Hexagon | Investment Pitch Summary

Historical pitch dated 23 January 2020. Valuations and forecasts below reflect the original pitch, not current estimates or achieved returns.

The call

A Buy on a ~US$20bn market-cap Swedish maker of metrology sensors (~40% of revenue) and software-as-a-service (~60%). The stock is at SEK 545 (as of 1/23/20), with a 3-year weighted-average target of SEK 731 (~34% upside) and a probability-weighted IRR of ~10%. The whole thesis hinges on one question: will Hexagon's growing recurring/software revenue offset its exposure to cyclical industries?

Company and management

The CEO has built significant shareholder value over 19 years — growing software & services from 15% of revenue (2009) to ~60% (2019), and recurring revenue from 10% to ~40%. The author flags an integrity caveat: the CEO was acquitted a second time on insider-trading allegations, so the author wants to keep monitoring for agency risk. The business is organized around three pillars: Sensors (3D modeling, monitoring, positioning), Autonomous (the XALT IoT platform; fleet management already running in mines; OEM auto relationships), and Software (5D digital maps, dashboards, simulation/predictive modeling).

Investment thesis
GES product launches re-accelerate growth. The BLK360 (Q1'17) pioneered portable 3D laser scanning, followed by the RTS 360 (Q3'18). Hexagon is framed as a cost-disruptor benefiting from scale. The author expects a BLK360 successor (noted as "BLK240," likely a typo) at a higher ~$20k price point, where a higher ASP can offset any volume softness.
Rising software/services mix → higher recurring revenue and multiple expansion. More recurring revenue should reduce stock volatility and help close the valuation discount to peers Autodesk (40x 2021E P/E) and Dassault Systèmes (30x 2021E P/E).
Valuation

The author uses a multiples approach supported by a DCF and calls it a ~2.5x risk/reward:

Multiples: 24x 2022E P/E (vs. 7-yr historical average of 22x; peers at 28x). The premium reflects the higher software mix and improving margins.
DCF: 10-year forecast, 11% WACC, 1.5% terminal growth → fair value of SEK 744 (36.3% upside), broadly consistent with the P/E approach. (Note: Figure 2 separately mentions a 3% terminal growth rate "in line with global GDP" — that conflicts with the 1.5% actually used in the DCF.)

DCF mechanics (base case): EBIT margin expanding from ~24.4% (2019E) to ~26.4% (2028E), CapEx steady at ~2.7% of sales, 16.5% tax rate. EV of €26,935m, less net debt of €2,074m → equity value €24,862m over 352m shares.

Risks
~69% exposure to cyclical sectors. PP&M has ~50% oil & gas exposure; the author is more bearish than consensus here but thinks the market is too bearish on US construction/infrastructure and automotive.

M&A uncertainty. ~3% of revenue CAGR comes from acquisitions; low ROIC of ~8% raises questions on capital allocation and durability of the moat. Would need primary research on whether deals are overpriced / integration is working.
Governance. Melker Schorling holds 27% of shares / 48% of votes, and his two daughters are on the board — nothing alarming found, but worth watching for minority-shareholder alignment.
Key financials (€m)

	2015	2018	2019E	2021E	2023E
Revenue	3,044	3,761	4,062	4,599	5,219
Gross profit	1,822	2,337	2,531	2,884	3,298
EBIT	656	—	~1,063	~1,264	~1,373
Net income	505	738	—	~1,034 (base)	—

Revenue CAGR: ~7.3% (2015–18 historical), ~6.8% (2019–23E). Gross margin ~60%→63%. The two reporting segments are Geospatial Enterprise Solutions (GES, ~48% of sales) and Industrial Enterprise Solutions (IES, ~52%).

Market snapshot: Market cap €19,029m, EV €21,103m, net cash position excl. debt (cash €399m, debt €2,461m), dividend yield 1.14%, float 77.7%, P/E 23.8x (LTM) / 22.0x (forward). Management owns only 0.2%; State Street 11%, T. Rowe 10%.

Scenario analysis (3-yr target)

	Low (20%)	Base (50%)	High (30%)
Driver	Macro downturn	~70% software mix + GES growth	~60% recurring → less volatile
Total rev CAGR	2.9%	6.8%	7.4%
Net income (€m)	856	1,034	1,101
P/E	20x	24x	26x
Target price (SEK)	512	742	857
Upside	–6%	+36%	+57%

→ Weighted-average TP SEK 731, probability-weighted IRR 10.2%.

Business mix (for context)

GES (48%): sensors for land/air data capture and satellite positioning (laser scanners, airborne cameras, UAVs, mobile mapping). End customers: Surveying 42%, Infra & Construction 26%, Natural Resources 10%. Geography: EMEA 43 / Americas 38 / Asia 19. ~8,400 employees.

IES (52%): measurement, quality inspection, and manufacturing-facility design/operation (CMMs, scanners, CAD/CAM/CAE, lifecycle software). End customers: Electronics & Mfg 32%, Power & Energy 23%, Automotive 22%, Aero & Defence 14%. Geography: Asia 39 / EMEA 32 / Americas 29. ~10,700 employees.

Group end-markets (2018): Surveying 20%, Electronics & mfg 17%, Infra/construction 13%, Power/energy 12%, Automotive 12%, Aero/defence 10%, Natural resources 5%, Public safety 4%. Adjusted EBIT margins by division: Group 24.7%, GES 25.4%, IES 26.2%, with PP&M highest (>30%) and Safety & Infrastructure lowest (<20%).

New competitive front: the BLK247 (2020) — an AI/edge security camera — puts Hexagon up against Bosch, Honeywell, Motorola, and Panasonic, which the author sees as a key test of the growth story.