

HMS Networks Q1 2024 presentation

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Hardware Meets Software™

Agenda

Summary and introduction

Business update

Acquisition of Red Lion Controls complete

Financial results

Q&A

Financial summary of Q1 2024 and R12

Q1 summary

- Net sales 616 MSEK (773), -20%
- Order intake 473 MSEK (682), -31%
- EBIT 130 MSEK (211) (Adj. 133)
- EBIT margin 21.1% (27.4) (Adj. 21.6)
- Cash flow from ops. of 58 MSEK (155)
- EPS 2.28 (3.70) (Adj. 2.35)

R12

- Net sales 2,868 MSEK (2,762), +4%
- Order intake 2,094 MSEK (2,889), -28%
- EBIT 672 MSEK (725) (Adj. 698)
- EBIT margin 23.4% (26.2) (Adj. 24.3)
- Cash flow from ops. of 422 MSEK (506)
- EPS 10.82 SEK (12.17) (Adj. 11.38)

+9,000,000

devices connected
to networks

+500,000

machines connected
to cloud systems

Our field:
Industrial ICT

(Information and
Communication
Technology)

5G Wireless
Smart Grid
AI IoT

At the forefront of
technology

1200
employees
worldwide



33% in R&D
33% in Sales

Offices in **18**
countries

Partners in **50**



Head office in
Halmstad, Sweden

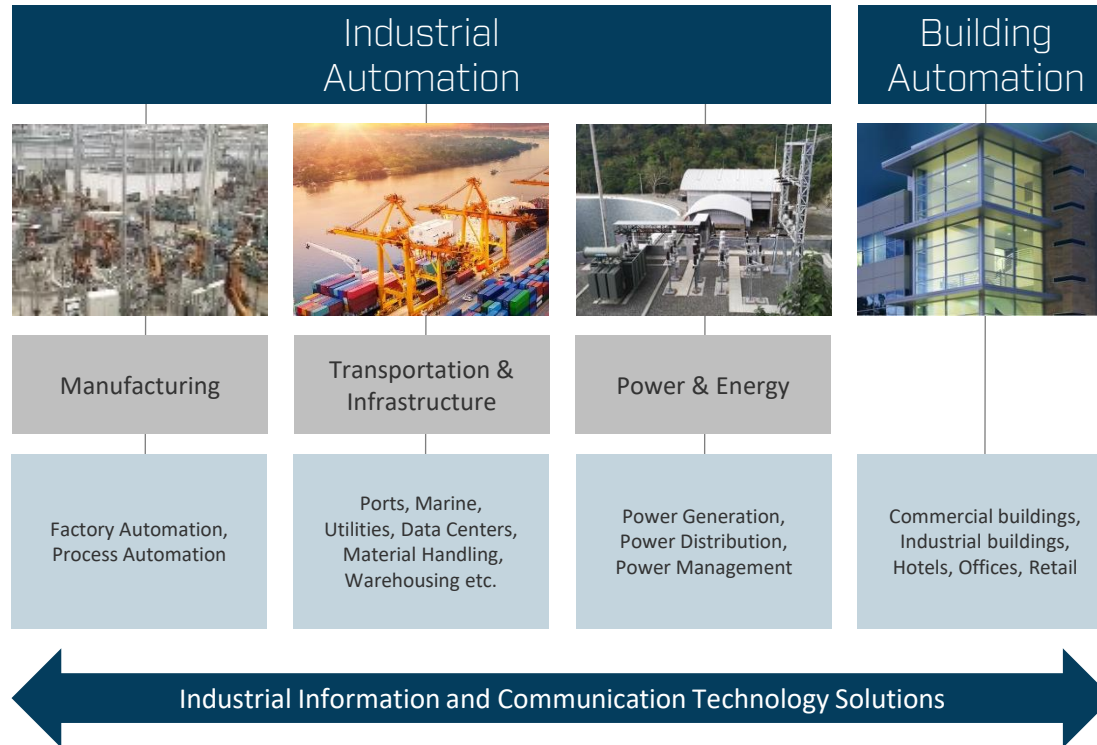


3 billion
SEK
Net Sales 2023

25%
EBIT margin 2023

20%
Net sales CAGR last 10 years

HMS Playing Field - Overall Market Segments



Two main customer groups – Makers and Users



Makers of industrial equipment



Users of automation systems



Different market channels for Makers and Users



Makers of industrial equipment



Users of automation systems



**Device
manufacturers**

44% of revenue

Design Wins

Direct Sales



**Machine
builders**

25% of revenue

Specified as standard
or
option in BOM

Direct Sales &
Distribution



**End users &
System integrators**

31% of revenue

Project Sales
Product Sales

E-Commerce

Revenue

Business model

Go-to-market

Distributors

HMS Strategic framework until 2025

 Organic growth

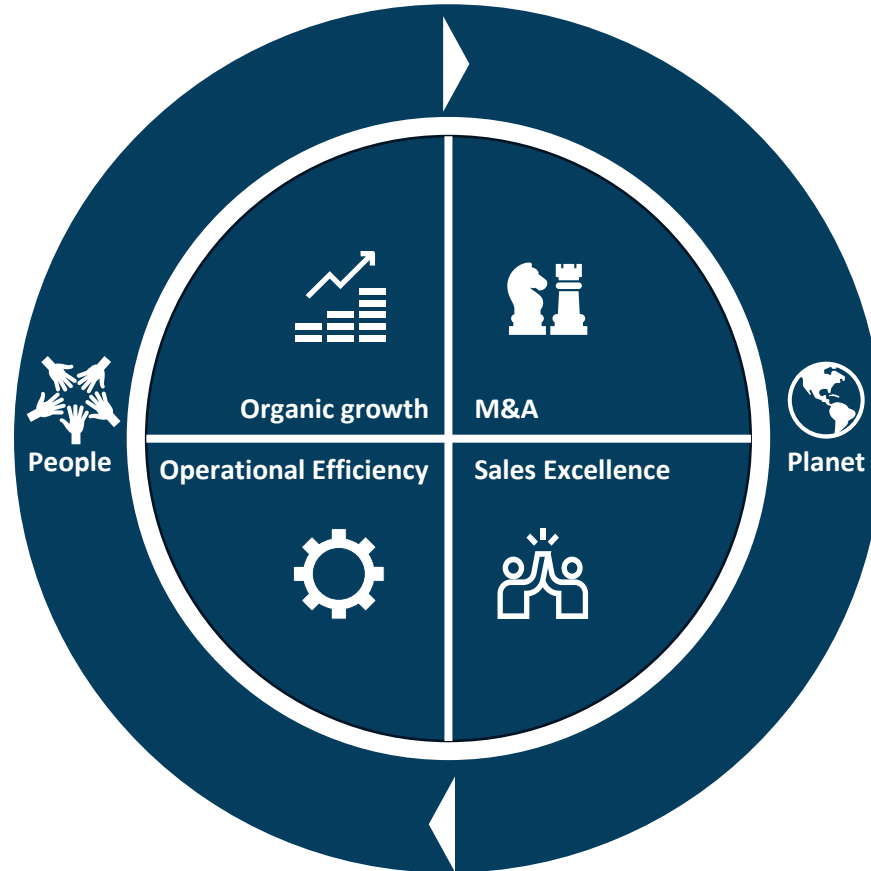
 M&A

 People

 Planet

 Operational Efficiency

 Sales Excellence



HMS Strategic Targets 2025

PLANET

Science
based
targets

UNITED NATIONS
PARIS CLIMATE
AGREEMENT



The HMS Effect
x3
by 2030



PEOPLE



+50
Employee
NPS



+50
Customer
NPS



+30%
Female managers
by 2025

GROWTH

25%
EBIT

π +
+3,14
billion
SEK
by 2025

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Business update – first quarter 2024



- Mixed market indications – weak demand in Asia due to high inventory levels, Europe shows signs of improvements of the order intake, still from low levels
- In North Americas HMS had a temporary set back in orders from large embedded customers – while Red Lion shows gradual improvement in order intake month by month



- Lead times for most products remains back to normal
- Continued inventory adjustments on customer side – estimated “de-stocking” of 180 MSEK impacting HMS order intake in the quarter



- Acquisition of Red Lion Controls completed
- Restructuring program initiated to benefit from early Red Lion cost synergies and address the lower market demand. Expected to lower cost level by 30 MSEK in 2024

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Red Lion acquisition completed on April 2nd 2024

Red Lion update

- Acquisition completed as planned on April 2nd, all necessary approvals are in place. Consolidated from April 1st
- Integration is on full speed and expected to be finalized during 2025 – focus now to define and execute sales synergies
- Some early cost synergies are already identified and realized
- HMS will opt for a so called 338(h)(10) election in the United States, which recharacterizes a stock purchase as an asset purchase for federal tax purposes
- The impact from the filing is expected to lower the effective tax rate in the HMS Group by approximately 2-3 percentage points during the years of which the assets are depreciated
- Bridge financing is intended to be replaced by a directed share issue, that is expected to be launched soon



Red Lion – business update

Red Lion business update

- Order intake pace is improving since second half of 2023 and also gradually improving throughout the first quarter
- In 2023, Red Lion reached Net Sales of 1,314 MSEK and an operating margin of 21%
- Over the last five years Red Lion has managed to achieve a growth CAGR of 4% and an average operating margin of 20%
- Sergio Resendiz (previously General Manager HMS Americas) is new General Manager of Red Lion Controls from April 2nd



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Business update

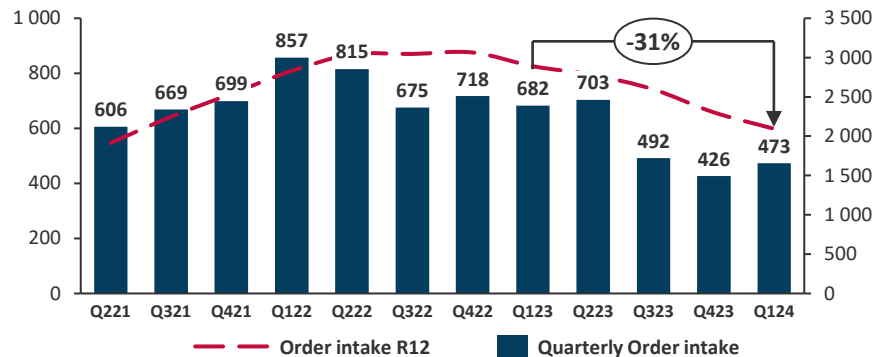
Acquisition of Red Lion Controls complete

Financial results

Q&A

Order intake of 473 MSEK in Q1 2024, -31%

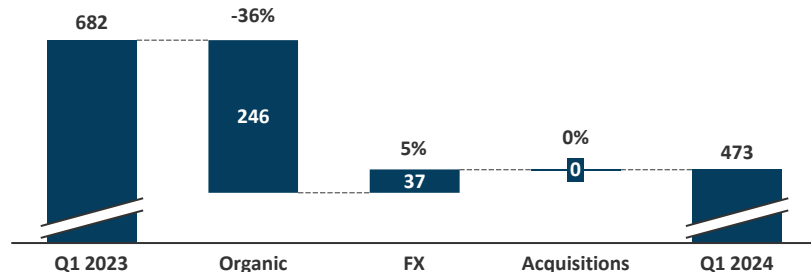
Order Intake, MSEK



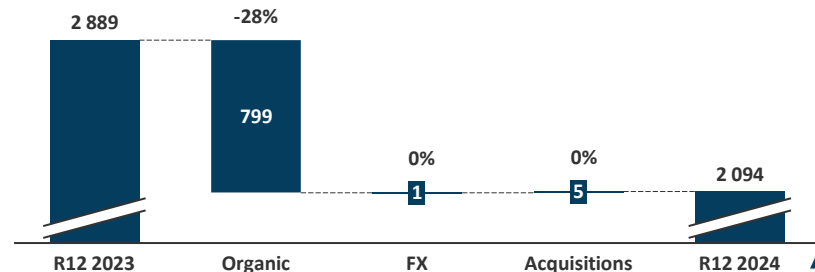
Analysis and conclusions

- Q1 2024: 473 MSEK (682), -31% (organic -36%)
- R12: 2,094 MSEK (2,889), -28% (organic -28%)
- Customer inventory adjustments not reflecting underlying demand
- Improved pace in orders during March and beginning of April
- Asia remains weak, Europe show signs of improvements – from low levels, North America sees temporary slow down in direct embedded business

Bridge Q123-Q124, MSEK

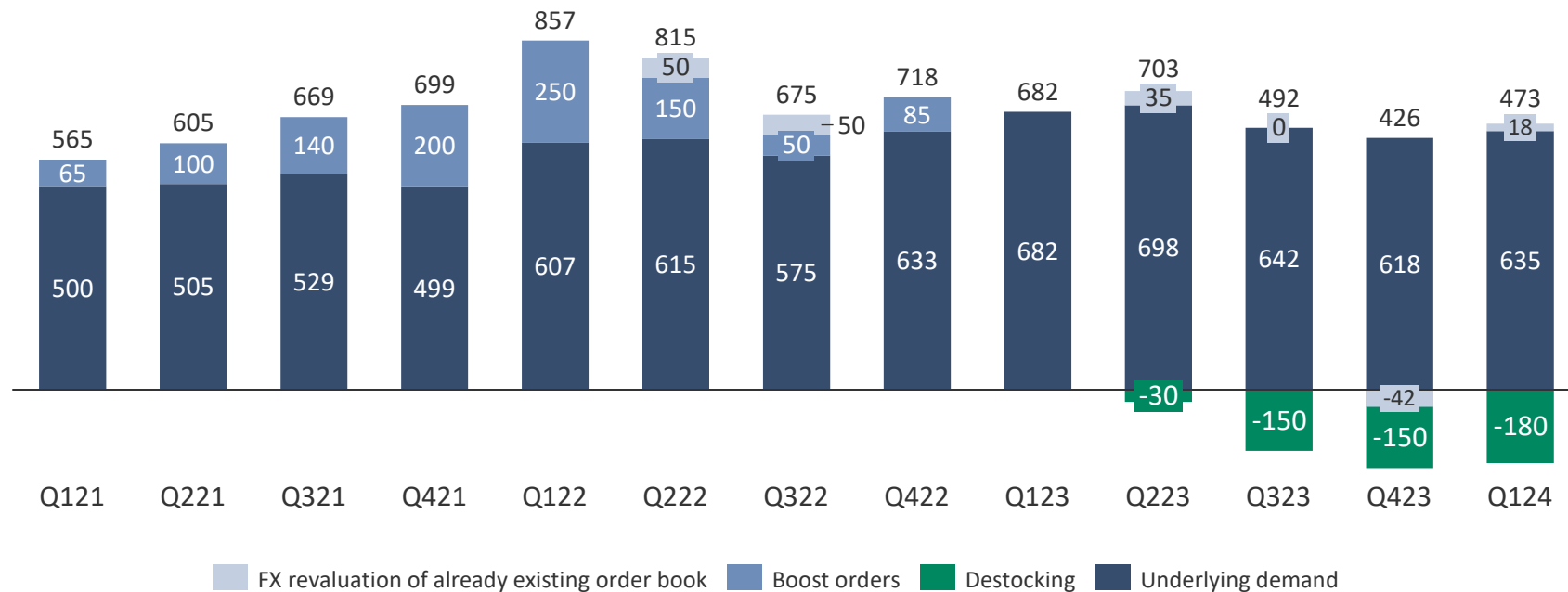


Bridge R12, MSEK

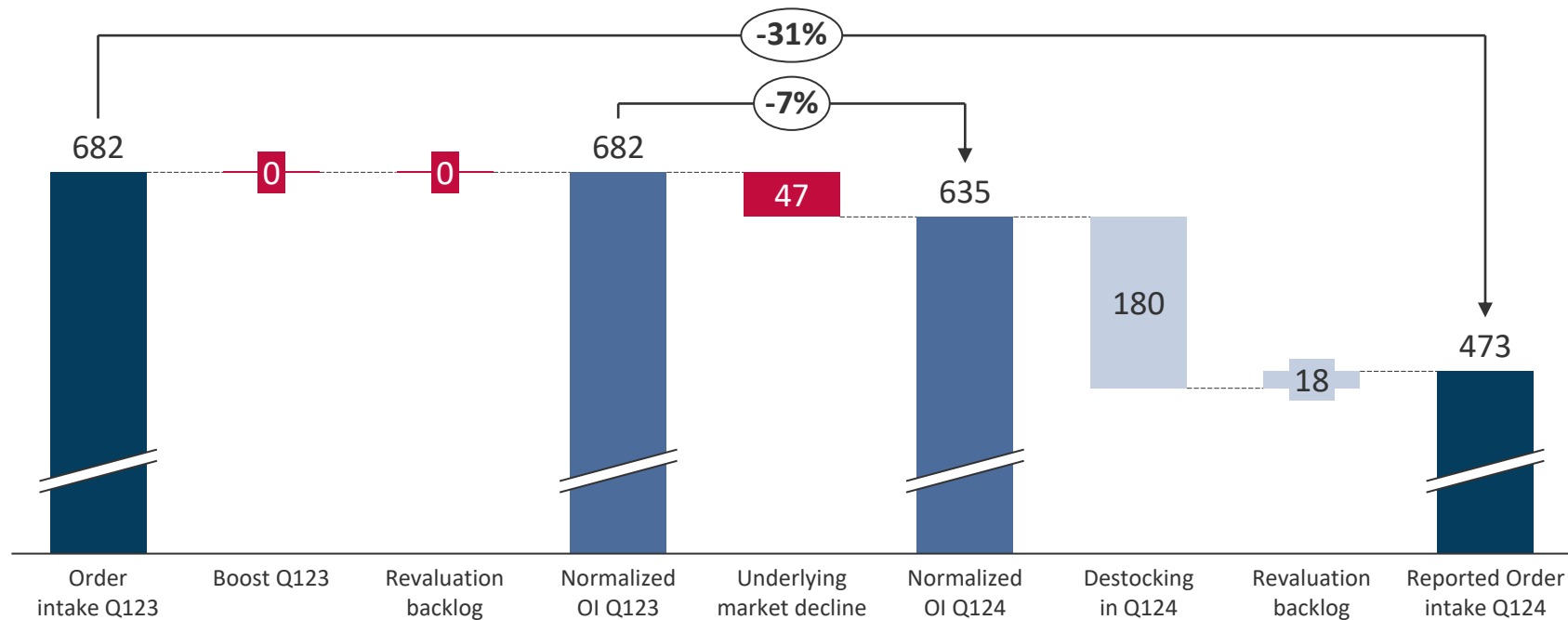


Major de-stocking impacting order intake in Q1

 Normalized order intake, MSEK

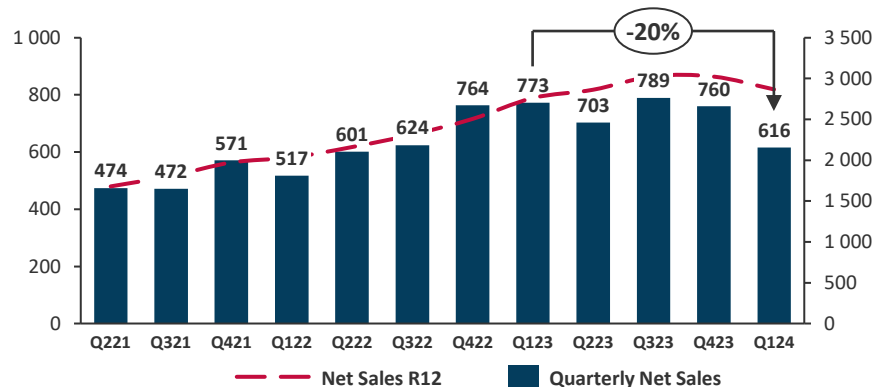


Order intake Q1 2023 – Q1 2024



Net Sales 616 MSEK in Q1 2024, -20%

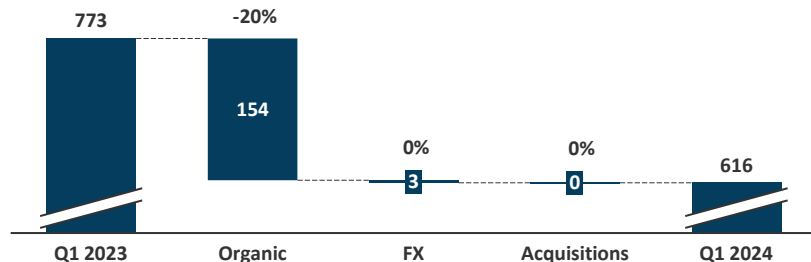
Net Sales, MSEK



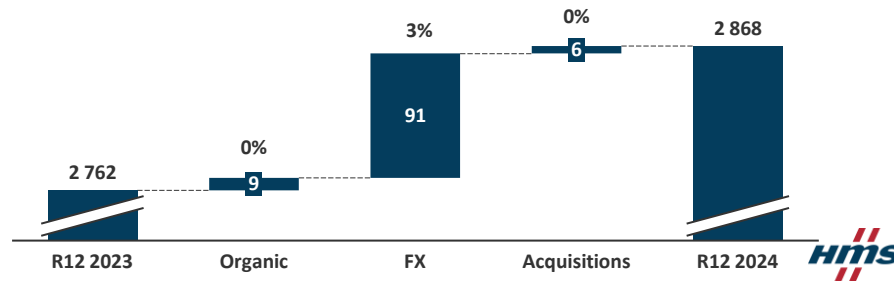
Analysis and conclusions

- Q1 2024: 616 MSEK (773), -20% (organic -20%)
- R12: 2,868 MSEK (2,762), +4% (organic 0%)
- Book-to-bill excluding FX effects of 0.74 in Q1
- Anybus and Ewon most affected by customer de-stocking
- Intesis continues in a stable pace, +5% vs Q123

Bridge Q123-Q124, MSEK

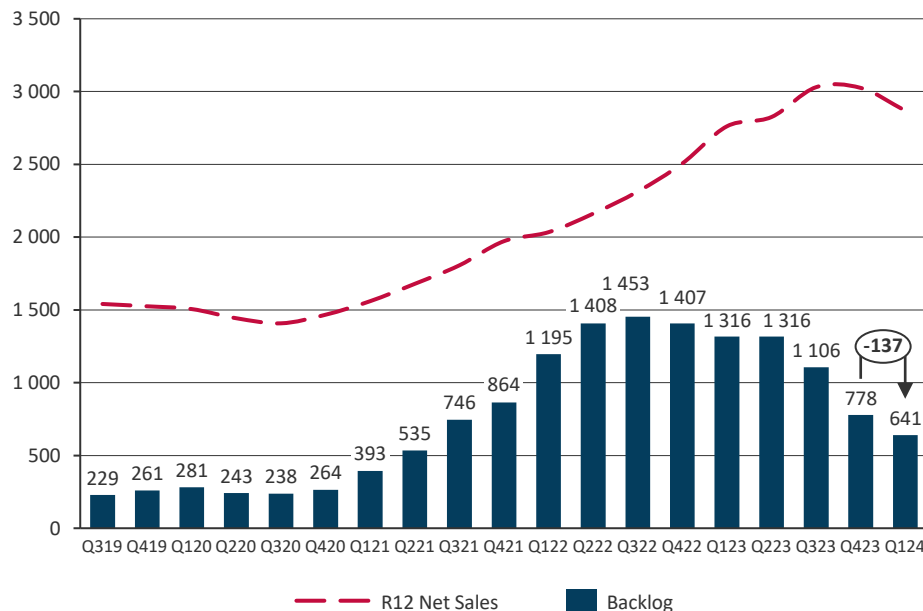


Bridge R12, MSEK

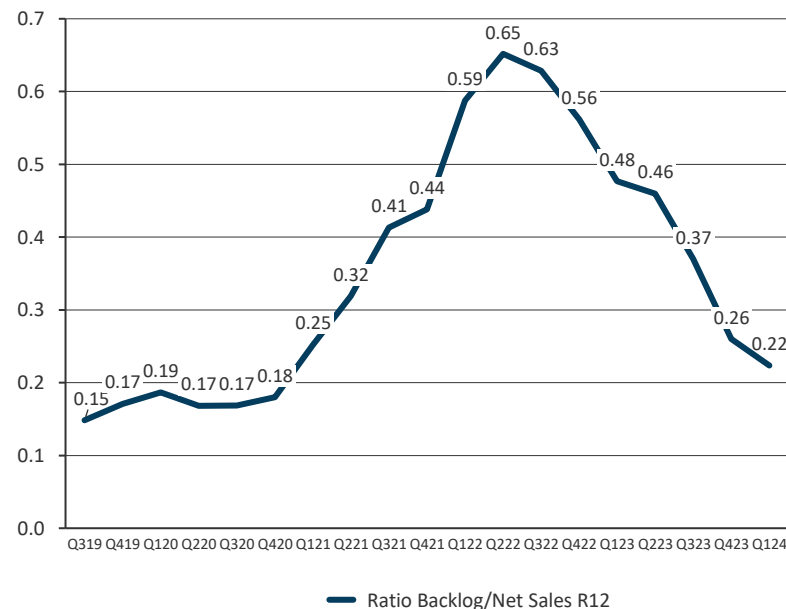


Backlog now back to normal levels

 Backlog, 2019 – 2024, MSEK



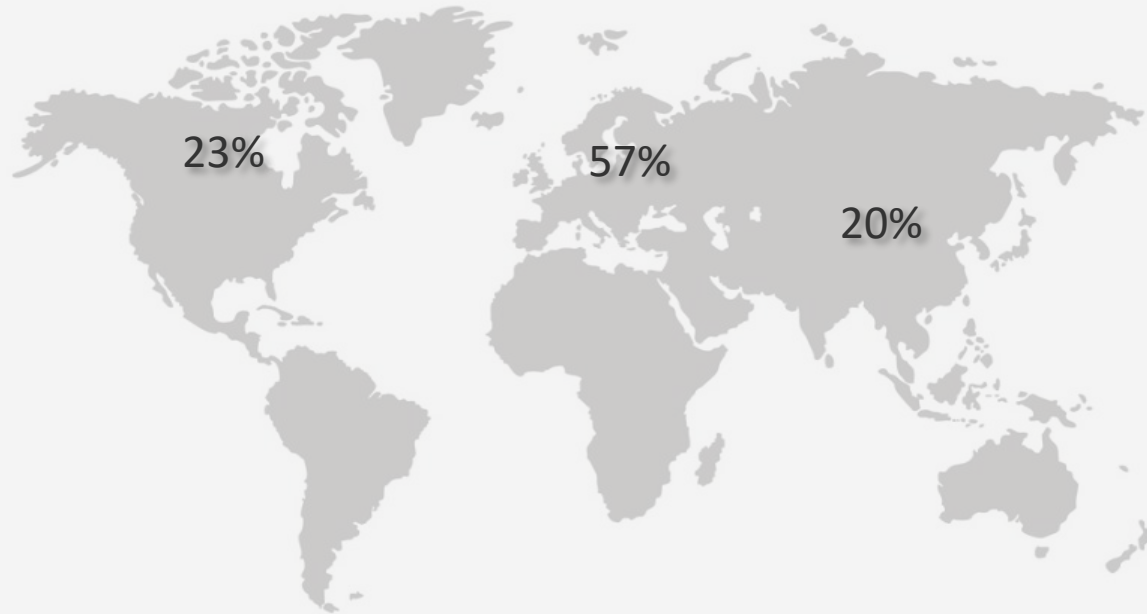
 Backlog/Net Sales, 2019 – 2024, MSEK



Order book decreases 18% from Q4 2023 and 49% since Q1 2023
Backlog now down to normal and expected levels around 20% of R12 Net Sales

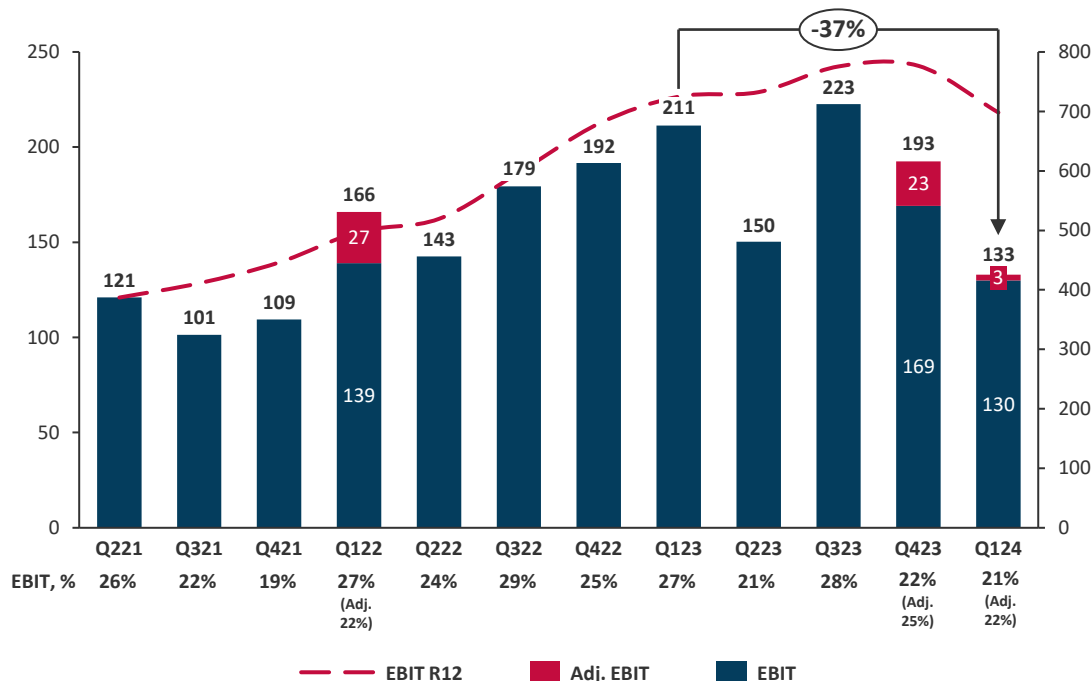
Q1 2024: Sales per region

 Sales per region Q1 2024, MSEK



Q1 2024: Adjusted EBIT 133 MSEK (21.6% margin)

EBIT, MSEK



Analysis and conclusions

- EBIT Q1: 130 MSEK (211) (Adj. Q1 2024 133 MSEK)
- EBIT margin Q1: 21.1% (27.4) (Adj. Q1 2024 21.6)
- EBIT R12 (Adj.): 698 MSEK (725)
- EBIT margin R12 (Adj.): 24.3% (26.2)
- Q1 2024 gross margin of 62.6% (64.8)
 - Impacted by lower volumes and product mix
- OPEX Q1: 256 MSEK (290), (organic -13%)
 - Transaction- and integration cost of 3 MSEK related to the acquisition of Red Lion
 - Careful cost approach in Q1
- Capitalized R&D of 21 MSEK, mainly related to investments in Ewon. Somewhat lower pace expected for remaining 2024

Understand HMS restructuring program

Understanding of the current situation

- Underlying OPEX in Q1 2024 of 252 MSEK, 13% organic decline vs Q1 2023 and more in relation to Q4 run-rate – possible due to held back initiatives
- The postponed market activities and certain developments that have been held back; these will be re-started when order intake is coming back
- The main initiatives that are now being implemented
 - Early realization of synergies with Red Lion
 - Restructuring of Anybus
 - Fine tuning of the organization in Europe

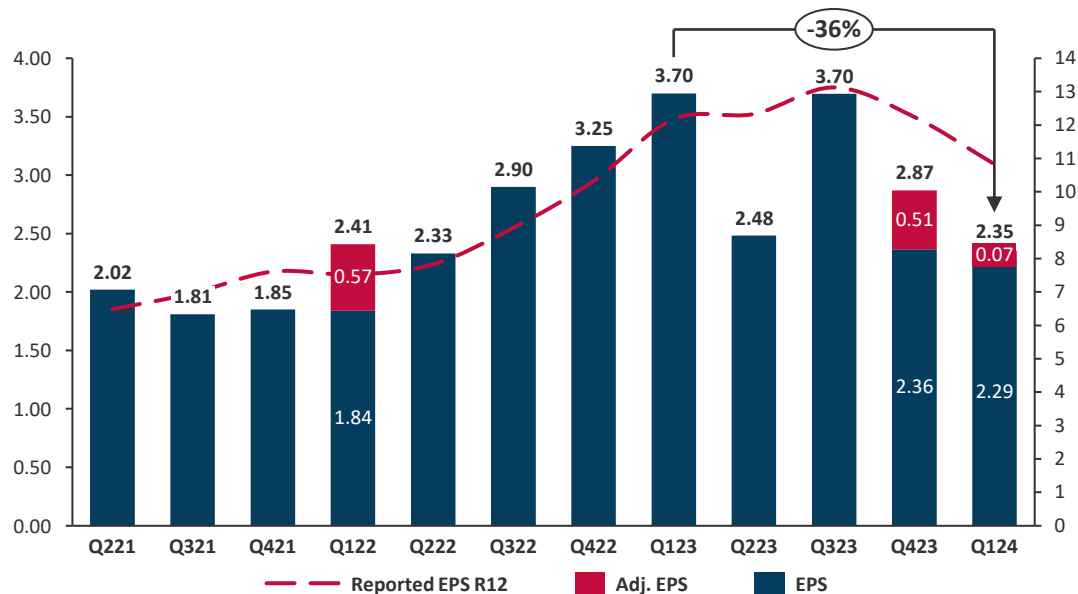
Impact from the restructuring program

- Restructuring program is initiated to be able to keep growth initiatives throughout 2024
- In total approx. 45 positions identified, out of which approx. 25 in Sweden
- Yearly savings of 55 MSEK, 30 MSEK in impact for 2024 with full effect in Q3 – all in relation to a normal run-rate
- Restructuring cost to be taken in Q2 of estimated 35 MSEK

Somewhat counterintuitive, HMS OPEX will not be lower for the coming quarters in 2024 compared to Q1 2024 – the restructuring program will give room for growth initiatives that have been put on hold

Q1 2024: EPS 2.28 SEK (Adj. 2.35)

EPS, SEK



Analysis and conclusions

Q1:

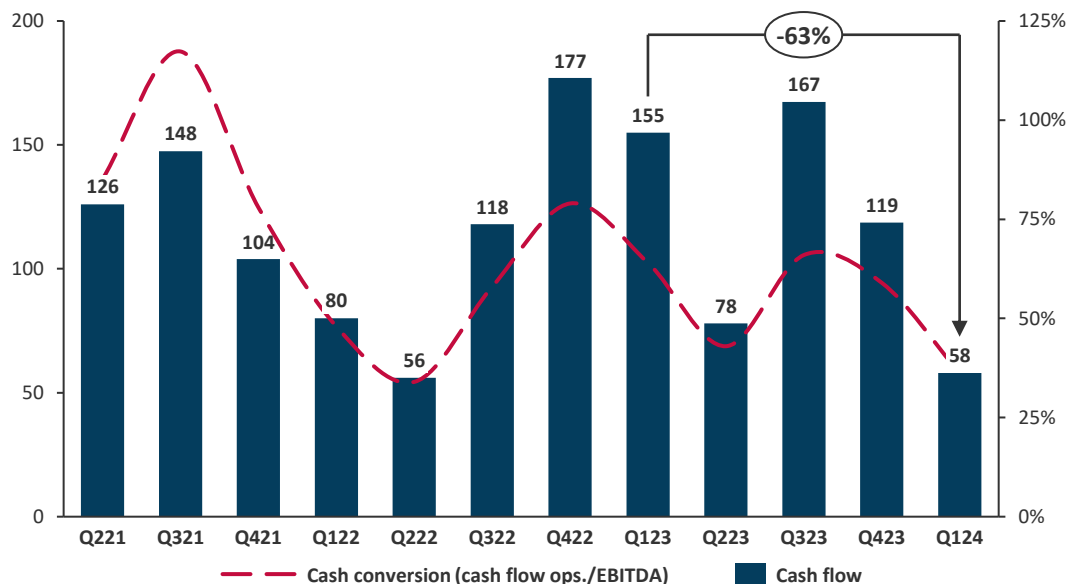
- EPS of 2.28 SEK (3.70) (Adj. 2.35)
- Net financials of 3 MSEK (2)

R12:

- EPS of 10.82 (12.17) (Adj. 11.38)
- Net financials of -34 MSEK (-24)

Q1 2024: Cash flow from ops. of 58 MSEK

Cash flow, MSEK



Analysis and conclusions

Q1:

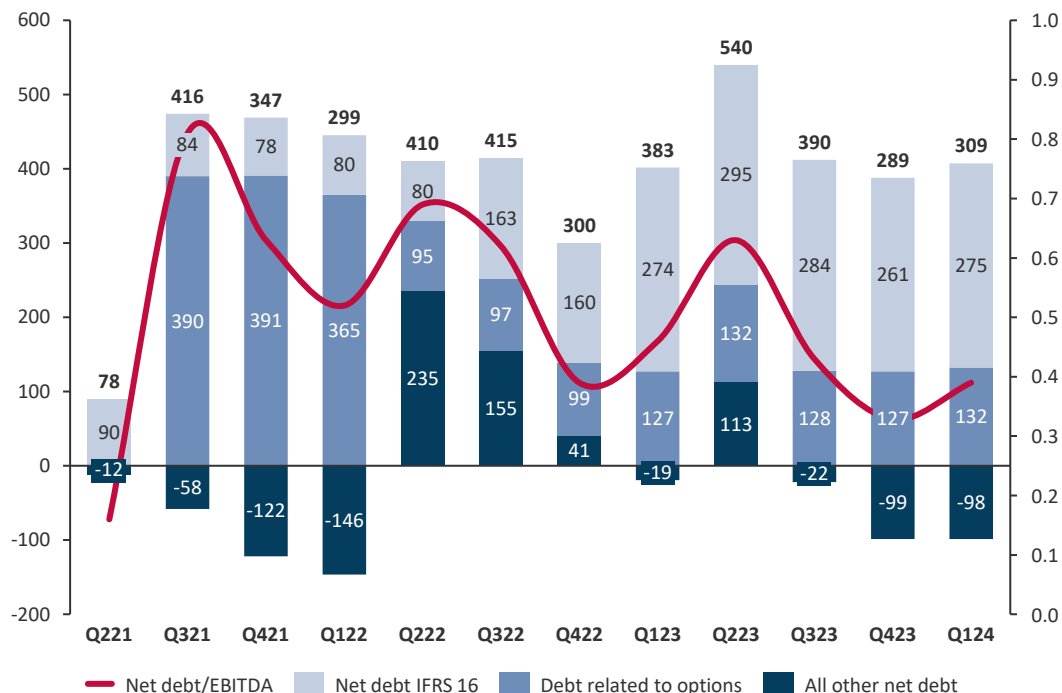
- Cash flow from ops. of 58 MSEK (155)
- Changes in NWC → -72 MSEK (-70)
 - Reduction in AR by 58 MSEK
 - Reduction in AP by 71 MSEK
 - Inventory buildup of 22 MSEK
 - NWC in % of sales 16.8% (9.5)

R12:

- Cash flow from operating activities of 422 MSEK (506)
- Changes in NWC → cash flow of -233 MSEK (-237)
 - Inventory buildup of 222 MSEK

Q1 2024: Net Debt of 309 MSEK

Net debt and leverage, MSEK



Analysis and conclusions

- Net debt / EBITDA of 0.39 (0.46)
- Net debt / Equity: 0.15 (0.22)
- Interest bearing liabilities on same levels as at year end due to investments in intangible assets and repurchases of shares



Questions?