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PRESS RELEASE

Halmstad, December 11, 2023

HMS Networks acquires Red Lion Controls and significantly expands its presence in North America

HMS Networks AB (publ) (“HMS”), a global provider of industrial information and communication technology, has today entered into a binding agreement with Spectris Group Holdings Limited to acquire the Red Lion Controls business, a well-established US-based provider of industrial automation solutions, through the acquisition of 100 percent of the shares in Red Lion Controls Inc. and Red Lion Europe GmbH as well as certain assets in other jurisdictions (“Red Lion”), significantly expanding HMS’ presence in the North American market and complementing HMS’ offering.

Summary of the acquisition

- HMS has entered into a binding agreement to acquire Red Lion for a cash consideration of USD 345 million (approximately SEK 3,600 million)¹, on a cash and debt free basis (Enterprise Value).
- Red Lion is a well-established US-based provider of industrial automation solutions with an innovative product portfolio with premium brands. The acquisition will significantly strengthen HMS’ presence in North America and enable cross-selling of both HMS’ and Red Lion’s products through their respective market channels.
- The acquisition is expected to be accretive to HMS’ earnings per share from completion of the acquisition (excluding any non-cash amortization impacts from the transaction).
- The combination of HMS and Red Lion had annual sales exceeding SEK 4.4 billion², with an adjusted EBIT margin of approximately 24.0 percent, during the twelve-month period ending on September 30, 2023.³
- The acquisition will be financed through a combination of new debt and equity, consisting of a term loan and a revolving credit facility, and a bridge loan facility expected to be repaid through a share issue following the completion of the acquisition. HMS will within short convene an extraordinary general meeting (“EGM”) on January 26, 2024, to authorize the board of directors of HMS to resolve upon such a share issue, and HMS’ intention is to conduct a directed share issue, noting that no such decision has been taken and is subject to market conditions at the time of closing of the acquisition. Investment AB Latour has committed to, and AMF Fonder has declared its intention to, invest in such a share issue up to an amount corresponding to their respective ownership levels, and both have committed to vote in favor of the authorization at the EGM. Furthermore, HMS’ CEO Staffan Dahlström has committed to vote in favor of the authorization at the EGM. Investment AB Latour and AMF Fonder together represent 34.7 percent of the shares and votes in HMS and Staffan Dahlström represents 13.0 percent of the shares and votes in HMS.
- The acquisition is expected to close during the first half of 2024, subject to customary regulatory approvals and closing conditions.

“We are very happy to welcome Red Lion into the HMS Networks family, the companies are a great match both when it comes to products, geographic presence, and cultural aspects. The combination of Red Lion’s product portfolio, which is complementary to HMS’ offering and has limited overlap, and the geographic match with Red Lion having a strong position in the attractive North American market, and HMS with its core markets in Europe, will generate good cross-selling opportunities.”

¹ To be determined in SEK upon closing.

² Translated to SEK based on currency rates for the corresponding period.

³ Assuming that Red Lion would have been part of HMS during the same period. See the section “Combined financial overview and impact on HMS’ financials” for further information of the assumptions.



Red Lion's "Access" products fit well with HMS' Anybus and Ewon product lines, while Red Lion's "Connect" offering adds what HMS has been searching for several years; a strong Ethernet Switch offer with a strong market position. Finally, Red Lion's "Visualize" offering brings new opportunities for HMS to explore the Data Visualization offering that is becoming more and more interesting with its central role in the Industrial Automation environment and its ability to provide additional value on top of HMS' connectivity and network offering.

We are eager to start working together and to realize the synergies between the companies and to enable each other to take the next steps on our common future journey once the transaction closes.", says Staffan Dahlström, CEO of HMS.

Strategic rationale

HMS has entered into a binding agreement to acquire Red Lion for a cash consideration of USD 345 million (approximately SEK 3,600 million)⁴, on a cash and debt free basis (Enterprise Value).

For HMS it is of strategic importance to strengthen its presence in the attractive North American market and to improve its product offering range with products and offers that are specifically developed to meet the North American market demand.

The acquisition is expected to enable several cross-selling synergies of HMS and Red Lion, partly by capitalizing on the different market channels. With the greatest proportion of Red Lion's sales coming from North America, through a well-developed distributor network that HMS will be able to utilize to drive sales of HMS' gateway and remote access offering. HMS, with about 60 percent of its sales in the large automation markets in Europe and well-developed and targeted market channels, will be able to cross-sell selected parts of the Red Lion offering.

Furthermore, the acquisition is expected to have R&D and product development synergies on several parts of both HMS' and Red Lion's offerings which will be explored further after closing of the transaction.

Red Lion at a glance

Red Lion, headquartered in York, Pennsylvania, United States, is a well-established industrial data business with a 50 year plus history, empowering industrial organizations around the world to unlock the value of data by developing and manufacturing innovative and scalable products and solutions supporting their customers to gain real-time data and visibility to drive productivity. Red Lion's main customers are active in factory automation, alternative energy, oil and gas, power and utilities, transportation and water and wastewater segments.

The Red Lion offering is centered around three core product lines:

- **Access** products allow industrial end customers to get the most value out of their remote assets by offering enhanced cloud connectivity, edge intelligence, and remote device management. This product line includes Industrial Gateways, Protocol Converters, Routers and Access Points.
- **Connect** products protect and streamline communication between plant operators and their assets in a secure, reliable, and easy way to maximize operating performance and system uptime with Industrial Ethernet Switches representing the main parts of this product line.
- **Visualize** products allow plant operators to acquire, manage, and interact with their data to further optimize performance in challenging and harsh environments with Human Machine Interfaces (HMI) and Panel Meters constituting the main products.

Red Lion has four development sites, located in York, Pennsylvania (US), Mobile, Alabama (US), Dinkelsbühl, Germany and Pune, India, and manufacturing sites located in York and Dinkelsbühl. Red Lion employs about 400 people globally, of which about 300 employees in the United States.

⁴ To be determined in SEK upon the closing



Combined financial overview and impact on HMS' financials

In the twelve-month period ending on September 30, 2023, Red Lion reported sales of about SEK 1,397 million and an adjusted EBIT of about SEK 288 million⁵, corresponding to an adjusted EBIT margin of about 20.6 percent⁶. Further, Red Lion reported in the corresponding period, a gross margin of about 55 percent.

As of September 30, 2023, HMS reported sales for the last twelve months of SEK 3,029 million and an EBIT of SEK 776 million, corresponding to an EBIT margin of 25.6 percent. Assuming Red Lion would have been part of HMS during the same period, the combined sales would have been SEK 4,426 million and adjusted EBIT would have been SEK 1,064 million, corresponding to an EBIT margin of 24.0 percent.⁷

After the acquisition, HMS' sales per geography are expected to be about 45 percent in Europe, about 39 percent in the Americas and about 16 percent in Asia.

The acquisition is expected to be accretive to HMS' earnings per share post completion (excluding any non-cash amortization impacts from the transaction).

One-off integration costs are estimated to be around SEK 100 million over two years, out of which approximately SEK 70 million relating to capital expenditures and approximately SEK 30 million relating to operating costs. Transaction costs are estimated to be about SEK 40 million, including costs for the share issue.

HMS has a financial target to keep net debt/adjusted EBITDA below 2.5x over time. As of September 30, 2023, HMS reported a net cash position of SEK 30 million, corresponding to a net debt/EBITDA of 0.0x (on a pre-IFRS 16 basis and excluding non-interest-bearing debt from share options).

After completion of the acquisition and the share issue, net debt/adjusted EBITDA on pre-IFRS 16 basis, excluding transaction and integration costs, is expected to be approximately 2.0x.

Financing and support from HMS' shareholders

The acquisition will be financed through a combination of new debt and equity. HMS has obtained debt financing in an amount of USD 225 million provided by Skandinaviska Enskilda Banken AB ("SEB") and the Swedish Export Credit Corporation (Sw. AB Svensk Exportkredit, "SEK"), consisting of a term loan and a revolving credit facility. In addition, SEB has provided a bridge loan facility in an amount of USD 120 million, which is expected to be repaid with the proceeds from a share issue that is planned to be carried out after the closing of the acquisition. HMS will, within short, convene an EGM on January 26, 2024, to authorize the board of directors of HMS to resolve on such a share issue, with or without deviation from the shareholders' preferential rights. Considering (i) the share issue's close connection with the acquisition, (ii) the limited size of the share issue in relation to the market capitalization of HMS, (iii) the cost savings associated with a prompt repayment of the bridge loan facility, (iv) that a directed share issue can be carried out at a lower cost and with less complexity than a rights issue, and (v) HMS' desire to diversify its shareholder base with institutional investors in order to enhance the liquidity of HMS' share, HMS' intention is to conduct a directed share issue (subject to market conditions at the time of closing of the acquisition).

To secure the bridge loan facility for the acquisition, HMS' largest shareholder, Investment AB Latour, has committed to, and the third largest shareholder, AMF Fonder, has declared its intention to, invest in the abovementioned share issue up to an amount corresponding to their respective ownership levels. Investment AB Latour and AMF Fonder have both committed to vote in favor of the authorization at the EGM. Furthermore, Staffan Dahlström, CEO and HMS' second largest shareholder, has committed to vote in favor of the authorization at the EGM. Investment AB Latour and AMF Fonder together represent 34.7 percent of the shares and votes in HMS and Staffan Dahlström represents 13.0 percent of the shares and votes in HMS.

⁵ Translated to SEK based on currency rates for the corresponding period.

⁶ The EBIT numbers have been adjusted to reflect how the Red Lion business would, on a preliminary and indicative basis, be reported in the HMS group (excluding any purchase price allocation adjustments), with the main adjustments relating to Spectris management fee and cost for management incentive programs. The Red Lion financial information presented herein refers to unaudited IFRS figures.

⁷ The adjusted EBIT also excludes any amortization coming from potential purchase price allocations related to the acquisition that could impact EBIT. The adjusted EBIT excludes any potential synergies, transaction costs and integration costs from the acquisition.



Regulatory approvals and closing

Closing of the acquisition is expected to take place during the first half year of 2024, subject to customary closing conditions, including filing with and approval by the appropriate authorities under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 and filing with and approval by the Committee on Foreign Investment in the United States.

Advisors

SEB provides the debt financing facility (together with SEK) and acts as exclusive financial advisor to HMS on the contemplated share issue. Mannheimer Swartling Advokatbyrå acts as lead counsel to HMS on the acquisition of Red Lion, the debt financing facility and the contemplated share issue, with Cravath, Swaine & Moore as special US counsel. Alvarez & Marsal acts as tax and financial advisor to HMS in the transaction.

Conference call

A conference call for analysts and investors will take place on December 12, 2023, at 13.00 CET.

If you wish to participate via webcast, please use the link below.

<https://ir.financialhearings.com/press-conference-december-2023>

If you wish to participate via teleconference, please register on the link below. After registration you will be provided phone numbers and a conference ID to access the conference. You can ask questions verbally via the teleconference.

<https://conference.financialhearings.com/teleconference/?id=5008306>

The conference call information will also be available at <https://www.hms-networks.com/ir>.

For more information, please contact:

Staffan Dahlström, CEO HMS, +46 (0)35 17 29 01

Joakim Nideborn, CFO HMS, +46 (0)35 710 6983

This information is such that HMS Networks AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact persons set out above, at 18:00 CET on December 11, 2023.

HMS Networks AB (publ) is a market-leading provider of solutions in industrial information and communication technology (Industrial ICT). HMS develops and manufactures products under the Anybus®, Ixxat®, Ewon® and Intesis® brands. Development takes place at the headquarter in Halmstad and also in Ravensburg, Nivelles, Igualada, Wetzlar, Buchen, Delft, Sibiu, Rotterdam and Bilbao. Local sales and support are handled by offices in Germany, USA, Japan, China, Singapore, Italy, France, Spain, the Netherlands, India, UK, Sweden, South Korea, Australia, UAE and Vietnam, as well as through a worldwide network of distributors and partners. HMS employs over 800 people and reported sales of SEK 2,506 million in 2022. HMS is listed on the NASDAQ OMX in Stockholm in the Large Cap segment and Telecommunications sector.

IMPORTANT INFORMATION

This press release is not and does not form a part of any offer for sale of securities. Copies of this communication may not be made in, and may not be distributed or sent into, the United States, Australia, Canada, Japan, South Africa, New Zealand, Hong Kong, Singapore or any other jurisdiction in which distribution of this press release would be unlawful or would require registration or other measures. The distribution of this press release in other jurisdictions may be restricted by law and persons into whose possession this press release comes should inform themselves about, and observe, any such restrictions.

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This press release contains forward-looking statements that reflect HMS Networks' current view of future events as well as financial and operational development. Words such as "intend", "assess", "expect", "may", "plan", "estimate" and other expressions involving indications or predictions regarding future development or trends, not based on historical facts, identify forward-looking statements and reflect HMS Networks' beliefs and expectations and involve a number of risks, uncertainties and assumptions which could cause actual events and performance to differ materially from any expected future events or performance expressed or implied by the forward-looking statement. The information contained in this press release is subject to change without notice and, except as required by applicable law, HMS Networks does not assume any responsibility or obligation to update publicly or review any of the forward-looking statements contained in it and nor does it intend to. You should not place undue reliance on forward-looking statements, which speak only as of the date of this press release. As a result of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements as a prediction of actual future events or otherwise.