

hms networks

Year-end report 2019
January - December

Fourth quarter

- Net sales for the fourth quarter reached SEK 346 m (363), corresponding to a decrease of 5 %. Currency translations had a positive effect of SEK 15 m on net sales
- Order intake was SEK 337 m (387), corresponding to a decrease of 13 %
- Operating profit reached SEK 55 m (52) equal to a 15.9 % (14.3) operating margin
- Operating profit, adjusted for settlement regarding agreed additional purchase price related to Beck IPC and restructuring effect, amounted to SEK 33 m, corresponding to an operating margin of 9.5%
- The total tax for the quarter amounted to SEK +20 m, mainly related to retroactive tax reduction of SEK 28 m
- Profit after taxes totalled SEK 67 m (42) and earnings per share was SEK 1.46 (0.90). Adjusted profit after tax totalled SEK 31 m and adjusted earnings per share was SEK 0.68 SEK
- Cash flow from operating activities amounted to SEK 61 m (49)

Yearly

- Net sales for the full year amounted to SEK 1,519 m (1,366), corresponding to an 11 % increase. Currency translations had a positive effect of SEK 73 m on net sales
- Order intake was SEK 1,470 m (1,433), corresponding to an increase of 3 %
- Operating profit was SEK 243 m (251), equal to a 16.0 % (18.4) operating margin
- Operating profit, adjusted for restructuring costs and settlement regarding agreed additional purchase price, reached SEK 246 m equal to a 16.2 % operating margin
- Profit after taxes totalled SEK 205 m (171) and earnings per share was SEK 4.43 (3.68). Adjusted profit after tax totalled SEK 188 m and adjusted earnings per share was SEK 4.06
- Cash flow from operating activities amounted to SEK 254 m (193)
- The Board of Directors propose a dividend to the amount of SEK 1.90 (1.80) per share



This is a translation of the Swedish language original. In the event of any differences between this translation and the Swedish original, the latter shall prevail.

Comment from the CEO

We conclude 2019 with a weak fourth quarter. The market situation is still challenging, and the quarter showed both weaker sales and order intake. Sales amounted to SEK 346 m, a decrease of 5 % from the corresponding period last year. Organically, the decrease is 10 %.

In Europe, mainly driven by Germany, the downturn has continued and we believe that the market will continue to be weak during the first part of 2020. The Americas and Asia also saw a weaker market during the quarter, although there are some positive indicators for the future. In general, the future demand in our markets is difficult to assess. On the product side, we can see that Anybus and also partly Ixxat are the main reasons for our weaker development. Especially our embedded products, which are dependent on investments in production, are affected when our customers have weak own demand and continue to reduce their stock. On the positive side, we can see that both Ewon and Intesis made a stronger quarter.

Despite a hesitant market, we see that interest in HMS solutions remains high and we have a record number of new leads. The products sold according to our Design-Win business model, continue to show stable growth in the number of new customers during 2019. In total, we received 199 (177) new Design-Wins during the year. This brings the total number of active Design-Wins to 1,797 (1,693), an increase of 6 % compared to the previous year. Of these, 1,399 (1,304) are in production, while 398 (389) are expected to be in production in the coming years. 49 % of the total revenue is related to Design-Wins. A continued steady inflow of new Design-Wins is proof of HMS' attractive product offering and gives us good platform for future growth.

During the quarter, the integration of Beck IPC GmbH was completed, including a settlement regarding agreed additional purchase price. This had a positive impact on the quarter's operating profit by SEK 19 m.

The quarter shows a stable gross margin of 61.2 %, which is slightly better than the corresponding quarter last year, despite lower production volumes during the quarter. Operating profit for the quarter amounted to SEK 55 m, corresponding to an operating margin of 16 %. The adjusted operating profit, excluding the above mentioned earn-out settlement and restructuring effect, amounts to SEK 33 m. Our cash flow continues to be strong, largely driven by improvements in working capital.

The previously communicated cost-savings program has been implemented during the quarter. The cost reduction program aimed to adapt the organization to focus on segments with growth potential, and also strengthen cost control in areas with weaker

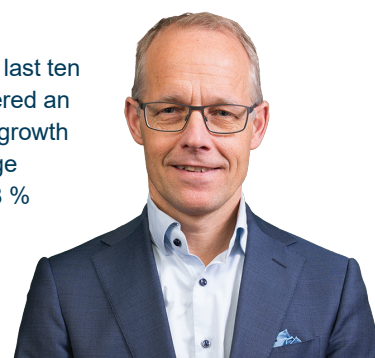
growth prospects in the future. 43 employees have terminated their employment at HMS, and the cost of the program totalled at SEK 22 m, compared to the previously estimated SEK 25 m. The annual savings are expected to be SEK 45 m, which is in line with what was previously communicated.

During the year, we continued to develop our global Supply Chain, which in 2019 delivered more than 1.1 million products to our customers. During the year, we moved some of our production from China to Europe, where we expanded production in Lithuania and started cooperating with a new partner in Romania. A large part of the final stages in our production processes – programming and quality control – are carried out within HMS' own facilities and approximately 90 % of our products are defined as "Made in the EU."

The full year 2019 concludes sales of SEK 1,519 m, an increase of 11 % from 2018 and an operating profit of SEK 243 m, corresponding to an operating margin of 16 %. It is also worth noting that profit after tax in 2019 has been positively affected this year's last quarter partly thanks to Belgian tax authorities has granted us SEK 19 m in tax relief for product development operations linked to our Ewon products for 2018-2019.

Looking back over the last ten years, HMS has delivered an annual average sales growth of 18 % and an average operating margin of 18 %, which is just below our long-term goals of 20 % growth and operating margin. In the short term, however, we see that it will be challenging to reach our growth targets, as our markets are still expected to have a weak development, especially in the Automotive segment. However, we continue to focus on long-term growth and a balanced view of our costs. In the long term, we continue to believe that the market for industrial communication will be an interesting growth area and we will continue to focus on our motto "Connecting Devices".

“Looking back over the last ten years, HMS has delivered an annual average sales growth of 18 % and an average operating margin of 18 %



Staffan Dahlström, CEO, HMS Networks AB

-13%

Order intake

Q4

-5%

Net sales

Q4

16%

Operating margin

Q4

Order intake, net sales and earnings

Fourth quarter

Order intake decreased by 13 % to SEK 337 m (387) of which currency translations affected positively by SEK 10 m. The acquired companies have contributed to the order intake with SEK 8 m. The organic decrease in order intake was 18 %.

Net sales decreased by 5 % to SEK 346 m (363) of which currency translation effects affected positively by SEK 15 m (21). The acquired companies have contributed to the net sales with SEK 6 m. The organic decrease in net sales was 10 %.

Gross profit reached SEK 212 m (216) corresponding to a gross margin of 61.2 % (59.6). Operating expenses increased in total by SEK 12 m to SEK 176 m (164), excluding the effect of SEK 19 m attributable to settlement regarding agreed additional purchase price related to Beck IPC. The organic change in operating expenses was SEK -3 m.

Operating profit before depreciation amounted to SEK 78 m (65), corresponding to a margin of 22.6 % (17.9). Depreciations amounted to SEK 23 m (13) whereof SEK 8 m are related to IFRS 16 Leases. Operating profit amounted to SEK 55 m (52) corresponding to a margin of 15.9 % (14.3). The operating profit includes a positive effect of SEK 19 m attributable to settlement regarding agreed additional purchase price related to Beck IPC. Of this, SEK 4 m has been adjusted continuously during the year and has in previous reports been reported as financial income. Currency translations had a positive effect on the Group's operating profit for the quarter of SEK 6 m (7). Due to the decline of the Swedish krona during the quarter, realized currency hedges have affected operating profit by SEK -4 m (0). During the quarter the acquired companies had a SEK 5 m negative impact on the operating profit.

Net financials was SEK -8 m (0). This includes SEK 4 m attributable to settlement regarding agreed additional purchase price related to Beck IPC, reclassified to other operating income, which gave a profit before tax of SEK 47 m (52).

The reported tax for the quarter was positive by SEK 20 m, which is mainly explained by the fact that one of the Belgian subsidiary's products has received a substantial tax exemption, which has affected the tax positively by SEK 19 m (of which SEK 10 m is related to 2018 and SEK 9 m for 2019). In addition, the effective tax was positively affected by approximately SEK 9 m corresponding to additional purchase price related transactions. Profit after tax amounted

to SEK 67 m (42) and earnings per share before and after dilution was SEK 1.46 (0.90) and SEK 1.46 (0.89) respectively. Adjusted profit after tax totalled SEK 31 m and adjusted earnings per share was SEK 0.68.

Yearly

Order intake increased by 3 % to SEK 1,470 m (1,433) of which currency translations affected positively by SEK 66 m. The acquired companies have contributed to the order intake with SEK 49 m. The organic change was -5 %.

Net sales increased by 11 % to SEK 1,519 m (1,366) of which currency translations affected positively by SEK 73 m (65). The acquired companies have contributed to the net sales with SEK 64 m. The organic increase in net sales was 1 %.

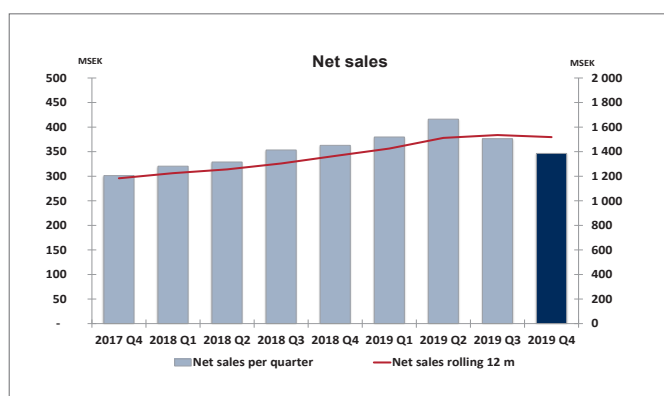
Gross profit reached SEK 928 m (834) to a gross margin of 61.1 % (61.1). Operating expenses, excluding the effect of SEK 19 m attributable to settlement regarding agreed additional purchase price related to Beck IPC, totalled SEK 704 m (583). The organic increase, excluding SEK 22 m regarding restructuring costs which was initiated at the end of the third quarter to adjust the Group's costs to a weaker market, was SEK 32 m.

Operating profit before depreciation amounted to SEK 334 m (302), corresponding to a margin of 22.0 % (22.1). Depreciations amounted to SEK 90 m (51) whereof SEK 29 m are related to IFRS 16 Leases. Operating profit amounted to SEK 243 m (251) corresponding to a margin of 16.0 % (18.4). The operating profit includes a positive effect of SEK 19 m attributable to settlement regarding agreed additional purchase price related to Beck IPC. Currency translations had a positive effect on the Group's operating profit of SEK 31 m (23). Due to a continued decline of the Swedish krona, realized currency hedges have affected operating profit by SEK -14 m (-5). The acquired companies had a limited impact on the operating profit of the year.

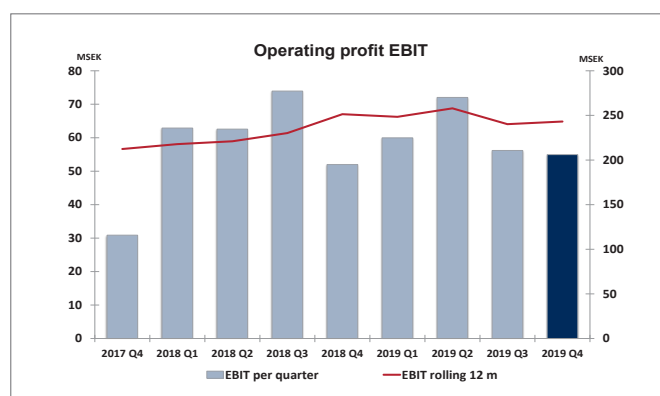
Net financials was SEK -15 m (-20) which gave a profit before tax of SEK 228 m (232). Profit after tax amounted to SEK 205 m (171) and earnings per share before and after dilution was SEK 4.43 (3.68) and SEK 4.40 (3.65) respectively. Adjusted profit after tax totalled SEK 188 m and adjusted earnings per share was SEK 4.06.

SEK millions	Q4 2019	Q4 2018	%
Order intake	337	387	-12.9
Net sales	346	363	-4.6
Gross profit	212	216	-2.0
Gross margin (%)	61.2	59.6	
EBITDA	78	65	20.8
EBITDA (%)	22.6	17.9	
EBIT	55	52	5.7
EBIT (%)	15.9	14.3	

SEK millions	Q1-Q4 2019	Q1-Q4 2018	%
Order intake	1,470	1,433	2.6
Net sales	1,519	1,366	11.2
Gross profit	928	834	11.2
Gross margin (%)	61.1	61.1	
EBITDA	334	302	10.4
EBITDA (%)	22.0	22.1	
EBIT	243	251	-3.3
EBIT (%)	16.0	18.4	



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	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Order intake (SEK m)	337	372	375	387	387	360	336	350
Net sales (SEK m)	346	377	416	380	363	353	329	320
Gross margin (%)	61.2	62.8	61.2	59.3	59.6	60.3	62.8	61.8
EBITDA (SEK m)	78	82	94	79	65	87	75	75
EBITDA (%)	22.6	21.7	22.6	20.9	17.9	24.5	22.9	23.5
EBIT (SEK m)	55	56	72	60	52	74	63	63
EBIT (%)	15.9	14.9	17.3	15.8	14.3	20.9	19.0	19.6
Cash flow from operating activities per share (SEK)	1.30	1.93	1.10	1.11	1.05	1.57	1.08	0.43
Earnings per share before dilution (SEK)	1.46	0.98	1.10	0.88	0.90	1.09	0.90	0.80
Earnings per share before after dilution (SEK)	1.46	0.98	1.09	0.87	0.89	1.08	0.89	0.79
Equity per share (SEK)	21.06	19.88	19.42	18.96	17.98	17.13	16.88	16.28

¹ All quarters of 2019 are effected by IFRS 16 Leases. For more information, see page 9.

Cash flow, investments and financial position

Fourth quarter

Cash flow from operating activities before changes in working capital amounted to SEK 32 m (44) for the fourth quarter. Changes in working capital was SEK 28 m (5), mainly explained by a decrease in accounts receivable and inventory. Cash flow from operating activities was thereby SEK 61 m (49).

During the quarter, investments in new assets claimed SEK 19 m (15). Cash flow from investing activities was thereby SEK -19 m (-17).

Cash flow from financing activities claimed SEK -45 m (-29), which is mainly explained by a decrease in external loans of SEK 38 m (34). Moreover, amortizations of lease liabilities claimed SEK 8 m (1). This means that cash flow for the quarter was SEK -4 m (3).

Yearly

Cash flow from operating activities before changes in working capital amounted to SEK 264 m (232) for the year. Changes in working capital was SEK -10 m (-39), mainly due to a combination of decreased accounts receivable and accounts payable. Cash flow from operating activities was thereby SEK 254 m (193).

During the year investments in new assets claimed SEK 68 m (36) and acquisitions of new shares in subsidiaries claimed SEK 24 m (26). Cash flow from investing activities was SEK -92 m (-62).

Cash flow from financing activities amounted to SEK -173 m (-166), mainly explained by a disbursed dividend of SEK 84 m (70) as well as a decrease in external loans of SEK 58 m (24). Moreover, amortizations of lease liabilities claimed SEK 29 m (4). This means that cash flow for the year was SEK -12 m (-35).

Cash and cash equivalents and net debt

Cash and cash equivalents amounted to SEK 51 m (59) and unused credit facilities to SEK 176 m (158). Net debt amounted to SEK 402 m (342) and net debt to EBITDA ratio for the last twelve months was 1.20 (1.13). Net debt/Equity ratio was 40 % (40) and Equity/Assets ratio 58 % (54).

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 distributed to the shareholders.

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).

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 December 31, 2019, the total number of saved shares amounted to 141,941 (159,023) 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. Shares used for the allocation was own shares held by the company.

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 year amounted to SEK 0 m (0). Dividends from subsidiaries totalled SEK 179 m (165) and the profit for the period amounted to SEK 181 m (164) after tax. Cash and cash equivalents amounted to SEK 1 m (1), 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.

The acquisition price amounted to EUR 3.2 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.

The acquisition generated a SEK 43 m excess value in the Group (25.1 % minority share included). The acquired company is consolidated in the HMS Group accounts as of April 1, 2019. During the first nine months, WEBfactory had a positive impact on the net sales of the Group of SEK 15 m. The acquisition's contribution to operating profit, including amortization on acquired overvalues and acquisition costs, amounted to SEK -9 m.

Based on completed valuation of the identifiable assets, the acquisition analysis has been updated during the fourth quarter. According to the acquisition analysis, the consideration, acquired net assets and goodwill amount to:

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

The assets and liabilities recognized in conjunction with the acquisition are as follows:	SEK million
Intangible fixed assets	
- Intellectual property rights	19
- Customer relations	12
- Deferred tax liabilities	- 6
Property, plant and equipment	0
Current assets	5
Cash and cash equivalents	0
Non-current liabilities	- 19
Current liabilities	- 3
Total identifiable net assets	8
Goodwill*	29
Acquired net assets	37

*Goodwill is attributable to the market position of WEBfactory in the IIoT segment and expected synergies with existing operations. No part of the recognized goodwill is expected to be tax deductible.

HMS acquires Raster Products B.V.

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

The purchase price amounted to EUR 1.1 m on a debt free basis and was financed with existing bank credit.

The acquisition generated a SEK 8 m excess value in the Group. The acquired company is consolidated in the HMS Group accounts as of May 1, 2019. Raster Products had a limited impact on the net sales and operating profit of the Group during the first eight months.

Based on completed valuation of the identifiable intangible assets, the acquisition analysis has been updated during the fourth quarter. According to the acquisition analysis, the consideration, acquired net assets and goodwill amount to:

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

The assets and liabilities recognized in conjunction with the acquisition are as follows:	SEK million
Property, plant and equipment	1
Current assets	6
Cash and cash equivalents	0
Current liabilities	- 3
Total identifiable net assets	4
Goodwill*	8
Acquired net assets	12

*Goodwill is attributable to the geographical market position of Raster Products. No part of the recognized goodwill is expected to be tax deductible.

Acquisition analysis of Beck IPC

The acquisition analysis from the acquisition of Beck IPC became definitive in the third quarter 2019, as one year has passed since the acquisition on July 17, 2018. Final acquisition analysis was presented in HMS' interim report for the third quarter 2019.

Cost reduction program

HMS has implemented a cost reduction program to adapt to a weaker market. The financial impact will be a run-rate saving of SEK 45 m with full impact 2020. The restructuring activities has resulted in total costs of SEK 22 m, mainly impacting the third quarter 2019. In total the program has affected 43 employees throughout the Group.

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, and expansion of the HMS sales channels according to the existing strategy.

The global business climate is still 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' long-term 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 in these documents, no additional significant risks have been identified.

Audit review

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

Nomination committee

In accordance with principles adopted at a prior HMS' Annual General Meeting, the following persons have been assigned to be a part of the Nomination Committee: Johan Hjertonsson, Investment AB Latour, representing 26 % of the shares, Staffan Dahlström representing 14 % of the shares, Evert Carlsson, Swedbank Robur Fonder AB representing 9 % of the shares, Per Trygg, SEB Fonder representing 6 % of the shares and Charlotte Brogren, Chairman of the Board. The Nomination Committee has appointed Johan Hjertonsson as its Chairman.

Accounting policies

HMS' consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), adopted by the EU. 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 December 31, 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).

Items affecting comparability

Items affecting comparability are reported separately in the financial statements when it is necessary to explain the Group's results. Items affecting comparability refer to significant income or expense items that are reported separately due to the significance of their character or amount.

During the third and fourth quarter of 2019, the Group reports restructuring costs of SEK -25 m and SEK 3 m, respectively related to a cost reduction program. During the fourth quarter, the Group reported non-taxable operating income of SEK 19 m, attributable to settlement regarding agreed additional purchase price related to Beck IPC. The fourth quarter was also affected by tax relief in total SEK 15 m, attributable to the previous year.

Since the costs are significant in the individual quarter and not normally occurring, these costs are handled as items affecting comparability in the accounts.

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 2018 Annual Report.

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' 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 on page 9.

Income statements, SEK millions	Q4-19 incl IFRS 16	IFRS 16 effect	Q4-19 excl IFRS 16	Q1-Q4 incl IFRS 16	IFRS 16 effect	Q1-Q4 excl IFRS 16
Net sales	346	-	346	1,519	-	1,519
Cost of goods and services sold	-116	-7	-123	-538	-7	-545
Depreciation and amortization	-18	6	-12	-53	6	-47
GROSS PROFIT	212	-1	211	928	-1	927
Operating expenses	-151	-2	-153	-647	-26	-673
Depreciation and amortization	-5	2	-4	-38	24	-14
OPERATING PROFIT	55	-1	54	243	-3	240
Financial net	-8	0	-7	-15	2	-13
Profit before tax	47	-1	47	228	-2	226
Tax	20	0	20	-23	0	-23
PROFIT FOR THE PERIOD	67	0	67	205	-1	204
Attributed to Parent company shareholders	68	0	68	206	-1	205
Non-controlling interests	-1	0	-1	-1	0	-1

Balance sheets, SEK millions	Q4-19 incl IFRS 16	IFRS 16 effect	Q4-19 excl IFRS 16	CB 1812	IFRS 16 effect	OB 1901
ASSETS						
Total fixed assets	1,335	-95	1,240	1,158	103	1,261
Total current assets	422	-	422	419	-	419
Total assets	1,758	-95	1,662	1,577	103	1,680
EQUITY AND LIABILITIES						
Equity	1,010	-1	1,009	857	0	857
Total non-current liabilities	498	-66	432	454	75	529
Total current liabilities	249	-28	221	266	27	293
Total Equity and liabilities	1,758	-95	1,662	1,577	103	1,680
Net debt	402	-93	309			

Financial accounts	Q4-19 incl IFRS 16	Q4-19 excl IFRS 16	Q1-Q4 incl IFRS 16	Q1-Q4 excl IFRS 16
EBITDA (SEK m)	78	70	334	301
EBITDA (%)	22.6	20.1	22.0	19.8
Return on capital employed (%)	-	-	17.2	18.0
Equity/assets ratio (%)	-	-	57.5	60.7
Net debt/equity ratio	-	-	0.40	0.31
Net debt/EBITDA	-	-	1.20	1.03

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®, Ixxat® and 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, data collection, monitoring and control of machines as well as other industrial applications
- Ixxat – communication within machines and smart grids, solutions for functional safety as well as automotive testing
- Intesis – communication solutions for building automation, primarily within HVAC (heating, ventilation and air conditioning)

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 its solutions to several customer segment 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' 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 14 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 for each targeted customer 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' sales and marketing organization.

Report occasions

- First quarter report 2020 will be published on April 23, 2020
- Annual General Meeting will be held on April 23, 2020
- Half-year report will be published July 15, 2020
- Third quarter report will be published on October 23, 2020

Halmstad February 3, 2020

Staffan Dahlström
Chief Executive Officer

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 14:00 CET on February 3, 2020.

Income statements

SEK millions	Q4 2019	Q4 2018	Q1-Q4 2019	Q1-Q4 2018
Net sales	346	363	1,519	1,366
Cost of goods and services sold	-134	-147	-591	-532
GROSS PROFIT	212	216	928	834
Sales and marketing costs	-91	-91	-349	-310
Administrative expenses	-35	-28	-124	-111
Research and development costs	-49	-45	-190	-162
Restructuring costs ¹	3	-	-22	-
Other operating income ²	20	0	20	6
Other operating costs	-5	0	-20	-5
OPERATING PROFIT	55	52	243	251
Financial income and costs	-8	0	-15	-20
Profit before tax	47	52	228	232
Tax	20	-10	-23	-61
PROFIT FOR THE PERIOD	67	42	205	171
Attributed to:				
Parent company shareholders	68	42	206	171
Non-controlling interests	-1	-	-1	-
Earnings per share regarding profit attributed to parent company shareholders				
Before dilution, SEK	1.46	0.90	4.43	3.68
After dilution, SEK	1.46	0.89	4.40	3.65

¹ Restructuring costs for 2019 are allocated as follows: Cost of goods and services sold SEK 6 m, Sales and marketing costs SEK 9 m, Administrative expenses SEK 4 m and Research and development costs SEK 3 m.

² Other operating income mainly corresponds to the settlement of contracted supplemental purchase price related to Beck IPC.

Statement of comprehensive income

SEK millions	Q4 2019	Q4 2018	Q1-Q4 2019	Q1-Q4 2018
Profit for the period	67	42	205	171
Other comprehensive income				
Items that may be reclassified subsequently to income statement				
Cash flow hedges	14	-2	4	0
Hedging of net investments	9	0	-2	-10
Translation differences	-28	-1	15	48
Income tax relating to components of other comprehensive income	-5	0	0	2
Other comprehensive income for the period, net of tax	-11	-2	16	39
Total comprehensive income for the period	56	39	221	211
Attributed to:				
Parent company shareholders	57	39	223	211
Non-controlling interests	-1	-	-1	-

Balance sheets

SEK millions	Dec 31 2019	Dec 31 2018
ASSETS		
Goodwill	876	841
Other intangible assets	290	254
Property, plant and equipment	44	33
Right-to-use assets/Lease assets	112	19
Deferred tax assets	4	4
Other long term receivables	9	7
Total fixed assets	1,335	1,158
Inventories	159	157
Accounts receivable - trade	143	161
Other current receivables	69	42
Cash and cash equivalents	51	59
Total current assets	422	419
TOTAL ASSETS	1,758	1,577
EQUITY AND LIABILITIES		
Equity attributed to parent company shareholders	998	857
Non-controlling interests	12	-
Total Equity	1,010	857
Liabilities		
Non-current interest-bearing liabilities	339	359
Non-current lease liabilities	82	19
Deferred income tax liabilities	77	76
Total non-current liabilities	498	454
Current interest-bearing liabilities	1	21
Current lease liabilities	31	3
Accounts payable - trade	76	105
Other current liabilities	142	138
Total current liabilities	249	266
TOTAL EQUITY AND LIABILITIES	1,758	1,577

Cash flow statements

SEK millions	Q4 2019	Q4 2018	Q1-Q4 2019	Q1-Q4 2018
Cash flow from operating activities before changes in working capital	32	44	264	232
Cash flow from changes in working capital	28	5	-10	-39
Cash flow from operating activities	61	49	254	193
Cash flow from investing activities	-19	-17	-92	-62
Cash flow from financing activities	-45	-29	-173	-166
Cash flow for the period	-4	3	-12	-35
Cash and cash equivalents at beginning of the period	57	55	59	91
Translation differences in cash and cash equivalents	-2	1	4	3
Cash and cash equivalents at end of period	51	59	51	59
Interest-bearing liabilities	453	401	453	401
Net debt	402	342	402	342

- 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.

- 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.

- 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	Dec 31 2019	Dec 31 2018
Opening balance at January 1	857	721
Total comprehensive income for the period	223	211
Share-related payment	3	5
Repurchase of own shares	-	-11
Dividends	-84	-70
Closing balance attributed to parent company shareholders	998	857
Non-controlling interest arising from acquisition of subsidiaries	12	-
Closing balance	1,010	857

Financial accounts

	Q4 2019	Q4 2018	Q1-Q4 2019	Q1-Q4 2018
Net increase in net sales (%)	-4.6	20.5	11.2	15.4
Gross margin (%)	61.2	59.6	61.1	61.1
EBITDA (SEK m)	78	65	334	302
EBITDA (%)	22.6	17.9	22.0	22.1
EBIT (SEK m)	55	52	243	251
EBIT (%)	15.9	14.3	16.0	18.4
Return on capital employed (%)	-	-	17.2	20.7
Return on Shareholder's equity (%)	-	-	22.3	21.6
Working capital in relation to sales (%)	-	-	9.5	7.2
Capital turnover rate	-	-	0.87	0.89
Net debt/equity ratio	0.40	0.40	0.40	0.40
Equity/assets ratio (%)	57.5	54.3	57.5	54.3
Investments in tangible fixed assets (SEK m)	6	3	25	13
Investments in right-to-use assets/lease assets (SEK m)	5	-	24	-
Investments in intangible fixed assets (SEK m)	12	5	42	17
Depreciation of tangible fixed assets (SEK m)	-4	-3	-15	-10
Depreciation of right-to-use assets/lease assets (SEK m)	-8	-1	-29	-4
Amortization of intangible fixed assets (SEK m)	-12	-9	-46	-37
<i>Of which amortization of overvalues acquired</i>	-3	-3	-16	-13
<i>Of which amortization of capitalized development costs</i>	-9	-6	-30	-24
Number of employees (average)	633	554	617	536
Net sales per employees (SEK m)	0.5	0.7	2.5	2.6
Equity per share (SEK)	21.06	17.98	19.87	17.06
Cash flow from operations per share (SEK)	1.30	1.05	5.45	4.14
Total number of share average (thousands)	46,819	46,819	46,819	46,819
Holding of own shares average (thousands)	203	293	221	279
Total outstanding shares average (thousands)	46,616	46,526	46,598	46,540

Quarterly data

Division of income per brand SEK millions	Q4 2019	Q3 2019	Q2 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018	Q1 2017
Anybus	184	213	251	225	211	209	183	189
Ixxat	42	42	44	48	44	45	39	38
Ewon	75	70	74	73	67	63	70	64
Intesis	34	29	28	25	24	25	25	24
Other	11	22	19	8	18	11	12	5
Total	346	377	416	380	363	353	329	320

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	Q4 2019	Q3 2019	Q2 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018	Q1 2017
EMEA	218	236	256	240	222	220	208	198
Americas	76	80	81	84	81	75	67	59
Asia	52	61	79	55	60	58	54	63
Total	346	377	416	380	363	353	329	320

Income statement SEK millions	Q4 2019	Q3 2019	Q2 2019	Q1 2018	Q4 2018	Q3 2018	Q2 2018	Q1 2017
Net sales	346	377	416	380	363	353	329	320
Gross profit	212	236	254	225	216	213	206	198
<i>Gross margin (%)</i>	<i>61.2</i>	<i>62.8</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>
Operating profit	55	56	72	60	52	74	63	63
<i>Operating margin (%)</i>	<i>15.9</i>	<i>14.9</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>
Profit before tax	47	55	70	56	52	70	58	52

Parent company's income statement

SEK millions	Q4 2019	Q4 2018	Q1-Q4 2019	Q1-Q4 2018
Net sales	5	5	16	17
Gross profit	5	5	16	17
Administrative expenses	-5	-6	-16	-17
Operating profit	-	-1	-	-
Profit from participations in subsidiaries	-	-	179	165
Interest income/ expenses and similar items	-2	1	2	0
Profit before tax	-2	0	181	164
Tax	-1	0	-1	-1
Profit for the period	-2	0	181	164

Parent company's balance sheet

SEK millions	Dec 31 2019	Dec 31 2018
ASSETS		
Financial assets	337	337
Total financial assets	337	337
Receivables from Group companies	96	64
Other receivables	0	0
Cash and cash equivalents	1	1
Total current assets	97	66
TOTAL ASSETS	434	404
EQUITY AND LIABILITIES		
Equity	299	202
Current liabilities		
Accounts payable - trade	0	0
Liabilities to Group companies	128	196
Other current liabilities	7	6
Total current liabilities	135	202
TOTAL EQUITY AND LIABILITIES	434	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.

ADJUSTED PROFIT

Profit exclusive items affecting comparability.

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	Q4 2019	Q4 2018	Q1-Q4 2019	Q1-Q4 2018
Operating profit	55	52	243	251
Depreciation/amortization	23	13	90	51
EBITDA	78	65	334	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®, Ewon® and Intesis™ brands. Development takes place at the headquarters in Halmstad, Ravensburg, Nivelles, Igualada, Wetzlar and Buchen. Local sales and support are handled by branch offices in Germany, USA, Japan, China, Singapore, Italy, France, 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 1,519 million in 2019. 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”.

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