

hms networks

Interim report 2019
January - June

Second quarter

- Net sales for the second quarter reached SEK 416 m (329), corresponding to an increase of 26 %. Currency translations had a positive effect of SEK 19 m on net sales
- Operating profit reached SEK 72 m (63) equal to a 17 % (19) operating margin
- Order intake was SEK 375 m (336), corresponding to an increase of 11 %
- Cash flow from operating activities amounted to SEK 51 m (51)
- Profit after taxes totalled SEK 51 m (42) and the earnings per share was SEK 1.10 (0.90)
- HMS acquired 74.9 % of the shares in the German company WEBfactory GmbH
- HMS acquired 100 % of the shares in the Dutch company Raster Products B.V.

First six months

- Net sales for the first six months amounted to SEK 796 m (649), corresponding to a 23 % increase. Currency translations had a positive effect of SEK 43 m on net sales
- Operating profit was SEK 132 m (125), equal to a 17 % (19) operating margin
- Order intake was SEK 762 m (686), corresponding to an increase of 11 %
- Cash flow from operating activities amounted to SEK 103 m (71)
- Profit after taxes totalled SEK 92 m (79) and the earnings per share was SEK 1.98 (1.69)

Comment from the CEO

The second quarter of the year offered a mixed picture. We achieve a record turnover of SEK 416 million and our second-best quarterly result ever of SEK 72 million, while at the same time, the organic order intake in local currency is weak and at the same level as the previous year (+1 %). The sales increase of 26 % is a combination of organic growth (+13 %), currency effects (+5 %) and acquisition effects (+8 %). The large difference between sales and order intake is partly due to the fact that a number of major orders from 2018 were delivered during the quarter and a weaker development in order intake during the last part of the quarter.

The gross margin has developed as expected and has strengthened from the first quarter to reach 61.2%. Price increases for older products in combination with a positive marginal effect from the acquisition of WEBfactory are the main factors for the improvement. Despite an increased cost base, due to continued investments in both the market and development organization and acquisition effects, we can report an operating profit of SEK 72 million, corresponding to a margin of 17 %.

The market situation reported in the first quarter also continues in this quarter, which means increased uncertainty in the short-term perspective regarding investments in our industrial segments. This is now reflected in a weakened order intake in most of our markets and increased caution among our customers, where we primarily see a decrease in ongoing customer orders from existing customers. We see great interest in our new products and during the quarter we have exceeded internal expectations of new Design-Wins for our Embedded products, so we feel confident that we have an attractive product offering to create long-term future growth.

In Asia, we delivered several major orders during the quarter, which were received in 2018 and has created good growth in the quarter. However, the order intake had a weak development, particularly in Japan. Although our operations in China and India are relatively good and growing, the large but weak Japanese market is pulling down Asia as a whole. Also in the US, the picture is mixed with good invoicing but weak order intake, which reflects the increased uncertainty our US customers see in the state of the market and trading situation. Europe and the important German market have been relatively stable, but we see indications that our customers' customers are taking more caution regarding future investments.

Since April, HMS is the majority shareholder (74.9 %) of German WEBFactory GmbH. Our ambition is to use WEBfactory's software as a value-adding accessory for our customers who want to visualize data from their machines that are connected via our IIoT solution HMS-HUB.

During the quarter, we have also acquired Dutch Raster Product B.V., which has been our distributor for some of our products for many years. 80 % of Raster's sales today consist of HMS's product offering and we intend to continue to develop the business and build a larger base for increased sales of HMS offerings in the Netherlands, which is an interesting market for the future.

During the quarter, our HMS Labs team has started to work on Machine Learning (ML) to explore how we can support our customers to implement AI functions in their industrial equipments in the future. We continue our commitment to 5G and during the quarter, we participated in various marketing activities in Germany and the US around 5G together with leading players in the Telecom industry, where we see a great interest in using 5G communication technology in industrial applications.

Despite the uncertain investment climate within our main segments, which will be challenging for our growth in the short term, we stick to our ambitious long-term goals - a long-term growth of 20 % per year and an operating margin of 20 %. Our focus is to drive continued growth in all our business areas. We continue to work on our long-term growth goals based on a balanced view of costs and growth potential. In the long term, we believe that the market for industrial communication will be an interesting growth area and we will continue to focus on our motto "HMS - Connecting Devices".



The quarter offered a mixed picture, a record turnover with good growth, while the organic order intake was weak and remained on the same level as the previous year.



Staffan Dahlström, CEO, HMS Networks AB

11 %

Order intake

Q2

26 %

Net sales

Q2

17 %

Operating margin

Q2

Order intake, net sales and earnings

Second quarter

Order intake increased by 11 % to SEK 375 m (336), the corresponding organic increase in local currencies was 1 %. Net sales increased by 26 % to SEK 416 m (329) of which currency translation effects affected by SEK 19 m (12). The organic increase in net sales in local currencies was 13 %. Gross profit increased by SEK 48 m to SEK 254 m (206) to a gross margin of 61.2 % (62.8). Operating expenses increased in total by SEK 38 m to SEK 182 m (144) mainly driven by investments in sales, marketing and development and acquisition effects.

During the quarter the majority (74.9 %) of the shares in the German company WEBfactory and 100 % of the shares in the Dutch company Raster Products B.V. were acquired. Together with Beck IPC, which was acquired during Q3 2018, the new companies have contributed to net sales by SEK 29 m and to the order intake by SEK 24 m.

Operating profit before depreciation amounted to SEK 94 m (75), corresponding to a margin of 22.6 % (22.9). Depreciation amounted to SEK 22 m (13) and operating profit increased by SEK 9 m corresponding to a 15 % increase, to SEK 72 m (63). Currency translations had a positive effect of SEK 8 m (4). The acquired companies had a limited impact on the operating profit in the quarter.

Net financials was SEK -2 m (-5) which gave a profit before tax of SEK 70 m (58). Profit after tax for the period amounted to SEK 51 m (42) and earnings per share before and after dilution was SEK 1.10 (0.90) and SEK 1.09 (0.89) respectively.

SEK millions	Q2 2019	Q2 2018	%
Order intake	375	336	11.4
Net sales	416	329	26.5
Gross profit	254	206	23.2
Gross margin (%)	61.2	62.8	
EBITDA	94	75	25.1
EBITDA (%)	22.6	22.9	
EBIT	72	63	15.1
EBIT (%)	17.3	19.0	

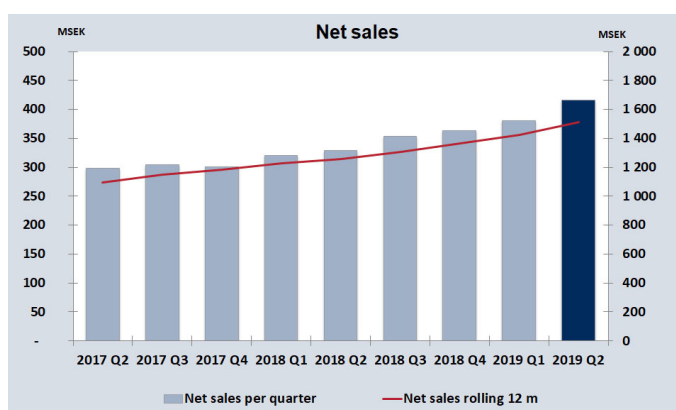
First six months

Order intake increased by 11 % to SEK 762 m (686), the corresponding organic increase in local currencies was 2 %. Net sales increased by 23 % to SEK 796 m (649) of which currency translations affected by SEK 43 m (14). The organic increase in net sales in local currencies was 9 %. Gross profit increased by SEK 75 m to SEK 480 m (404) to a gross margin of 60.3 % (62.3). The main reason to the lower gross margin is lower margins in acquired Beck IPC. Operating expenses increased in total by SEK 69 m to SEK 348 m (279) mainly driven by investments in sales, marketing and development and acquisition effects. During the second quarter the majority (74.9 %) of the shares in the German company WEBfactory and 100 % of the shares in the Dutch company Raster Products B.V. were acquired. Together with Beck IPC, which was acquired during Q3 2018, the new companies have, during the first six months, contributed to net sales by SEK 51 m and to the order intake by SEK 33 m.

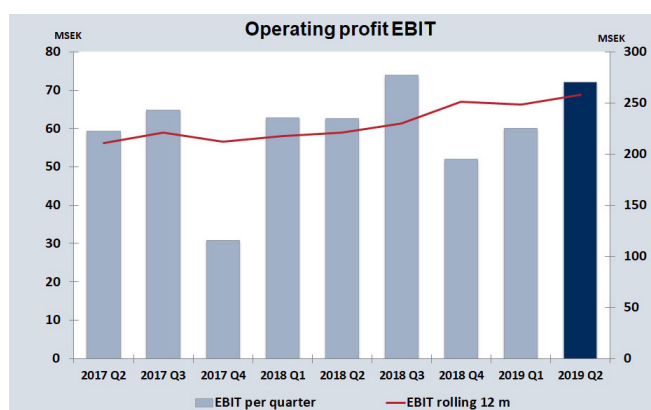
Operating profit before depreciation amounted to SEK 174 m (150), corresponding to a margin of 21.8 % (23.2). Depreciation amounted to SEK 42 m (25) and operating profit increased by SEK 7 m corresponding to a 5 % increase, to SEK 132 m (125). Currency translations had a positive effect of SEK 19 m (5). The acquired companies' contribution to the operating profit the first six months was SEK 5 m.

Net financials was SEK -6 m (-16) which gave a profit before tax of SEK 126 m (110). Profit after tax for the period amounted to SEK 92 m (79) and earnings per share before and after dilution was SEK 1.98 (1.69) and SEK 1.97 (1.68) respectively.

SEK millions	Q1-Q2 2019	Q1-Q2 2018	%
Order intake	762	686	11.0
Net sales	796	649	22.6
Gross profit	480	404	18.6
Gross margin (%)	60.3	62.3	
EBITDA	174	150	15.4
EBITDA (%)	21.8	23.2	
EBIT	132	125	5.2
EBIT (%)	16.6	19.3	



The graph shows turnover per quarter on the bars referring to the scale on the left axis. The line shows turnover for the latest 12 month period referring to the scale on the axis to the right.



The graph shows operating result EBIT per quarter. The bars refer to the scale on the left axis. The line shows operating result for the last 12 month period referring to the scale on the axis to the right.

Quarterly data ¹	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Order intake (SEK m)	375	387	387	360	336	350	288	289
Net sales (SEK m)	416	380	363	353	329	320	301	305
Gross margin (%)	61.2	59.3	59.6	60.3	62.8	61.8	60.3	60.9
EBITDA (SEK m)	94	79	65	87	75	75	43	77
EBITDA (%)	22.6	20.9	17.9	24.5	22.9	23.5	14.3	25.1
EBIT (SEK m)	72	60	52	74	63	63	31	65
EBIT (%)	17.3	15.8	14.3	20.9	19.0	19.6	10.2	21.2
Cash flow from operating activities per share (SEK)	1.10	1.11	1.05	1.57	1.08	0.43	0.77	1.33
Earnings per share before dilution (SEK)	1.10	0.88	0.90	1.09	0.90	0.80	0.43	0.90
Earnings per share before after dilution (SEK)	1.09	0.87	0.89	1.08	0.89	0.79	0.43	0.90
Equity per share (SEK)	19.42	18.96	17.89	17.13	16.88	16.28	15.37	14.76

¹ Q1 and Q2 2019 is effected by IFRS 16 Leases. For more information, see page 9.

Cash flow, investments and financial position

Second quarter

Cash flow from operating activities before changes in working capital amounted to SEK 70 m (60) for the second quarter. Changes in working capital was SEK -19 m (-9) mainly explained by inventory increase and increase of accounts receivable. Cash flow from operating activities was therefore SEK 51 m (51).

During the quarter, investments in new assets claimed SEK -18 m (-7). Moreover, investments in new shares in subsidiaries claimed SEK -24 m (0). Cash flow from investing activities was therefore SEK -42 m (-8).

Cash flow from financing activities claimed SEK -17 m (-18), which mainly can be explained by a disbursed dividend of SEK 84 m (70) and also an increase in loans of SEK 78 m (52). Moreover, amortizations of lease liabilities claimed SEK -8 m (-1). This means that cash flow for the quarter was SEK -8 m (24).

First six months

Cash flow from operating activities before changes in working capital amounted to SEK 130 m (130) for the first six months. Changes in working capital was SEK -27 m (-59) mainly due to a combination of increased accounts receivable owing to increased net sales and inventory increase. Cash flow from operating activities was therefore SEK 103 m (71).

During the first six months investments in new assets claimed SEK -29 m (-18) and also investments in new shares in subsidiaries of SEK -24 m (0). Cash flow from investing activities was therefore SEK -53 m (-18).

Cash flow from financing activities amounted to SEK -26 m (-51) which mainly can be explained by a disbursed dividend of SEK 84 m (70) as well as an increase of loans of SEK 76 m (51). Amortizations of lease liabilities claimed SEK -16 m (-2). This means that cash flow for the first six months was SEK 24 m (2).

Cash and cash equivalents and net debt

Cash and cash equivalents amounted to SEK 86 m (96) and unused credit facilities to SEK 68 m (77). Net debt amounted to SEK 524 m (365) and net debt to EBITDA ratio for the last twelve months was 1.61 (1.35). Net debt/Equity ratio was 58 % (47).

Net debt and the ratios above for 2019 are calculated according to the new accounting standard IFRS 16. See the table on page 9 for corresponding amounts and ratios excluding IFRS 16.

In the second quarter, a dividend of SEK 1.80 per share, in total SEK 84 m (70) was disbursed.

The HMS Networks AB share

HMS Networks AB (publ) is listed on the Nasdaq OMX Stockholm Mid Cap list, in the Information Technology sector. By the end of the period the total number of shares amounted to 46,818,868 of which 202,999 shares are held by the company.

A list of the company's ownership structure can be found on the company's website (www.hms-networks.com).

Annual General Meeting

At the AGM on April 25, 2019, it was resolved to revert to Board members Charlotte Brogren, Fredrik Hansson, Ray Mauritsson, Anders Mörck, Cecilia Wachtmeister and Ulf Södergren.

Other decisions from the Annual General Meeting;

- The dividend was decided to be SEK 1.80 per share, corresponding to SEK 84 m.
- Resolution on a new issue of no more than 2,340,943 shares for the purpose of financing or carrying out company acquisitions with own shares.
- Decision to introduce a performance-based share saving program, Share savings program 2020-2023 aimed at all employees, covering up to 100,000 shares and authorizing the Board to acquire the corresponding number of shares.

Share savings program

Today the Company has four ongoing share saving programs. Based on a decision by the Annual General Meetings permanent employees are offered to save in HMS shares in an annual share saving program. Between 46 % and 60 % of the employees opted to participate in the respective program. If certain criterias are met the Company is committed to give the participant a maximum of two HMS shares for every share saved by the employee. As of June 30, 2019, the total number of saved shares amounted to 128,379 (321,716) within ongoing programs.

On December 31, 2018 the share saving program from 2015 was finalized. During the first quarter of 2019, 89,826 shares, of which 44,913 were performance shares, were distributed free of charge to the participants. The total holding of own shares at the end of the period were 202,999 shares.

The parent company

The Parent Company's operations are primarily focused on Group-wide management and financing. Apart from the Group's CEO, the Parent Company has no employees. The operating profit for the first six months amounted to SEK 0 m (0). Dividends from subsidiaries totalled SEK 179 m (162) and the profit after tax from the first six months amounted to SEK 181 m (161). Cash and cash equivalents amounted to SEK 1 m (2), external borrowing does not exist.

Related party transactions

No material transactions with related parties have occurred during the period.

Contingent liabilities

There have been no changes in the Group's contingent liabilities, described on page 98 in Note 34 of the Annual Report for 2018.

Significant events

HMS acquires WEBfactory GmbH

On April 1, 2019 HMS acquired 74.9 % of the shares in the German company WEBfactory GmbH, a leading provider of web-based software solutions for the Industrial Internet of Things, IIoT. Founded in 1994 as a system integrator within SCADA, WEBfactory released its first own software in 2000. Today, WEBfactory is a well-established software company, primarily known for its i4 suite of software products. The i4 portfolio addresses IIoT-related customer challenges such as data collection, analysis and visualization.

The purchase price amounted to EUR 3 m on a debt free basis and a performance-based additional purchase price of maximum EUR 1.5 m. The acquisition was financed with existing bank credit.

Preliminary the acquisition will generate a SEK 43 m excess value in the Group (25.1 % non-controlling interest included). The acquired company is consolidated in the HMS Group accounts as of April 1, 2019. During the first three months, WEBfactory had a positive impact on the net sales of the Group of SEK 5 m. The acquisition's contribution to operating profit, including acquisition costs, amounted to SEK -3 m.

Pending the allocation of excess value to specific assets and the assessment of the tax position at WEBfactory as per the acquisition date, the acquisition analysis is preliminary. According to preliminary acquisition analysis (25.1% non-controlling interest included), the purchase sum and acquired net assets amount to:

Purchase sum:	SEK million
Cash and cash equivalents	23
Contingent additional consideration	14
Total purchase sum, preliminary	37

The assets and liabilities recognized in conjunction with the acquisition are as follows:	SEK million
Excess value/Intangible fixed assets	43
Intangible fixed assets	11
Other fixed assets	0
Current assets	5
Cash and cash equivalents	0
Non-current liabilities	- 19
Current liabilities	- 3
Acquired net assets	37

HMS acquires Raster Products B.V.

On May 2, 2019 HMS acquired 100 % of the shares in Raster Products B.V., located in Dreumel, the Netherlands. For several years, Raster Products has been HMS' primary distributor of Ewon products in the Netherlands.

The purchase price amounted to EUR 1 m on a debt free basis and was financed with existing bank credit.

Preliminary the acquisition will generate a SEK 8 m excess value in the Group. The acquired company is consolidated in the HMS Group accounts as of May 1, 2019. During the first two months, Raster Products had a positive impact on the net sales of the Group of SEK 4 m. The acquisition's contribution to operating profit, including acquisition costs, amounted to SEK 2 m.

Pending the allocation of excess value to specific assets the acquisition analysis is preliminary. According to preliminary acquisition analysis, the purchase sum and acquired net assets amount to:

Purchase sum:	SEK million
Cash and cash equivalents	12
Total purchase sum, preliminary	12

The assets and liabilities recognized in conjunction with the acquisition are as follows:	SEK million
Excess value/Intangible fixed assets	8
Other fixed assets	1
Current assets	6
Cash and cash equivalents	0
Current liabilities	- 3
Acquired net assets	12

Subsequent events

There are no events after the end of the period which have had a significant impact on the result or financial position of the company.



Outlook

The HMS Group long term growth is supported by a continued inflow of Design-Wins, a broader product offering within the Industrial Internet of Things (IIoT) and Wireless, supplementary technology platforms from earlier acquisitions, an expansion of the HMS sales channels according to the existing strategy.

The global economic is weakened, and will probably create challenges for our growth ambitions in the short term. The economic climate in various geographical areas and industrial segments and its impact on the market for HMS' product offering is difficult to estimate. The currency development will play an important role and also this effect is difficult to estimate.

HMS longterm goals are unchanged: Long-term growth on average 20% per year and an operating margin of 20%.

Risk management

The HMS Group is exposed to business and financial risks through its operations. These risks have been described at length in the Company's Annual Report 2018. In addition to the risks described i these documents, no additional significant risks have been identified.

Audit review

This interim report has not been reviewed by the Company's auditors.

Accounting policies

HMS's consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS). The Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The Parent Company applies Swedish Financial Reporting Board's recommendation, RFR 2 Accounting for Legal Entities, and the Swedish Annual Accounts Act.

The accounting principles applied conform to those described in the 2018 Annual Report, except for the implementation of IFRS 16 Leases. Other new or revised IFRS standards or other IFRIC-interpretations that came into effect after January 1, 2019 have not had any significant impact on the Group's financial reports as of June 30, 2019.

HMS applies the European Securities and Market Authority's (ESMA) guidelines on alternative key indicators (measures that are not defined in accordance with IFRS).

IFRS 16 Leases

As of January 1, 2019, the new accounting standard related to lease are applied (IFRS 16). The lease standard requires that assets and liabilities attributable to all lease contracts, with some exceptions, are reported in the balance sheet. For more information, please see Note 38 in the Annual Report for 2018.

HMS has chosen to apply the simplified method and will not apply the standard retrospectively. In accordance with the simplified transition method, the comparison figures for 2018 have not been recalculated. The main impact on HMS's accounts arise from the reporting of lease contracts for premises.

The change means that leases are recognized as a right-of-use asset and a lease liability in the balance sheet. In the income statement the linear operating lease cost is replaced by depreciation of the right-of-use asset and an interest expense attributable to the lease liability. HMS has used a discount rate of 1.8 % to determine the lease liability in the opening balance as of January 1, 2019.

The effects in the Balance sheet and Income statements as well as in key figures, which the transition to the new lease standard entails, are presented in the table below.

Income statements, SEK million	Q2-19 incl IFRS 16	IFRS 16 effect	Q2-19 excl IFRS 16	Q1-Q2 incl IFRS 16	IFRS 16 effect	Q1-Q2 excl IFRS 16
Net sales	416	-	416	796	-	796
Cost of goods and services sold	-162	-	-162	-316	-	-316
GROSS PROFIT	254		254	480	0	480
Operating expenses	-171	-9	-180	-326	-17	-344
Depreciation and amortization	-11	8	-3	-21	16	-6
OPERATING PROFIT	72	-1	71	132	-2	130
Financial net	-2	1	-2	-6	1	-5
Profit before tax	70	0	69	126	-1	125
Tax	-18	0	-18	-33	0	-33
PROFIT FOR THE PERIOD	51	0	51	92	0	92

Balance sheets, SEK million	Q2-19 incl IFRS 16	IFRS 16 effect	Q2-19 excl IFRS 16	CB 1812	IFRS 16 effect	OB 1901
ASSETS						
Total fixed assets	1,344	-97	1,247	1,158	103	1,261
Total current assets	517	-	517	419	-	419
Total assets	1,861	-97	1,764	1,577	103	1,680
EQUITY AND LIABILITIES						
Equity	900	-1	899	857	0	857
Total non-current liabilities	618	-68	550	454	75	529
Total current liabilities	343	-28	316	266	27	293
Total Equity and liabilities	1,861	-97	1,764	1,577	103	1,680
Net debt	524	-96	428			

Financial accounts	Q2-19 incl IFRS 16	Q2-19 excl IFRS 16	Q1-Q2 incl IFRS 16	Q1-Q2 excl IFRS 16	R12 incl IFRS 16	R12 excl IFRS 16
EBITDA (SEK m)	94	85	174	156	325	311
EBITDA (%)	22.6	20.5	21.8	19.6	21.5	20.6
Return on capital employed (%)	-	-	-	-	19.3	19.8
Equity/assets ratio (%)	-	-	-	-	48.4	50.9
Net debt/equity ratio	-	-	-	-	0.58	0.48
Net debt/EBITDA	-	-	-	-	1.61	1.38

Short about the company

Strategies

GROWTH STRATEGY – HMS Networks focuses primarily on organic growth, where expansion in existing markets is done through a continuously improved and expanded product offering, often including new technology. This is combined with a high level of service and active investments in new sales channels globally. New markets are addressed with innovative and targeted solutions. Growth can also be generated through selective acquisitions of businesses with complementary offerings.

DEVELOPMENT STRATEGY – The Company's core competence is the broad and deep knowledge of industrial communication and IIoT, Industrial Internet of Things. A clear platform strategy ensures that all development centers within HMS are using core HMS technology.

PRODUCT STRATEGY – HMS offers solutions for industrial communication and IIoT under the trademarks Anybus®, Ewon® and Ixxat®. Communication solutions for building automation are offered through the subsidiary Intesis.

- Anybus – connection of automation products and machines to industrial networks and IIoT applications, through embedded network cards, gateways and wireless solutions
- Ewon – remote access, monitoring, data collection and control of machines as well as other industrial applications
- Ixxat – communication within machines and smart grids, as well as solutions for functional safety and automotive testing

PRODUCTION STRATEGY – Flexible low volume production in own factories in Halmstad, Nivelles and Igualada is combined with high volume production in Europe and Asia in close collaboration with carefully selected subcontractors.

MARKETING STRATEGY – HMS markets targeted solutions to all key players in the industrial value chain. Device manufacturers and machine builders are offered solutions that are tightly integrated into the customer's application. System integrators and end users are offered flexible infrastructure products that solve all kinds of communication problems in industrial systems and IoT applications. HMS's most important market is still factory automation, but other important markets are energy and infrastructure, transport and logistics, and building automation.

SALES STRATEGY – HMS combines direct sales from own sales offices with sales through distribution. HMS has sales offices in key markets in 16 countries, complemented by a network of distributors and solution partners in more than 50 countries.

Business model

HMS has developed its business models by packaging advanced industrial communication and IIoT technology into targeted solutions that match the needs of each target group. With device manufacturers and machine builders, HMS signs long-term framework agreements, so-called Design-Wins. This model is characterized by a relatively long sales cycle and design phase during which HMS's solutions are specified into the customer's application, after which long-term revenues are secured. The close collaboration gives HMS clear insight into the customer's future needs.

The business model towards system integrators is more traditional with a short sales cycle and manufacturing against customer orders or short-term forecasts. This sale is often handled by local distributors who are supported by HMS's sales and marketing organization.

Report occasions

- Third quarter report 2019 will be published on October 22, 2019
- Year-end report 2019 will be published February 3, 2020
- First quarter report 2020 will be published on April 23, 2020
- Annual General Meeting will be held on April 23, 2020

ASSURANCE

The Board of Directors and CEO assure that the interim report provides a true and fair overview of the Parent Company and the Group's operations, position and earnings and describes the material risks and uncertainties faced by the Parent Company and the Group.

Halmstad July 16, 2019

Staffan Dahlström
Chief Executive Officer

Charlotte Brogren
Chairman of the Board

Ray Mauritsson

Fredrik Hansson

Anders Mörck

Cecilia Wachtmeister

Ulf Södergren

Tobias Persson

Mats Sandberg

Further information can be obtained by:

CEO Staffan Dahlström, telephone +46 35 17 2901 or

CFO Joakim Nideborn, telephone +46 35 710 6983

This information is such that HMS Networks AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the contact persons set out above, at 08.00 CET on July 16, 2019.

Income statements

SEK millions	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	1807-1906 12 months	Q1-Q4 2018
Net sales	416	329	796	649	1,512	1,366
Cost of goods and services sold	-162	-122	-316	-245	-603	-532
GROSS PROFIT	254	206	480	404	909	834
Sales and marketing costs	-93	-78	-172	-147	-335	-310
Administrative expenses	-35	-28	-66	-56	-121	-111
Research and development costs	-50	-39	-100	-76	-186	-162
Other operating income	-	3	-	4	3	6
Other operating costs	-5	-2	-10	-3	-12	-5
OPERATING PROFIT	72	63	132	125	258	251
Financial income and costs	-2	-5	-7	-16	-10	-20
Profit before tax	70	58	126	110	248	232
Tax	-18	-16	-33	-31	-63	-61
PROFIT FOR THE PERIOD	51	42	92	79	185	171
Attributed to:						
Parent company shareholders	51	42	92	79	185	171
Non-controlling interests	0	-	0	-	0	-
Earnings per share regarding profit attributed to parent company shareholders						
Before dilution, SEK	1.10	0.90	1.98	1.69	3.96	3.68
After dilution, SEK	1.09	0.89	1.97	1.68	3.94	3.65

Statement of comprehensive income

SEK millions	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	1807-1906 12 months	Q1-Q4 2018
Profit for the period	51	42	92	79	185	171
Other comprehensive income						
Items that may be reclassified subsequently to income statement						
Cash flow hedges	0	-5	-5	-5	-1	0
Hedging of net investments	-4	-3	-8	-14	-4	-10
Translation differences	10	15	28	59	16	48
Income tax relating to components of other comprehensive income	1	2	3	4	1	2
Other comprehensive income for the period, net of tax	7	9	17	45	12	39
Total comprehensive income for the period	58	51	110	124	197	211
Attributed to:						
Parent company shareholders	58	51	110	124	197	211
Non-controlling interests	0	-	0	-	0	-

Balance sheets

SEK millions	Jun 30 2019	Jun 30 2018	Dec 31 2018
ASSETS			
Goodwill	909	791	841
Other intangible assets	265	259	254
Property, plant and equipment	39	31	33
Right-to-use assets/Lease assets	115	22	19
Deferred tax assets	8	6	4
Other long term receivables	9	2	7
Total fixed assets	1,344	1,110	1,158
Inventories	174	143	157
Accounts receivable - trade	191	164	161
Other current receivables	65	39	42
Cash and cash equivalents	86	96	59
Total current assets	517	442	419
TOTAL ASSETS	1,861	1,551	1,577
EQUITY AND LIABILITIES			
Equity attributed to parent company shareholders	886	778	857
Non-controlling interests	14	-	-
Total Equity	900	778	857
Liabilities			
Non-current interest-bearing liabilities	454	436	359
Non-current lease liabilities	86	21	19
Deferred income tax liabilities	77	77	76
Total non-current liabilities	618	534	454
Current interest-bearing liabilities	39	0	21
Current lease liabilities	30	4	3
Accounts payable - trade	111	89	105
Other current liabilities	163	146	138
Total current liabilities	343	239	266
TOTAL EQUITY AND LIABILITIES	1,861	1,551	1,577

Cash flow statements

SEK millions	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	1807-1906 12 months	Q1-Q4 2018
Cash flow from operating activities before changes in working capital	70	60	130	130	233	232
Cash flow from changes in working capital	-19	-9	-27	-59	-8	-39
Cash flow from operating activities	51	51	103	71	225	193
Cash flow from investing activities	-42 ²	-8	-53 ²	-18	-98	-62 ¹
Cash flow from financing activities	-17	-18	-26	-51	-141	-166
Cash flow for the period	-8	24	24	2	-14	-35
Cash and cash equivalents at beginning of the period	93	71	59	91	96	91
Translation differences in cash and cash equivalents	2	1	4	3	4	3
Cash and cash equivalents at end of period	86	96	86	96	86	59
Interest-bearing liabilities	610	461	610	461	610	401
Net debt	524	365	524	365	524	342

¹ The acquisition of Beck's impact on the Group's cash and cash equivalents, after deduction of Beck's cash and cash equivalents, amounted to SEK 22 m in Q3 2018.

² The acquisition of WEBfactory's impact on the Group's cash and cash equivalents, after deduction of WEBfactory's cash and cash equivalents, amounted to SEK 13 m in Q2 2019.

² The acquisition of Raster's impact on the Group's cash and cash equivalents, after deduction of Raster's cash and cash equivalents, amounted to SEK 12 m in Q2 2019.

Equity

Change in Group Equity, SEK millions	Jun 30 2019	Jun 30 2018	Dec 31 2018
Opening balance at January 1	857	721	721
Total comprehensive income for the period	110	24	211
Share-related payment	3	3	5
Repurchase of own shares	0	0	-11
Dividends	-84	-70	-70
Closing balance attributed to parent company share-holders	886	778	857
Non-controlling interest arising from acquisition of sub-sidiaries	14	-	-
Closing balance	900	778	857

Financial accounts

	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	1807-1906 12 months	Q1-Q4 2018
Net increase in net sales (%)	26.5	10.1	22.6	12.5	20.5	15.4
Gross margin (%)	61.2	62.8	60.3	62.3	60.1	61.1
EBITDA (SEK m)	94	75	174	150	325	302
EBITDA (%)	22.6	22.9	21.8	23.2	21.5	22.1
EBIT (SEK m)	72	63	132	125	258	251
EBIT (%)	17.3	19.0	16.6	19.3	17.1	18.4
Return on capital employed (%)	-	-	-	-	19.3	20.7
Return on Shareholder's equity (%)	-	-	-	-	21.7	21.6
Working capital in relation to sales (%)	-	-	-	-	8.3	7.2
Capital turnover rate	-	-	-	-	0.91	0.89
Net debt/equity ratio	-	-	-	-	0.58	0.40
Equity/assets ratio (%)	-	-	-	-	48.4	54.3
Investments in tangible fixed assets (SEK m)	5	4	12	8	17	13
Investments in right-to-use assets/lease assets (SEK m)	5	-	11	-	11	-
Investments in intangible fixed assets (SEK m)	12	3	16	7	26	17
Depreciation of tangible fixed assets (SEK m)	-4	-3	-7	-7	-14	-10
Depreciation of right-to-use assets/lease assets (SEK m)	-7	-1	-14	-2	-16	-4
Amortization of intangible fixed assets (SEK m)	-11	-9	-20	-18	-39	-37
<i>Of which amortization of overvalues acquired</i>	-3	-3	-7	-6	-13	-13
<i>Of which amortization of capitalized development costs</i>	-8	-6	-14	-12	-26	-24
Number of employees (average)	605	523	596	523	572	536
Net sales per employees (SEK m)	0.7	0.6	1.3	1.2	2.6	2.6
Equity per share (SEK)	19.42	16.88	19.07	16.42	18.28	17.06
Cash flow from operations per share (SEK)	1.10	1.08	2.21	1.52	4.84	4.14
Total number of share average (thousands)	46,819	46,819	46,819	46,819	46,819	46,819
Holding of own shares average (thousands)	203	223	233	269	243	279
Total outstanding shares average (thousands)	46,616	46,596	46,586	46,550	46,576	46,540

Quarterly data

Division of income per brand SEK millions	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Anybus	251	225	211	209	183	189	182	185
Ixxat	44	48	44	45	39	38	39	40
Ewon	74	73	67	63	70	64	58	57
Intesis	28	25	24	25	25	24	16	21
Other	19	8	18	11	12	5	6	2
Total	416	380	363	353	329	320	301	305

All brands are based on a common technology platform and are marketed and sold in common sales channels. Therefore, no complete segment follow-up is reported.

Net sales per region SEK millions	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
EMEA	256	240	222	220	208	198	181	185
Americas	81	84	81	75	67	59	62	64
Asia	79	55	60	58	54	63	58	55
Total	416	380	363	353	329	320	301	305

Income statement SEK millions	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net sales	416	380	363	353	329	320	301	305
Gross profit	254	225	216	213	206	198	182	186
<i>Gross margin (%)</i>	<i>61.2</i>	<i>59.3</i>	<i>59.6</i>	<i>60.3</i>	<i>62.8</i>	<i>61.8</i>	<i>60.3</i>	<i>60.9</i>
Operating profit	72	60	52	74	63	63	31	65
<i>Operating margin (%)</i>	<i>17.3</i>	<i>15.8</i>	<i>14.3</i>	<i>20.9</i>	<i>19.0</i>	<i>19.6</i>	<i>10.2</i>	<i>21.2</i>
Profit before tax	70	56	52	70	58	52	25	58

Parent company's income statement

SEK millions	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	1807-1906 12 months	Q1-Q4 2018
Net sales	4	4	8	8	18	17
Gross profit	4	4	8	8	18	17
Administrative expenses	-4	-4	-8	-8	-18	-17
Operating profit	0	0	0	0	0	0
Profit from participations in subsidiaries	179	162	179	162	182	165
Interest income/ expenses and similar items	1	0	2	0	2	1
Profit before tax	180	162	181	162	184	164
Tax	-	-1	-	-1	0	-1
Profit for the period	180	161	181	161	184	164

Parent company's balance sheet

SEK millions	Jun 30 2019	Jun 30 2018	Dec 31 2018
ASSETS			
Financial assets	337	337	337
Total financial assets	337	337	337
Receivables from Group companies	96	62	64
Other receivables	2	1	0
Cash and cash equivalents	1	2	1
Total current assets	99	65	66
TOTAL ASSETS	436	402	404
EQUITY AND LIABILITIES			
Equity	299	210	202
Current liabilities			
Accounts payable - trade	0	1	0
Liabilities to Group companies	132	168	196
Other current liabilities	5	4	6
Total current liabilities	137	193	202
TOTAL EQUITY AND LIABILITIES	436	402	404

Definitions

NUMBER OF OUTSTANDING SHARES

The number of registered shares, less repurchased own shares that are held as treasury shares.

RETURN ON SHAREHOLDER'S EQUITY

Share of the profit after tax attributable to the parent company shareholders in relation to the average of Shareholder's equity.

RETURN ON CAPITAL EMPLOYED

Profit after financial income in relation to the average capital employed.

EBIT

Operating income according to income statement.

EBITDA

Operating profit excluding depreciation and amortization of tangible and intangible assets.

EQUITY PER SHARE

Average equity attributable to the Parent Company's shareholders divided by the number of outstanding shares at the end of the period.

FINANCIAL ASSETS

Long-term and short-term financial receivables plus cash and cash equivalents.

AVERAGE NUMBER OF OUTSTANDING SHARES

The average number of registered shares less repurchased own shares that are held as treasury shares.

CAPITAL TURNOVER

Net sales in relation to average balance sheet total.

CASH FLOW FROM OPERATING ACTIVITIES PER SHARE

Cash flow from operating activities in relation to the average number of outstanding shares.

NET DEBT

Long-term and current interest-bearing financial liabilities less financial assets.

NET DEBT/EQUITY RATIO

Net debt in relation to Shareholders' equity.

WORKING CAPITAL

Current assets less cash and cash equivalents and current liabilities calculated on average values.

OPERATING MARGIN

Operating profit in relation to net sales.

EQUITY/ASSETS RATIO

Shareholders' equity in relation to total assets.

CAPITAL EMPLOYED

Total assets less non-interest-bearing current liabilities, provisions, and total deferred tax liabilities.

EARNINGS PER SHARE, UNDILUTED

Share of the profit after tax attributable to the parent company shareholders in relation to the average number of outstanding shares.

EARNINGS PER SHARE, DILUTED

Share of the profit after tax attributable to the parent company shareholders in relation to the average number of outstanding shares plus an adjustment for the average number of shares that are added when converting the outstanding number of convertibles and options.

Alternative key ratios

HMS presents certain financial measures in the interim report that has not been defined in accordance with IFRS. The company considers that these measures provide valuable additional information for investors and the company's management, as they enable the evaluation of relevant trends and the company's performance.

As not all companies calculate financial measures in the same way, these are not always comparable with the measures used by other companies. These financial measures should therefore not be viewed as substitutes for IFRS-defined measures, unless otherwise stated.

SEK millions	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	1807-1906 12 months	Q1-Q4 2018
Operating profit	72	63	132	125	258	251
Depreciation/amortization	22	13	42	25	67	51
EBITDA	94	75	174	150	325	302

HMS Networks AB (publ) is the leading independent supplier of solutions for industrial communication and the Industrial Internet of Things. HMS develops and manufactures products under the Anybus®, Ixxat® and Ewon® brands. Communication solutions for building automation are offered through the subsidiary Intesis. Development and manufacturing take place at the headquarters in Halmstad, and in Ravensburg, Nivelles, Igualada, Wetzlar and Buchen. Local sales and support are handled by branch offices in Germany, USA, Japan, China, Singapore, Italy, France, Switzerland, Spain, the Netherlands, India, UK, Sweden, South Korea and UAE, as well as through a worldwide network of distributors and partners. HMS employs over 600 people and reported sales of SEK 1,366 million in 2018. HMS is listed on the NASDAQ OMX in Stockholm, category Mid Cap, Information Technology.



Our vision

"In a world where all devices are intelligent and networked... HMS is the leader in making industrial devices and systems communicate – for a more productive and sustainable world."

Our mission

"We drive innovation in collaboration with partners and customers creating leading technologies, products and solutions bringing value to real-world challenges".