

# hms networks

Interim report 2019  
January - September

## Third quarter

- Net sales for the third quarter reached SEK 377 m (353), corresponding to an increase of 7 %. Currency translations had a positive effect of SEK 15 m on net sales
- Restructuring costs of SEK 25 m impacts the third quarter, related to a cost reduction program
- Operating profit reached SEK 56 m (74) equal to a 14.9 % (20.9) operating margin
- Operating profit before restructuring costs reached SEK 81 m equal to a 21.6 % operating margin
- Order intake was SEK 372 m (360), corresponding to an increase of 3 %
- Cash flow from operating activities amounted to SEK 90 m (73)
- Profit after taxes totalled SEK 46 m (51) and earnings per share was SEK 0.98 (1.09)

## First nine months

- Net sales for the first nine months amounted to SEK 1,172 m (1,003), corresponding to a 17 % increase. Currency translations had a positive effect of SEK 58 m on net sales
- Operating profit was SEK 188 m (199), equal to a 16.0 % (19.9) operating margin
- Operating profit before restructuring costs reached SEK 213 m equal to a 18.2 % operating margin
- Order intake was SEK 1,134 m (1,046), corresponding to an increase of 8 %
- Cash flow from operating activities amounted to SEK 193 m (144)
- Profit after taxes totalled SEK 138 m (129) and earnings per share was SEK 2.96 (2.78)

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

The third quarter showed weaker growth and order intake and we can see that the market slowdown has continued. Sales for the quarter were SEK 377 m, which represents a growth of 7 % compared to the same period last year. The growth is mostly currency- and acquisition driven, organic growth was 1 %. Order intake during the quarter was SEK 372 m, an organic decline of 5 %.

The weak market development, as previously reported, continued during the third quarter. Both macro data and our customers continue to indicate a weak outlook in all our important geographical markets. Japan has been weak throughout the year but now both Germany and the US have shown clear signs of slowdown, although the US has shown some recovery during the latter part of the quarter.

Right now, we see a combination of both a weaker market and customers lowering their inventories. Primarily, we see a slowdown in the manufacturing industry for our brands Anybus and Ewon, whereas we see a more stable development for our brands Ixxat and Intesis, which are primarily geared towards other industrial markets.

The quarter shows a good gross margin of almost 63 %, which is better than our last quarters. This is mainly driven by an advantageous product mix during the quarter.

As reported in a press release on September 23, a cost reduction program has been initiated to adjust our costs to a weaker market. We therefore report restructuring costs of SEK 25 m during the quarter in order to achieve a cost savings of approximately SEK 45 m. Our operating profit before restructuring costs amounts to SEK 81 m for the quarter, corresponding to an operating margin of 21.6 %. After restructuring costs, operating profit is SEK 56 m and the operating margin is 14.9 %.

The cost reduction program will reduce the number of employees by approximately 40 people. As we have expanded during the last few quarters, both organically and through acquisitions, the number of employees after the program has been completed will be more than at the beginning of 2019. The ambition is to continue to invest in segments with great growth potential, and to continue to have good cost control in areas with weaker growth outlook going forward.

Our cash flow is strong during the quarter, SEK 90 m, as a result of the underlying good profitability. We also reduce our net debt and strengthen our financial position, which gives us a relatively low net debt of SEK 463 m, corresponding to 1.45 times EBITDA.

The new acquisitions, WEBfactory and Raster Products, have entered the group well and are developing according to plan. Strategic partnerships have begun with WEBfactory and we are already seeing some cross-selling.

In the short term we still see limited growth potential. We continue to work with our long-term growth targets, sales growth of 20 % per annum and operating margin of 20 %. In the long term, we believe that the market for industrial data communication will be an interesting growth area and we will continue to focus on our motto “HMS - Connecting Devices”.

“We have implemented a cost reduction program to reduce costs in areas that show weaker development, while ensuring long-term investments in our growth areas. We are taking these proactive measures to meet the economic downturn we see in our markets in parallel with our continued development of the long-term growth potential that exists in the market of Industrial communication.”



Staffan Dahlström, CEO, HMS Networks AB

+3%

Order intake

Q3

+7%

Net sales

Q3

15%

Operating margin

Q3



# Order intake, net sales and earnings

## Third quarter

Order intake increased by 3 % to SEK 372 m (360) of which currency translations affected positively by SEK 18 m. The companies WEBfactory and Raster Products acquired during the second quarter have contributed to the order intake with SEK 11 m. The organic change was -5 %.

Net sales increased by 7 % to SEK 377 m (353) of which currency translation effects affected positively by SEK 15 m (29). WEBfactory and Raster Products have contributed to the net sales with SEK 7 m. The organic increase in net sales was 1 %.

Gross profit increased by SEK 23 m to SEK 236 m (213) to a gross margin of 62.8 % (60.3). Operating expenses increased in total by SEK 41 m to SEK 180 m (139) whereof SEK 25 m relates to restructuring costs initiated in the Group at the end of the quarter to adjust to a weaker market. Estimated cost for ongoing share savings programs have been adjusted downwards and contribute positively to the profit in the quarter by SEK 4 m.

Operating profit before depreciation amounted to SEK 82 m (87), corresponding to a margin of 21.7 % (24.5). Depreciations amounted to SEK 25 m (13) whereof SEK 8 m are related to IFRS 16 Leases. Operating profit amounted to SEK 56 m (74) corresponding to a margin of 14.9 % (20.9). Currency translations had a positive effect on the Group's operating profit for the quarter of SEK 6 m (11). Due to the decline of the Swedish krona during the quarter, realized currency hedges have reduced operating profit by SEK -4 m (-1). The

## First nine months

Order intake increased by 8 % to SEK 1,134 m (1,046) of which currency translations affected positively by SEK 56 m. The acquired entities have contributed to the order intake with SEK 41 m. The organic change was -1 %.

Net sales increased by 17 % to SEK 1,172 m (1,003) of which currency translations affected positively by SEK 58 m (44). The acquired entities have contributed to the net sales with SEK 55 m. The organic increase in net sales was 6 %.

Gross profit increased by SEK 98 m to SEK 716 m (618) to a gross margin of 61.1 % (61.6). Operating expenses increased in total by SEK 109 m to SEK 528 m (418) of which SEK 25 m relates to non-recurring cost for the restructuring program started in the third quarter to adjust to a weaker market. The estimated costs for ongoing share savings programs have been adjusted downwards and contribute positive to the profit in the period by SEK 4 m. Part of the increase can also be explained by acquisition effects from the acquired companies.

Operating profit before depreciation amounted to SEK 255 m (237), corresponding to a margin of 21.8 % (23.6). Depreciations amounted to SEK 67 m (38) whereof SEK 22 m are related to IFRS 16 Leases. Operating profit amounted to SEK 188 m (199) corresponding to a margin of 16.0 % (19.9). Currency translations had a positive effect on the Group's operating profit of SEK 25 m (16). Due to a continued decline of the Swedish krona, realized currency hedges have reduced operating profit by SEK -10 m (-4). The acquired companies WEB-

factory and Raster Products had a limited impact on the operating profit in the quarter.

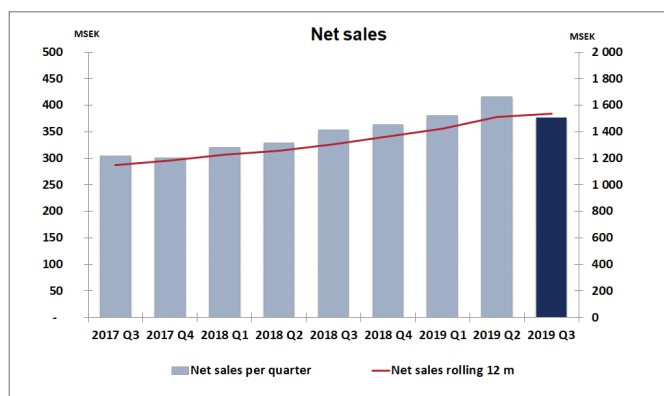
Net financials was SEK -1 m (-4) which gave a profit before tax of SEK 55 m (70). Profit after tax amounted to SEK 46 m (51) and earnings per share before and after dilution was SEK 0.98 (1.09) and SEK 0.98 (1.08) respectively.

SEK millions	Q3 2019	Q3 2018	%
Order intake	372	360	3.3
Net sales	377	353	6.5
Gross profit	236	213	10.8
Gross margin (%)	62.8	60.3	
EBITDA	82	87	-5.9
EBITDA (%)	21.7	24.5	
EBIT	56	74	-24.0
EBIT (%)	14.9	20.9	

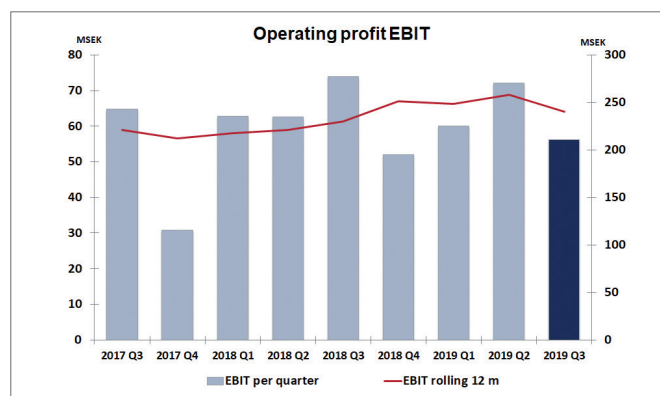
factory and Raster Products had a limited impact on the operating profit of the period.

Net financials was SEK -7 m (-20) which gave a profit before tax of SEK 181 m (180). Profit after tax amounted to SEK 138 m (129) and earnings per share before and after dilution was SEK 2.96 (2.78) and SEK 2.95 (2.76) respectively.

SEK millions	Q1-Q3 2019	Q1-Q3 2018	%
Order intake	1,134	1,046	8.4
Net sales	1,172	1,003	16.9
Gross profit	716	618	15.9
Gross margin (%)	61.1	61.6	
EBITDA	255	237	7.6
EBITDA (%)	21.8	23.6	
EBIT	188	199	-5.6
EBIT (%)	16.0	19.9	



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 <sup>1</sup>	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Order intake (SEK m)	372	375	387	387	360	336	350	288
Net sales (SEK m)	377	416	380	363	353	329	320	301
Gross margin (%)	62.8	61.2	59.3	59.6	60.3	62.8	61.8	60.3
EBITDA (SEK m)	82	94	79	65	87	75	75	43
EBITDA (%)	21.7	22.6	20.9	17.9	24.5	22.9	23.5	14.3
EBIT (SEK m)	56	72	60	52	74	63	63	31
EBIT (%)	14.9	17.3	15.8	14.3	20.9	19.0	19.6	10.2
Cash flow from operating activities per share (SEK)	1.93	1.10	1.11	1.05	1.57	1.08	0.43	0.77
Earnings per share before dilution (SEK)	0.98	1.10	0.88	0.90	1.09	0.90	0.80	0.43
Earnings per share before after dilution (SEK)	0.98	1.09	0.87	0.89	1.08	0.89	0.79	0.43
Equity per share (SEK)	19.88	19.42	18.96	17.89	17.13	16.88	16.28	15.37

<sup>1</sup> Q1, Q2 and Q3 2019 is effected by IFRS 16 Leases. For more information, see pages 8-9.

# Cash flow, investments and financial position

## Third quarter

Cash flow from operating activities before changes in working capital amounted to SEK 101 m (59) for the third quarter. Changes in working capital was SEK -11 m (15). Cash flow from operating activities was thereby SEK 90 m (73).

During the quarter, investments in new assets claimed SEK 20 m (28). Cash flow from investing activities was thereby SEK -20 m (-28).

Cash flow from financing activities claimed SEK -101 m (-86), which is mainly explained by a decrease in external loans of SEK 96 m (76). Moreover, amortizations of lease liabilities claimed SEK 8 m (1). This means that cash flow for the quarter was SEK -31 m (-40).

## First nine months

Cash flow from operating activities before changes in working capital amounted to SEK 231 m (188) for the first nine months. Changes in working capital was SEK -38 m (-44), mainly due to a combination of decreased accounts payable and an inventory increase. Cash flow from operating activities was thereby SEK 193 m (144).

During the first nine months investments in new assets claimed SEK 48 m (23) and acquisitions of new shares in subsidiaries claimed SEK 24 m (22). Cash flow from investing activities was SEK -74 m (-45).

Cash flow from financing activities amounted to SEK -128 m (-137), mainly explained by a disbursed dividend of SEK 84 m (70) as well as a decrease in external loans of SEK 20 m (25). Amortizations of lease liabilities claimed SEK 22 m (2). This means that cash flow for the first nine months was SEK -8 m (-38).

# Cash and cash equivalents and net debt

Cash and cash equivalents amounted to SEK 57 m (55) and unused credit facilities to SEK 146 m (125). Net debt amounted to SEK 463 m (381) and net debt to EBITDA ratio for the last twelve months was 1.45 (1.36). Net debt/Equity ratio was 49 % (47) and Equity/Assets ratio 52 % (52).

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](http://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 September 30, 2019, the total number of saved shares amounted to 138,784 (157,071) 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 first nine months amounted to SEK 0 m (1). Dividends from subsidiaries totalled SEK 179 m (165) and the profit for the period amounted to SEK 183 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 purchase 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.

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 six months, WEBfactory had a positive impact on the net sales of the Group of SEK 10 m. The acquisition's contribution to operating profit, including acquisition costs, amounted to SEK -4 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. No changes have been made compared to the preliminary acquisition analysis presented in the half-year report 2019.

## 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.

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. Raster Products had a limited impact on the net sales and operating profit of the Group during the first five months.

Pending the allocation of excess value to specific assets the acquisition analysis is preliminary. No changes have been made compared to the preliminary acquisition analysis presented in the half-year report 2019.

## Acquisition analysis of Beck IPC

The acquisition analysis from the acquisition of Beck IPC has been finalized in the third quarter 2019, as one year has passed since the acquisition on July 17, 2018.

According to the final acquisition analysis, the purchase sum, acquired net assets and goodwill amount to:

	<b>SEK million</b>
<b>Purchase sum:</b>	
Cash and cash equivalents	23
Contingent additional consideration	21
<b>Total purchase sum</b>	<b>44</b>

<b>The assets and liabilities recognized in conjunction with the acquisition are as follows:</b>	<b>SEK million</b>
Intangible fixed assets	
- Intellectual property rights	12
- Customer relations	3
- Deferred tax liabilities	-2
Property, plants and equipment	1
Deferred tax assets	5
Inventories	7
Accounts receivable and other receivables	8
Cash and cash equivalents	0
Non-current liabilities	- 2
Accounts payable and other liabilities	-36
<b>Total identifiable net assets</b>	<b>-3</b>
Goodwill*	47
<b>Acquired net assets</b>	<b>44</b>

\*Goodwill is attributable to expected synergies with existing operations. No part of the recognized goodwill is expected to be tax deductible.

## Cost reduction program

HMS implements 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 are expected to generate costs of SEK 25 m that will impact the third quarter 2019. In total the program will affect 40 employees throughout the group, of which 24 employees are affected in Sweden.

## 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.

## 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.

Shareholders who wish to present proposals to HMS's Nomination Committee may do so by e-mail to: [valberedning@hms.se](mailto:valberedning@hms.se) or in writing to: HMS Networks AB, Investors Relations, Att: Nomination Committee, Box 4126, SE 300 04 Halmstad, Sweden no later than February 1, 2020.

## 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 September 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).

### 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 quarter of 2019, the Group reports restructuring costs of SEK 25 m related to a cost reduction program. Since the costs are significant in the individual quarter and not normally occurring, these costs are reported as an item affecting comparability on a separate line in the Group's income statement.

## 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 million	Q3-19 incl IFRS 16	IFRS 16 effect	Q3-19 excl IFRS 16	Q1-Q3 incl IFRS 16	IFRS 16 effect	Q1-Q3 excl IFRS 16
Net sales	377	-	377	1,172	-	1,172
Cost of goods and services sold	-140	-	-140	-456	-	-456
<b>GROSS PROFIT</b>	<b>236</b>	<b>-</b>	<b>236</b>	<b>716</b>	<b>-</b>	<b>716</b>
Operating expenses	-169	-8	-177	-495	-24	-519
Depreciation and amortization	-11	8	-4	-33	22	-11
<b>OPERATING PROFIT</b>	<b>56</b>	<b>-1</b>	<b>55</b>	<b>188</b>	<b>-2</b>	<b>186</b>
Financial net	-1	0	-1	-7	1	-6
<b>Profit before tax</b>	<b>55</b>	<b>0</b>	<b>55</b>	<b>181</b>	<b>-1</b>	<b>180</b>
Tax	-10	0	-9	-43	0	-42
<b>PROFIT FOR THE PERIOD</b>	<b>46</b>	<b>0</b>	<b>46</b>	<b>138</b>	<b>-1</b>	<b>137</b>

Balance sheets, SEK million	Q3-19 incl IFRS 16	IFRS 16 effect	Q3-19 excl IFRS 16	CB 1812	IFRS 16 effect	OB 1901
<b>ASSETS</b>						
Total fixed assets	1,368	-100	1,269	1,158	103	1,261
Total current assets	450	-	450	419	-	419
<b>Total assets</b>	<b>1,819</b>	<b>-100</b>	<b>1,719</b>	<b>1,577</b>	<b>103</b>	<b>1,680</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>	<b>953</b>	<b>-2</b>	<b>951</b>	<b>857</b>	<b>0</b>	<b>857</b>
Total non-current liabilities	564	-69	495	454	75	529
Total current liabilities	302	-29	273	266	27	293
<b>Total Equity and liabilities</b>	<b>1,819</b>	<b>-100</b>	<b>1,719</b>	<b>1,577</b>	<b>103</b>	<b>1,680</b>
Net debt	463	-98	365			

Financial accounts	Q3-19 incl IFRS 16	Q3-19 excl IFRS 16	Q1-Q3 incl IFRS 16	Q1-Q3 excl IFRS 16	R12 incl IFRS 16	R12 excl IFRS 16
EBITDA (SEK m)	82	73	255	231	320	296
EBITDA (%)	21.7	19.5	21.8	19.7	20.8	19.3
Return on capital employed (%)	-	-	-	-	17.5	18.1
Equity/assets ratio (%)	-	-	-	-	52.4	55.3
Net debt/equity ratio	-	-	-	-	0.49	0.38
Net debt/EBITDA	-	-	-	-	1.45	1.23

## 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’ 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’ sales and marketing organization.

## Report occasions

- 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
- Half-year report 2020 will be published July 15, 2020

Halmstad October 22, 2019

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 October 22, 2019.

## Report of Review of Interim Financial Information

### Introduction

We have reviewed the condensed interim financial information (interim report) of HMS Networks AB (publ) as of September 30, 2019 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Halmstad October 22, 2019  
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson  
Authorized Public Accountant

## Income statements

SEK millions	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	1810-1909 12 months	Q1-Q4 2018
Net sales	377	353	1,172	1,003	1,535	1,366
Cost of goods and services sold	-140	-140	-456	-385	-603	-532
<b>GROSS PROFIT</b>	<b>236</b>	<b>213</b>	<b>716</b>	<b>618</b>	<b>932</b>	<b>834</b>
Sales and marketing costs	-86	-72	-258	-220	-349	-310
Administrative expenses	-23	-27	-89	-83	-117	-111
Research and development costs	-41	-40	-141	-117	-186	-162
Restructuring costs <sup>1</sup>	-25	-	-25	-	-25	-
Other operating income	-	2	-	6	0	6
Other operating costs	-5	-1	-15	-4	-15	-5
<b>OPERATING PROFIT</b>	<b>56</b>	<b>74</b>	<b>188</b>	<b>199</b>	<b>240</b>	<b>251</b>
Financial income and costs	-1	-4	-7	-20	-7	-20
<b>Profit before tax</b>	<b>55</b>	<b>70</b>	<b>181</b>	<b>180</b>	<b>233</b>	<b>232</b>
Tax	-10	-20	-43	-50	-53	-61
<b>PROFIT FOR THE PERIOD</b>	<b>46</b>	<b>51</b>	<b>138</b>	<b>129</b>	<b>180</b>	<b>171</b>
Attributed to:						
Parent company shareholders	46	51	138	129	180	171
Non-controlling interests	0	-	0	-	0	-
Earnings per share regarding profit attributed to parent company shareholders						
Before dilution, SEK	0.98	1.09	2.96	2.78	3.86	3.68
After dilution, SEK	0.98	1.08	2.95	2.76	3.84	3.65

<sup>1</sup> Restructuring costs are allocated as follows: Cost of goods and services sold SEK 2 m, Sales and marketing costs SEK 8 m, Administrative expenses SEK 3 m and Research and development costs SEK 12 m.

## Statement of comprehensive income

SEK millions	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	1810-1909 12 months	Q1-Q4 2018
Profit for the period	46	51	138	129	180	171
<b>Other comprehensive income</b>						
<b>Items that may be reclassified subsequently to income statement</b>						
Cash flow hedges	-5	6	-10	2	-12	0
Hedging of net investments	-3	4	-11	-11	-11	-10
Translation differences	16	-11	44	49	43	48
Income tax relating to components of other comprehensive income	2	-2	4	2	5	2
<b>Other comprehensive income for the period, net of tax</b>	<b>10</b>	<b>-3</b>	<b>27</b>	<b>42</b>	<b>25</b>	<b>39</b>
<b>Total comprehensive income for the period</b>	<b>56</b>	<b>48</b>	<b>165</b>	<b>171</b>	<b>205</b>	<b>211</b>
Attributed to:						
Parent company shareholders	56	48	165	171	205	211
Non-controlling interests	0	-	0	-	0	-

## Balance sheets

SEK millions	Sep 30 2019	Sep 30 2018	Dec 31 2018
<b>ASSETS</b>			
Goodwill	908	842	841
Other intangible assets	275	259	254
Property, plant and equipment	43	32	33
Right-to-use assets/Lease assets	117	20	19
Deferred tax assets	16	5	4
Other long term receivables	9	2	7
<b>Total fixed assets</b>	<b>1,368</b>	<b>1,160</b>	<b>1,158</b>
Inventories	174	155	157
Accounts receivable - trade	162	165	161
Other current receivables	57	50	42
Cash and cash equivalents	57	55	59
<b>Total current assets</b>	<b>450</b>	<b>424</b>	<b>419</b>
<b>TOTAL ASSETS</b>	<b>1,819</b>	<b>1,585</b>	<b>1,577</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributed to parent company shareholders	939	816	857
Non-controlling interests	14	-	-
<b>Total Equity</b>	<b>953</b>	<b>816</b>	<b>857</b>
<b>Liabilities</b>			
Non-current interest-bearing liabilities	399	392	359
Non-current lease liabilities	87	20	19
Deferred income tax liabilities	79	80	76
<b>Total non-current liabilities</b>	<b>564</b>	<b>492</b>	<b>454</b>
Current interest-bearing liabilities	2	21	21
Current lease liabilities	32	4	3
Accounts payable - trade	87	92	105
Other current liabilities	180	160	138
<b>Total current liabilities</b>	<b>302</b>	<b>276</b>	<b>266</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,819</b>	<b>1,585</b>	<b>1,577</b>



## Cash flow statements

SEK millions	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	1810-1909 12 months	Q1-Q4 2018
Cash flow from operating activities before changes in working capital	101	59	231	188	276	232
Cash flow from changes in working capital	-11	15	-38	-44	-33	-39
<b>Cash flow from operating activities</b>	<b>90</b>	<b>73</b>	<b>193</b>	<b>144</b>	<b>242</b>	<b>193</b>
Cash flow from investing activities	-20	-28	-74	-45	-90	-62
Cash flow from financing activities	-101	-86	-128	-137	-157	-166
<b>Cash flow for the period</b>	<b>-31</b>	<b>-40</b>	<b>-8</b>	<b>-38</b>	<b>-5</b>	<b>-35</b>
Cash and cash equivalents at beginning of the period	86	96	59	91	55	91
Translation differences in cash and cash equivalents	2	-1	6	2	7	3
<b>Cash and cash equivalents at end of period</b>	<b>57</b>	<b>55</b>	<b>57</b>	<b>55</b>	<b>57</b>	<b>59</b>
Interest-bearing liabilities	520	436	520	436	520	401
<b>Net debt</b>	<b>463</b>	<b>381</b>	<b>463</b>	<b>381</b>	<b>463</b>	<b>342</b>

- 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	Sep 30 2019	Sep 30 2018	Dec 31 2018
Opening balance at January 1	857	721	721
Total comprehensive income for the period	165	171	211
Share-related payment	1	4	5
Repurchase of own shares	-	-44	-11
Dividends	-84	-70	-70
<b>Closing balance attributed to parent company shareholders</b>	<b>939</b>	<b>816</b>	<b>857</b>
Non-controlling interest arising from acquisition of subsidiaries	14	-	-
<b>Closing balance</b>	<b>953</b>	<b>816</b>	<b>857</b>

# Financial accounts

	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	1810-1909 12 months	Q1-Q4 2018
Net increase in net sales (%)	6.5	16.0	16.9	13.7	17.7	15.4
Gross margin (%)	62.8	60.3	61.1	61.6	60.7	61.1
EBITDA (SEK m)	82	87	255	237	320	302
EBITDA (%)	21.7	24.5	21.8	23.6	20.8	22.1
EBIT (SEK m)	56	74	188	199	240	251
EBIT (%)	14.9	20.9	16.0	19.9	15.6	18.4
Return on capital employed (%)	-	-	-	-	17.5	20.7
Return on Shareholder's equity (%)	-	-	-	-	20.3	21.6
Working capital in relation to sales (%)	-	-	-	-	8.4	7.2
Capital turnover rate	-	-	-	-	0.89	0.89
Net debt/equity ratio	0.49	0.47	0.49	0.47	0.49	0.40
Equity/assets ratio (%)	52.4	51.5	52.4	51.5	52.4	54.3
Investments in tangible fixed assets (SEK m)	7	2	18	10	22	13
Investments in right-to-use assets/lease assets (SEK m)	9	-	20	-	20	-
Investments in intangible fixed assets (SEK m)	13	4	30	12	35	17
Depreciation of tangible fixed assets (SEK m)	-4	-4	-11	-10	-15	-10
Depreciation of right-to-use assets/lease assets (SEK m)	-8	-1	-22	-3	-23	-4
Amortization of intangible fixed assets (SEK m)	-14	-9	-34	-28	-44	-37
<i>Of which amortization of overvalues acquired</i>	-6	-3	-13	-10	-16	-13
<i>Of which amortization of capitalized development costs</i>	-8	-6	-22	-18	-28	-24
Number of employees (average)	610	542	601	529	589	536
Net sales per employees (SEK m)	0.6	0.7	2.0	1.9	2.6	2.6
Equity per share (SEK)	19.88	17.13	19.42	16.72	19.03	17.06
Cash flow from operations per share (SEK)	1.93	1.57	4.15	3.09	5.20	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	258	225	275	239	279
Total outstanding shares average (thousands)	46,616	46,561	46,593	46,544	46,580	46,540

## Quarterly data

Division of income per brand SEK millions	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Anybus	213	251	225	211	209	183	189	182
Ixxat	42	44	48	44	45	39	38	39
Ewon	70	74	73	67	63	70	64	58
Intesis	29	28	25	24	25	25	24	16
Other	22	19	8	18	11	12	5	6
<b>Total</b>	<b>377</b>	<b>416</b>	<b>380</b>	<b>363</b>	<b>353</b>	<b>329</b>	<b>320</b>	<b>301</b>

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	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
EMEA	236	256	240	222	220	208	198	181
Americas	80	81	84	81	75	67	59	62
Asia	61	79	55	60	58	54	63	58
<b>Total</b>	<b>377</b>	<b>416</b>	<b>380</b>	<b>363</b>	<b>353</b>	<b>329</b>	<b>320</b>	<b>301</b>

Income statement SEK millions	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
<b>Net sales</b>	<b>377</b>	<b>416</b>	<b>380</b>	<b>363</b>	<b>353</b>	<b>329</b>	<b>320</b>	<b>301</b>
<b>Gross profit</b>	<b>236</b>	<b>254</b>	<b>225</b>	<b>216</b>	<b>213</b>	<b>206</b>	<b>198</b>	<b>182</b>
<i>Gross margin (%)</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>	<i>60.3</i>
<b>Operating profit</b>	<b>56</b>	<b>72</b>	<b>60</b>	<b>52</b>	<b>74</b>	<b>63</b>	<b>63</b>	<b>31</b>
<i>Operating margin (%)</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>	<i>10.2</i>
<b>Profit before tax</b>	<b>55</b>	<b>70</b>	<b>56</b>	<b>52</b>	<b>70</b>	<b>58</b>	<b>52</b>	<b>25</b>

## Parent company's income statement

SEK millions	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	1810-1909 12 months	Q1-Q4 2018
Net sales	3	4	11	12	17	17
<b>Gross profit</b>	<b>3</b>	<b>4</b>	<b>11</b>	<b>12</b>	<b>17</b>	<b>17</b>
Administrative expenses	-3	-3	-11	-11	-17	-17
<b>Operating profit</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>-1</b>	<b>0</b>
Profit from participations in subsidiaries	-	3	179	165	179	165
Interest income/ expenses and similar items	2	-1	4	-1	5	1
<b>Profit before tax</b>	<b>2</b>	<b>3</b>	<b>183</b>	<b>165</b>	<b>183</b>	<b>164</b>
Tax	-	0	-	-1	0	-1
<b>Profit for the period</b>	<b>2</b>	<b>3</b>	<b>183</b>	<b>164</b>	<b>183</b>	<b>164</b>

## Parent company's balance sheet

SEK millions	Sep 30 2019	Sep 30 2018	Dec 31 2018
<b>ASSETS</b>			
Financial assets	337	337	337
<b>Total financial assets</b>	<b>337</b>	<b>337</b>	<b>337</b>
Receivables from Group companies	98	64	64
Other receivables	1	1	0
Cash and cash equivalents	1	1	1
<b>Total current assets</b>	<b>100</b>	<b>66</b>	<b>66</b>
<b>TOTAL ASSETS</b>	<b>437</b>	<b>403</b>	<b>404</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>301</b>	<b>202</b>	<b>202</b>
<b>Current liabilities</b>			
Accounts payable - trade	0	0	0
Liabilities to Group companies	131	197	196
Other current liabilities	5	4	6
<b>Total current liabilities</b>	<b>136</b>	<b>201</b>	<b>202</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>437</b>	<b>403</b>	<b>404</b>



# 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	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	1810-1909 12 months	Q1-Q4 2018
Operating profit	56	74	188	199	240	251
Depreciation/amortization	25	13	67	38	81	51
<b>EBITDA</b>	<b>82</b>	<b>87</b>	<b>255</b>	<b>237</b>	<b>320</b>	<b>302</b>



**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”.**

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