HMS Networks Q4 2023 presentation

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January 26, 2024
Agenda

Summary and introduction

Business update

Acquisition of Red Lion Controls

Financial results

Q&A
Financial summary of Q4 2023 and FY 2023

Q4 summary

- Net sales 760 MSEK (764), -1%
- Order intake 426 MSEK (718), -41%
- EBIT 169 MSEK (192) (Adj. Q4 2023: 193 MSEK)
- EBIT margin 22.3% (25.1) (Adj. Q4 2023: 25.3%)
- Cash flow from ops. of 119 MSEK (177)
- EPS 2.36 (3.25) (Adj. Q4 2023: 2.86)

FY 2023

- Net sales 3,025 MSEK (2,506), +21%
- Order intake 2,303 MSEK (3,064), -25%
- EBIT 753 MSEK (653) (Adj. 2023: 777 MSEK)
- EBIT margin 24.9% (26.0) (Adj. 2023: 25.7%)
- Cash flow from ops. of 519 MSEK (431)
- EPS 12.23 SEK (10.89) (Adj. 2023: 12.73)
- The Board propose a dividend of SEK 4.40 (4.00) per share
HMS Networks – Hardware Meets Software

Our field: Industrial ICT (Information and Communication Technology)

- +9,000,000 devices connected
- +400,000 machines connected to cloud systems
- At the forefront of technology

- 800 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

- **Industrial Automation**
  - Manufacturing
    - Factory Automation, Process Automation
  - Transportation & Infrastructure
    - Ports, Marine, Utilities, Data Centers, Material Handling, Warehousing etc.
  - Power & Energy
    - Power Generation, Power Distribution, Power Management

- **Building Automation**
  - Commercial buildings, Industrial buildings, Hotels, Offices, Retail

**Industrial Information and Communication Technology Solutions**
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

- Device manufacturers: 44% of revenue
- Design Wins
- Direct Sales

Machine builders

- 25% of revenue
- Specified as standard or option in BOM
- Direct Sales & Distribution

Business model

Revenue

Go-to-market

Distributors

End users & System integrators

- 31% of revenue
- Project Sales
- Product Sales

E-Commerce
HMS Strategic framework until 2025

- Organic growth
- M&A
- People
- Planet
- Operational Efficiency
- Sales Excellence
HMS Strategic Targets 2025

**PLANET**
- Science based targets
- The HMS Effect x3 by 2030

**PEOPLE**
- +50 Employee NPS
- +50 Customer NPS
- +30% Female managers by 2025

**GROWTH**
- +25% EBIT
- +3.14 billion SEK by 2025
Agenda

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Design Wins 2023

CAGR +6.4%

Terminated  New wins  Active base

Share of Group sales, %


-49  1,061  1,241  1,381  1,508  1,591  1,693  1,797  1,820  1,790  1,843  1,945
-64  1,061  1,061  1,241  1,381  1,508  1,591  1,693  1,797  1,820  1,790  1,843
119  180  1,195  1,195  1,195  1,195  1,195  1,195  1,195  1,195  1,195  1,195
146  195  1,503  1,503  1,503  1,503  1,503  1,503  1,503  1,503  1,503  1,503
909  979  1,180  1,241  1,381  1,508  1,591  1,693  1,797  1,820  1,790  1,843
-55  1,241  1,241  1,241  1,241  1,241  1,241  1,241  1,241  1,241  1,241  1,241
-76  1,381  1,381  1,381  1,381  1,381  1,381  1,381  1,381  1,381  1,381  1,381
-134  1,508  1,508  1,508  1,508  1,508  1,508  1,508  1,508  1,508  1,508  1,508
-75  1,591  1,591  1,591  1,591  1,591  1,591  1,591  1,591  1,591  1,591  1,591
-95  1,693  1,693  1,693  1,693  1,693  1,693  1,693  1,693  1,693  1,693  1,693
-142  1,797  1,797  1,797  1,797  1,797  1,797  1,797  1,797  1,797  1,797  1,797
-204  1,820  1,820  1,820  1,820  1,820  1,820  1,820  1,820  1,820  1,820  1,820
-93  1,790  1,790  1,790  1,790  1,790  1,790  1,790  1,790  1,790  1,790  1,790
-37  1,843  1,843  1,843  1,843  1,843  1,843  1,843  1,843  1,843  1,843  1,843

76%  75%  61%  68%  67%  54%  54%  51%  49%  43%  44%  52%

Terminated  New wins  Active base
Business update – fourth quarter 2023

- Order intake normalization continues in the quarter in both Europe and Japan as several large customers are adjusting inventory levels
- In Americas, customers’ inventory adjustments are now in essence done

- Investments in Ewon – started development of the next-generation Ewon Remote Access and Remote Data solution

- Share Purchase Agreement signed on December 11th to acquire Red Lion Controls, which will strengthen the presence in North America significantly as well as enable cross-selling opportunities and expand product offer
Business update – FY 2023

- Normal order intake during the first half of the year – followed by a rapid normalization of “boost orders” during second half of 2023
- Continued stable inflow of new design-wins, increase of 6% compared to 2022

- HMS delivery situation has been dramatically improved throughout the year, lead times for most products are back to normal
  - Component spot market purchases no longer required
  - Continued high inventory from inflow of large order placed in 2022

- Implementation of new ERP system from May 2023
  - Integration of Procentec and re-branding of Procentec to Anybus
  - New financial targets presented at CMD in September
Agenda

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Business update

Acquisition of Red Lion Controls

Financial results

Q&A
Red Lion’s solutions unlock the value of industrial data

Red Lion at a glance – a US-based company with a profitable and scalable business model supporting strong cash generation

<table>
<thead>
<tr>
<th>KEY OFFERING</th>
<th>COMPANY HIGHLIGHTS</th>
<th>APPLICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Access:</strong> Industrial Gateways, Protocol Converters, Routers and Access Points</td>
<td>1972 Founded</td>
<td>ALTERNATIVE ENERGY</td>
</tr>
<tr>
<td><strong>Connect:</strong> Ethernet Switches</td>
<td>≈400 Employees</td>
<td>MANUFACTURING</td>
</tr>
<tr>
<td><strong>Visualize:</strong> Human Machine Interfaces (HMI) and Panel Meters</td>
<td>4 Development centers</td>
<td>WASTE &amp; WASTEWATER</td>
</tr>
<tr>
<td></td>
<td></td>
<td>POWER &amp; UTILITIES</td>
</tr>
</tbody>
</table>

- HQ in York PA, USA
- Development in USA, Germany and India
- Strong distributor network in North America

PREMIUM BRANDS

FINANCIAL HIGHLIGHTS, LTM SEP’23 LTM

- Adj. EBIT Margin
- Gross Margin
- Revenue

≈1 397 MSEK
≈55%
≈21%

Footnote(s): 1) The EBIT numbers have been adjusted to reflect how the Red Lion business would, on a preliminary and indicative basis, be reported in the HMS group (excluding any purchase price allocation adjustments), with the main adjustments relating to Spectris management fee and cost for management incentive programs. The Red Lion financial information presented herein refers to unaudited IFRS figures.
Red Lion significantly strengthens HMS’ US presence

Strategic fit between Red Lion and HMS geographically

- The Red Lion acquisition unlocks new ways to market in North America and builds improved local market understanding – one of the largest markets for IIoT automation solutions globally
- Tangible cross-selling opportunities both in North America and in Europe
- Stronger and enforced organization with strong culture fit and shared values amongst HMS and Red Lion

Footnote: 1) Revenue figures as of Sep’23

Preliminary and indicative, unaudited numbers
Financial aspects of the acquisition

Summary of the acquisition

- December 11th 2023 HMS has entered into a binding agreement to acquire Red Lion for a cash consideration of 345 MUSD (≈3 600 MSEK), on a cash and debt free basis (Enterprise Value)

- The acquisition is expected to be accretive to HMS’ earnings per share from day one of the completion of the acquisition1) (expected closing in H1 2024)

- The acquisition will be financed through a combination of new debt 225 MUSD and equity of 120 MUSD
  - HMS will convene an EGM on January 26th 2024 to authorize the board of directors of HMS to resolve on a share issue, the intention is to conduct a directed share issue

- Net Debt/EBITDA is expected to be ≈2.0x after the share issue 2)

Footnote: 1) Excluding any non-cash amortization impacts from the transaction (i.e., purchase price allocations), 2) On a pre-IFRS 16 basis and excluding non-interest-bearing debt from share options and excluding potential synergies, transaction- and integration costs
Agenda

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Business update

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Financial results

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Order intake of 426 MSEK in Q4 2023, -41%

Analysis and conclusions
• Q4 2023: 426 MSEK (718), -41% (organic -34%)
• FY 2023: 2,303 MSEK (3,064), -25% (organic -24%)
• Book-to-bill excluding FX effects of 0.56 in Q4
• Continued order intake normalization and destocking in Europe and Japan
• Sequential growth in Americas from both Q2 and Q3
Order intake 2021-2023

Underlying quarterly order intake 2021-2023, MSEK

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q121</th>
<th>Q221</th>
<th>Q321</th>
<th>Q421</th>
<th>Q122</th>
<th>Q222</th>
<th>Q322</th>
<th>Q422</th>
<th>Q123</th>
<th>Q223</th>
<th>Q323</th>
<th>Q423</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>565</td>
<td>605</td>
<td>699</td>
<td>529</td>
<td>250</td>
<td>50</td>
<td>607</td>
<td>615</td>
<td>675</td>
<td>85</td>
<td>698</td>
<td>426</td>
</tr>
</tbody>
</table>

- **FX revaluation of already existing order book**
- **Destocking**
- **Boost orders**
- **Underlying demand**
Order intake Q4 2022 – Q4 2023

Bridge of underlying market demand Q4 2022 – Q4 2023, MSEK

-85

718

85

633

-15

150

42

618

426

42

Order intake Q422
Boost Q422
Normalized OI Q422
Underlying market decline
Normalized OI Q423
Destocking in Q423
Revaluation backlog
Reported Order intake Q423

-2%

-41%
Net Sales 760 MSEK in Q4 2023, -1%

**Analysis and conclusions**

- Q4 2023: 760 MSEK (764), -1% (organic -3%)
- FY 2023: 3,025 MSEK (2,506), +21% (organic +15%)
- Another record year for HMS, passed 3 billion SEK in sales
- Solid quarter in Americas and Japan – slowdown in Europe

**Bridge Q422-Q423, MSEK**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net Sales R12</th>
<th>Organic</th>
<th>FX</th>
<th>Acquisitions</th>
<th>Net Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2022</td>
<td>764</td>
<td>-3%</td>
<td>2%</td>
<td>0%</td>
<td>760</td>
</tr>
<tr>
<td>Q4 2023</td>
<td>764</td>
<td>21</td>
<td>16</td>
<td>0%</td>
<td>760</td>
</tr>
</tbody>
</table>

**Bridge FY 2023, MSEK**

<table>
<thead>
<tr>
<th>Year</th>
<th>Organic</th>
<th>FX</th>
<th>Acquisitions</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2022</td>
<td>2,506</td>
<td>372</td>
<td>135</td>
<td>3,025</td>
</tr>
<tr>
<td>FY 2023</td>
<td>3,025</td>
<td>372</td>
<td>135</td>
<td>3,025</td>
</tr>
</tbody>
</table>
The order backlog is normalizing in rapid pace

Order book decreases 30% from previous quarter to 778 MSEK as of Q4 2023
Backlog/Net Sales almost down to normal and expected levels
Q4 2023: Sales per region

Sales per region Q4 2023, MSEK

- 23%
- 59%
- 18%
Q4 2023: EBIT 169 MSEK (22.3% margin)

Analysis and conclusions

• EBIT Q4: 169 MSEK (192) (Adj. Q4: 193 MSEK)
• EBIT margin Q4: 22.3% (25.1) (Adj. Q4: 25.3%)
• EBIT FY 2023: 753 MSEK (653) (Adj. 2023: 777)
• EBIT margin FY 2023: 24.9% (26.0) (Adj. 2023: 25.7%)
• Q4 2023 gross margin of 65.3% (63.6)

• OPEX Q4: Increased to 335 MSEK (294), including restructuring cost (7 MSEK) and transaction cost related to Red Lion Controls acquisition (17 MSEK). Adjusted for the restructuring and transaction costs corresponding OPEX increased 3% organic
• For the full year OPEX was 1 223 MSEK corresponding to a 20% organic increase
**Q4 2023: EPS 2.36 SEK**

**Reported -27%, (Adj. -12%)**

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**Analysis and conclusions**

**Q4:**
- EPS of 2.36 SEK (3.25) (Adj. Q4: 2.86)
- Net financials of -27 MSEK (-11), mainly attributable to a stronger SEK exchange rate which resulted in negative revaluation effects on primarily internal receivables and loans
- The Board proposes a dividend of 4.40 SEK (4.00) for 2023

**FY:**
- EPS of 12.23 (10.89) (Adj. 2023: 12.73)
- Net financials of -36 MSEK (-29)

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**Reported EPS R12**

**Adj. EPS**

**EPS**
Q4 2023: Cash flow from ops. of 119 MSEK

Q4:
- Cash flow from operating activities of 119 MSEK (177)
- Changes in NWC → -28 MSEK (-31)
  - Inventory buildup of 41 MSEK
  - NWC in % of sales 13.9% (8.7)

FY:
- Cash flow from operating activities of 519 MSEK (431)
- Changes in NWC → cash flow of -232 MSEK (-216)
  - Inventory buildup of 227 MSEK
Q4 2023: Net Debt of 289 MSEK

Net debt and leverage, MSEK

<table>
<thead>
<tr>
<th>Q121</th>
<th>Q221</th>
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</thead>
<tbody>
<tr>
<td>96</td>
<td>78</td>
<td>390</td>
<td>391</td>
<td>365</td>
<td>127</td>
<td>113</td>
<td>113</td>
<td>127</td>
<td>128</td>
<td>128</td>
<td>127</td>
</tr>
</tbody>
</table>

Analysis and conclusions

- Net debt / EBITDA of 0.33 (0.39)
- Net debt / Equity: 0.15 (0.19)
- Strong balance sheet, no interest-bearing net debt
Summary of 2023

• Major order intake normalization during H2 resulting in a backlog reduction of 630 MSEK for 2023

• Solid execution with organic Net Sales growth of 15%

• Gross margin improvement by 2 pp to 65.0%

• Adjusted EBIT of 777 MSEK and margin of 25.7% meeting the financial target

• Proposed dividend of 4.40 SEK, an increase by 10%

• HMS entered into a binding agreement to acquire Red Lion Controls, December 11th 2023