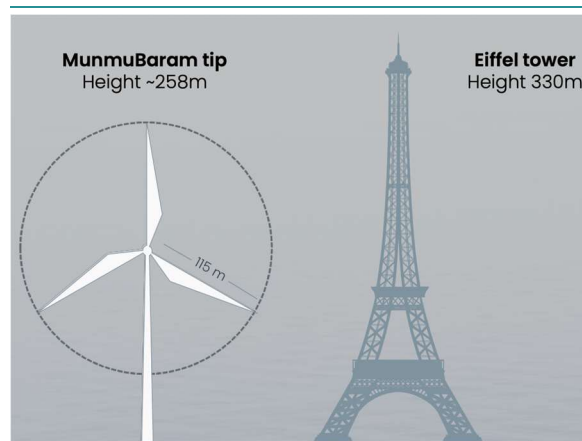
Vestas selected for supply & installation of:

- 84 x V236-15.0 MW turbines.
 - 115 m blades
 - 236 m in diameter
 - 40,000m²
 - Area equal to 6 soccer fields
 - Total height of 258 m

Källa: The Company

High altitudes

High levels both in terms of investment amount and facility



Källa: The Company

Sweden

Hexicon has three projects in Sweden and expects to submit the first application to the government soon. The remaining two are scheduled to be submitted in Q2. The projects with a total capacity of 3 GW are operated in a 50/50 joint venture with Norwegian Mainstream Renewable Power (formerly known as Aker Offshore Wind). The goal is to reach a final investment decision in 2027.

The Mareld wind farm will be located about 30 kilometers straight west of Orust, within the Swedish economic zone. Upon full development, Mareld is estimated to have the potential of delivering 9–12 TWh annually, which corresponds to two-thirds of the electricity consumption of the Västra Götaland Region.C

General market development

The floating wind market is now gaining momentum in most parts of the world. In the USA, there was a recent auction of 4.5 GW of floating wind power where winning bids for rights to water areas amounted to around SEK 8 billion. Portugal recently opened up water areas with a target of 10 GW by 2030. Another example is Taiwan, where Hexicon recently entered the market in collaboration with local partner IX Wind, previously involved in the country's first offshore wind project. The collaboration is for a 1.3 GW project.

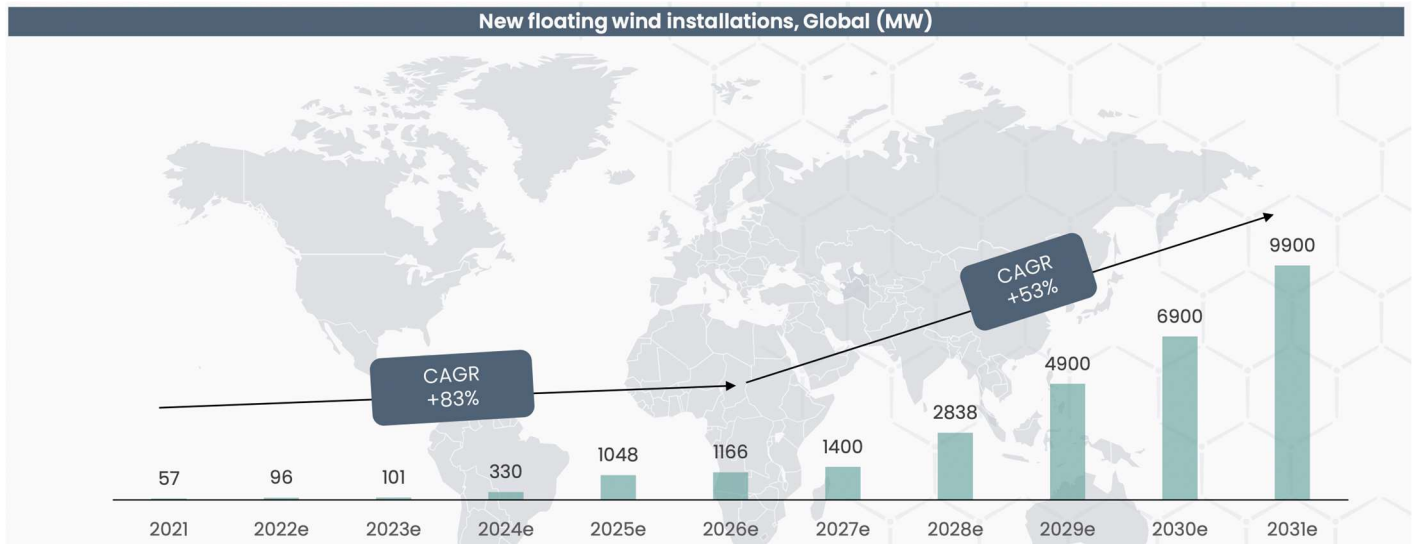
The above are just a few examples of the progress. Overall, floating wind installations are expected to grow strongly and steadily for a long time. In the medium term until 2030, the annual rate is expected to be around 50%.

Hexicons 3 projects for floating

Applications are planned for the first half of 2023



Source: Frejaoffshore.se



Source: Hexicon presentation of Q4-report 2022 (original source: GWEC "Global Offshore Wind Report 2022")

Large and diversified project portfolio

	PROJECTS					
	South Korea	South Korea	Scotland	Sweden	England	Italy
Name	MunmuBaram	Pohang	Pentland Floating Wind Farm	Freja Offshore	TwinHub	AvenHexicon
Location	Ulsan	East coast	Dounreay	Multiple	Cornwall	Multiple
Estimated gross capacity	1,300+ MW	900 MW	100 MW	3,000+ MW	32 MW	7,100 MW
Hexicon's stake	20%	30%	10%	50%	100%	50%
Site(s)	Secured	Secured	Secured	Identified	Secured	Partially secured
Partner(s)	Shell Overseas Investments B.V	Hexicon Korea	CIP	Mainstream Renewable Power	TBA	Avapa Energy
Target FID ¹ /COD ²	2025/2027	TBA	2024/2026	2027→/2029→	2023/2025	TBA

Gross projects: 12,400+ MW
Net projects³: 5,500+ MW

	PROSPECTS			
	South Africa	Spain/Portugal	Ireland	Italy
Name	GenesisHexicon	Hexicon Renewables Spain	TBA	AvenHexicon
Location	Richards Bay	Canary Islands, NW Portugal	West Ireland	Multiple
Estimated gross capacity	800 MW	TBA	2,000 MW	2,150 MW
Hexicon's stake	50%	95%	100%	50%
Site(s)	Identified	Selection ongoing	Identified	Identified
Partner(s)	Genesis Eco-Energy	Wunder Sight Group	Killybegs Fishermen's Org.	Avapa Energy

GROSS PORTFOLIO: 17,000 MW
 (Q4 Gross Portfolio growth: +4,000MW)

Gross prospects: 4,900+ MW
Net prospects³: 3,300+ MW

¹FID = Final investment decision

²COD = Commercial operational date

³ Net projects/prospects = Hexicon's stake

Source: The Company, Q4-report 2022

Financial position & cash flow

Hexicon's investment level of MSEK 106 in Q3 was significantly higher compared to previous periods. In Q4, these fell as planned to MSEK 36. The negative cash flow from operating activities also improved to MSEK -17 (Q3 MSEK -29).

During the full year 2022, the negative cash flow before financing activities was MSEK 284. The largest investments concerned the doubling of ownership in the MunmuBaram project and investments in the company's own technology. Notably, all value-adding investments in projects and technologies are not balanced for prudential reasons, making the short-term result more negative than it had to be. However, the cash flow is what it is, and overall, the MSEK 284 in 2022 was split between projects (52%), technology (38%), and other overheads (10%). It is worth noting that the final payment for the increased stake in MunmuBaram will be made in August of MSEK 40. If not converted to shares, the convertible loans of MSEK 82.5 are due for repayment on November 23, 2023.

Cash and cash equivalents amounted to MSEK 87 at the end of Q4. The company plans to make partial divestments in one or more projects during the year's first half to avoid further capital raising. Provided that the company succeeds in this, the bridging solution with a convertible loan appears favorable, given the market climate. This was also the stock market's view when the solution was announced in November 2022, resulting in a small relief rally.

The most important items for cash flow in the coming years are how the company solves the financing of the first complete TwinWind, revenue from the sale of project rights, and the capital requirement for acquiring new projects and the further development of existing projects.

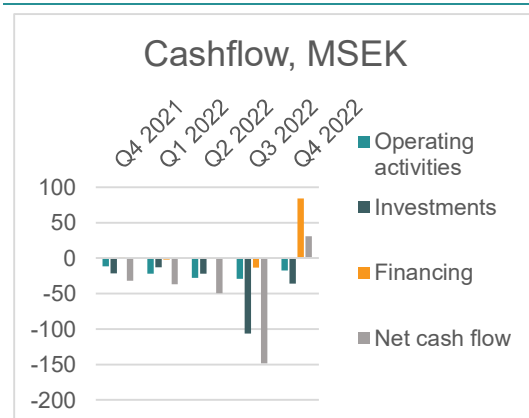
Share performance

Following an oversubscribed issue, the share was listed in June 2021 at a subscription price of SEK 3.00. The share has since mainly traded below SEK 3.00, with SEK 1.00 as the lowest closing price. The weak price development is mainly explained by the weak development of "speculative companies". The company has had a high investment rate and built up a large project portfolio, which has not been rewarded while waiting for these values to become visible.

Hexicon is at SEK 1.16, down 22% this year and 45% over the past 12 months. Looking at peers, Norway's BW Ideol is up 2% this year but down a whopping 58% over the past 12 months.

Successful capital raise in Q4

Restraint is planned in anticipation of divestments



Source: Börnsdata

Valuation

Significant divestments are expected from the project portfolio starting in 2023. Important milestones are expected to be achieved, enabling a value leap and opening up the possibility of reducing ownership or selling off entirely. The company's approach is to be involved in the early phases, which generally means divestment will occur before a final investment decision. Many considerations come into play, meaning that each project's timing and scope are difficult to predict. In terms of valuation, Analysguiden has assumed that Pentland will be fully divested in connection with the investment decision and that partial divestments will take place in the other projects in either 2023 or 2024. Assumptions give a performance as shown in the table and a remaining project value of SEK 2.3 billion in 2025 with a net capacity of around 900 MW. The project evaluation only includes those expected to have reached the "Mid" or "Late" phase. The technology part is included at MSEK 500 (P/S 10 on expected licensing revenue in 2026). Discounted to current value and with a certain amount of net cash, this implies a target price of SEK 4. Analysguiden assumes that the convertible loans are converted into shares.

The higher part of the price range described in the initial analysis is used in a positive scenario, while in a negative scenario, the technology part is set to zero, which gives a target price range of SEK 2.60–7.00 within 12 months. It is worth noting that the value of prospects and early-stage projects is not considered in any scenario but represents a safety margin to be weighed against the risk that any projects are stopped altogether and/or that the price trend could be lower.

Another way of highlighting the currently low valuation is to only base it on the value of the projects that today 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 414 at a price of SEK 1.16, which does not include the technology component, projects in early phases, or all the project candidates found in several different markets.

Today's project portfolio

Project February 2023	Country	Status	Capacity (MW)	Hexicon's share	Net capacity (MW)	Valut 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
Pohang	South Korea	Early	900	30%	270	51	567
2 stycken	Italy	Early	2550	50%	1275	241	2678
Prospekt	Several	Prospect	9500+		5750+	?	?
Total "Mid-Late"						634	1586
Total "Early"						576	

*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.

Exciting divestments from 2023

Income from projects is gradually increasing

	2021	2022	2023p	2024p
Net revenue	23	12	250	300
EBITDA	-46	-126	40	55
EBIT	-50	-161	20	35
Pre-tax profit	-51	-171	10	30
CF. After financing	-101	-274	5	10
Financing	283	81	0	0
Cash	290	87	92	102

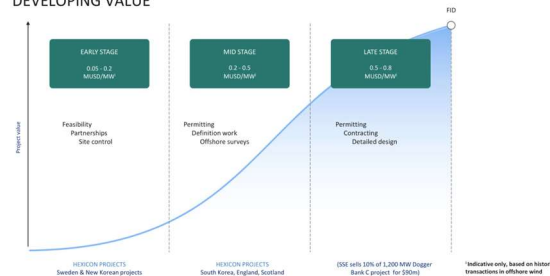
Source: Analysguiden

Possible value development in projects

MunmuBaram in an interesting phase

Recent transactions in offshore wind provide indicative values

DEVELOPING VALUE



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 to if it had been, for example, purely a technology company. The projects have value regardless of whether the technology succeeds and vice versa. However, examples of significant risks are market, price, technology, and financing.

The market for floating offshore wind 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 globally 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 wind technology for a price of around SEK 5 billion. Another example is the clear signals from the Biden administration in the USA highlighting offshore wind power. In Sweden, offshore wind power has many proponents, but uncertainty has increased following the parliamentary election. 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 interest rates and subsidy systems, and may appear lower than what Analysguiden has assumed.

Due to its turbines, the company's technical solution, TwinWind, is 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. However, there is still a lot to be done before it can be considered proven.

The company's current cash balance, including the MSEK 82 from the convertible loans, means that project divestments in the first half of 2023 to finance investments in the technology part and new projects. It cannot be ruled out that additional capital raising will be required, even if Analysguiden does not have this in the forecast for 2023 or 2024. However, the timing of divestments and the capital market's interest in financing not yet profitable companies is 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. If unexpected stops or delays occur, 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>

Q2 update – 31 August 2022

<https://www.aktiespararna.se/analysguiden/nyheter/analysis-hexicon-milestone-reached-q2>

Q3 update – 21 December 2022

<https://www.aktiespararna.se/analysguiden/nyheter/analysis-hexicon-entering-next-phase>

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