HMS Networks Q3 2023 presentation

Staffan Dahlström, CEO, Joakim Nideborn, CFO

October 18, 2023
Agenda

Summary and introduction

Business update

Financial results

Q&A
Financial summary of Q3 2023 and YTD

**Q3 summary**
- Net sales 789 MSEK (624), +26%
- Order intake 492 MSEK (675), -27%
- EBIT 223 MSEK (179)
- EBIT margin 28.2% (28.7)
- Cash flow from ops. of 167 MSEK (118)
- EPS 3.69 (2.90)

**YTD summary**
- Net sales 2,265 MSEK (1,742), +30%
- Order intake 1,877 MSEK (2,346), -20%
- EBIT 584 MSEK (461) (Adj. 434 MSEK)
- EBIT margin 25.8% (26.5) (Adj. 24.9%)
- Cash flow from ops. of 400 MSEK (254)
- EPS 9.87 SEK (7.64) (Adj. 7.07)
HMS Networks – Hardware Meets Software

Our field: Industrial ICT
(Information and Communication Technology)

5G Wireless Smart Grid AI IoT
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

2.5 billion SEK Net Sales 2022
25% EBIT margin 2022
20% Net sales CAGR last 10 years
HMS enables valuable data and insights - allowing our customers to increase productivity and sustainability.

HMS makes hardware & software products which enable machines to communicate.
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
  - 44% of revenue

- **Users of automation systems**
  - End users & System integrators
    - 31% of revenue
    - Project Sales
    - Product Sales
    - E-Commerce

- **Revenue**
  - 44% of revenue
  - 25% of revenue
  - 31% of revenue

- **Business model**
  - Specified as standard or option in BOM
  - Direct Sales & Distribution
  - 44% of revenue

- **Go-to-market**
  - Design Wins
  - Direct Sales
  - Distributed

- **E-Commerce**
HMS Strategic framework until 2025

- Organic growth
- People
- Operational Efficiency
- M&A
- Planet
- 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

Summary and introduction

Business update

Financial results

Q&A
Business update – third quarter 2023

• New record quarter in sales – supported by large order book
• Order intake normalization and inventory adjustments impacting short term orders – will continue for a couple of quarters
• Underlying market relatively stable

• The recent disruptions in the global supply chain of electronic components are now resolved to a large extent, resulting in shorter delivery times throughout the value chains
• HMS inventory levels continued high, and expected to remain at high levels for some time

• No interest-bearing net debt
• Long term growth potential remains solid, both organic and M&A
Agenda

Summary and introduction

Business update

Financial results

Q&A
Order intake of 492 MSEK in Q3 2023, -27%

Analysis and conclusions

- Q3 2023: 492 MSEK (675), -27% (organic -25%)
- YTD 2023: 1,877 MSEK (2,346), -20% (organic -20%)
- Book-to-bill excluding FX effects of 0.62 in Q3
- Order intake normalization and destocking
  - Europe and Japan entering at rapid pace
  - US on its way out of order normalization and destocking
# Order normalization of ≈150 MSEK in Q3 2023

## Underlying Order Intake 2021-2023, MSEK

<table>
<thead>
<tr>
<th></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>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>565</td>
<td>605</td>
<td>669</td>
<td>699</td>
<td>607</td>
<td>615</td>
<td>615</td>
<td>633</td>
<td>682</td>
<td>698</td>
<td>642</td>
</tr>
<tr>
<td>505</td>
<td>605</td>
<td>669</td>
<td>699</td>
<td>607</td>
<td>615</td>
<td>615</td>
<td>633</td>
<td>682</td>
<td>698</td>
<td>642</td>
<td></td>
</tr>
<tr>
<td>529</td>
<td>669</td>
<td>699</td>
<td>607</td>
<td>615</td>
<td>615</td>
<td>633</td>
<td>682</td>
<td>698</td>
<td>642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>499</td>
<td>699</td>
<td>607</td>
<td>615</td>
<td>615</td>
<td>633</td>
<td>682</td>
<td>698</td>
<td>642</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>250</td>
<td>150</td>
<td>815</td>
<td>50</td>
<td>675</td>
<td>718</td>
<td>35</td>
<td>-30</td>
<td>-150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>200</td>
<td>607</td>
<td>85</td>
<td>50</td>
<td>575</td>
<td>633</td>
<td>682</td>
<td>698</td>
<td>642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>140</td>
<td>607</td>
<td>150</td>
<td>85</td>
<td>50</td>
<td>85</td>
<td>633</td>
<td>682</td>
<td>698</td>
<td>642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>200</td>
<td>85</td>
<td>50</td>
<td>575</td>
<td>633</td>
<td>682</td>
<td>698</td>
<td>642</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **FX revaluation of already existing order book**
- **Order Normalization/Destocking**
- **Boost orders**
- **Underlying demand**
Underlying order growth of 14%

Underlying Order Intake bridge, Q322 to Q323, MSEK

Order intake Q322: 675
Boost Q322: 50
Revaluation order backlog Q322: 50
Normalized OI Q322: 575
FX (vs Q322): 11
Growth: 78
+14%
Normalized OI Q323: 642
Order normalization Q323: 150
Reported Order intake Q323: 492

-27%
+12%
+14%
Net Sales 789 MSEK in Q3 2023, +26%

- Q3 2023: 789 MSEK (624), +26% (organic +20%)
- YTD 2023: 2,265 MSEK (1,742), +30% (organic +23%)
- Continued improvement in delivery capacity, 40 MSEK delay from Q2 is delivered in full in Q3
- Anybus and Ixxat benefit from solid backlog, Ewon sales impacted somewhat from destocking
Order book decreases 16% from previous quarter to 1.1 BSEK as of Q3 2023

* Backlog calculation adjusted as of Q3. Now calculated based on actual FX of each order in the backlog
Q3 2023: Sales per region

Sales per region Q3 2023, MSEK

**Americas**
- Net Sales 160 MSEK (127)
- 20% of Group sales (20%)
- USA represents 54%

**EMEA**
- Net Sales 486 MSEK (378)
- 62% of Group sales (61%)
- Germany represents 41%

**APAC**
- Net Sales 143 MSEK (119)
- 18% of Group sales (19%)
- Japan represents 49%
- China 30%
Q3 2023: EBIT 223 MSEK (28.2% margin)

Analysis and conclusions

• EBIT Q3: 223 MSEK (179)
• EBIT margin Q3: 28.2% (28.7)
• EBIT YTD: 584 MSEK (461, Adj. 434)
• EBIT margin YTD: 25.8% (26.5, Adj. 24.9)

• New record level for operating profit

• Q3 2023 gross margin of 65.4% (63.6)

• Main drivers to strong gross margin:
  • Price adjustments towards customers
  • Favorable currency situation
  • Efficiency improvements in our supply chain

• OPEX increased to 293 MSEK (225), corresponding to 24% organic increase. Lower OPEX increase pace expected ahead
Q3 2023: EPS 3.69 SEK

Analysis and conclusions

Q3:
- EPS of 3.69 SEK (2.90)
- Net financials of -3 MSEK (-11)

YTD:
- EPS of 9.87 (7.64) (Adj. 7.07)
- Net financials of -9 MSEK (-18)
Q3 2023: Cash flow from ops. of 167 MSEK

Cash flow, MSEK

Analysis and conclusions

Q3:
• Cash flow from operating activities of 167 MSEK (118)
• Changes in NWC → -78 MSEK (-52)
  • Inventory buildup of 59 MSEK
  • NWC in % of sales 12.0% (7.7)

YTD:
• Cash flow from operating activities of 400 MSEK (254)
• Changes in NWC → cash flow of -204 MSEK (-186)
  • Inventory buildup of 186 MSEK
Q3 2023: Net Debt of 390 MSEK

Net debt and leverage, MSEK

Analysis and conclusions

- Net debt / EBITDA of 0.43 (0.62)
- Net debt / Equity: 0.21 (0.29)
- No interest-bearing net debt
Summary Q3 2023

Underlying market relatively stable

• Main theme of the quarter, order intake normalization and destocking
• Underlying organic order intake is up by 14% year-over-year, slightly down sequentially – showing relatively stable underlying market

Record Net Sales and EBIT

• Solid deliveries in the quarter, delivery capacity not expected to be a limiting factor ahead
• Gross margin breaking 65% for the first time
• EBIT margins driven by solid volumes and the strong gross margin