HMS Networks – Q4 report 2018

February 12th, 2019

Staffan Dahlström, CEO, Joakim Nideborn, CFO
Agenda

Summary

Business update

Financial results

Q&A
Fourth quarter

- Net sales for the fourth quarter reached SEK 363 m (301), corresponding to an increase of 20%. Currency translations had a positive effect of SEK 21 m on net sales.
- Operating profit reached SEK 52 m (31) equal to a 14% (10) operating margin.
- Order intake was SEK 387 m (288), corresponding to an increase of 34%.
- Cash flow from operating activities amounted to SEK 49 m (36).
- Profit after taxes totalled SEK 42 m (20) and the earnings per share was SEK 0.90 (0.43).

Yearly

- Net sales for the full year 2018 reached SEK 1,366 m (1,183), corresponding to an increase of 15%. Currency translations had a positive effect of SEK 65 m on net sales.
- Operating profit reached SEK 251 m (212) equal to a 18% (18) operating margin.
- Order intake was SEK 1,433 m (1,204), corresponding to an increase of 19%.
- Cash flow from operating activities amounted to SEK 193 m (207).
- Profit after taxes totalled SEK 171 m (143) and the earnings per share was SEK 3.68 (3.06).
- Acquisition of 100% of the shares in Beck IPC GmbH.
- The Board of Directors propose a dividend to the amount of SEK 1.80 (1.50) per share.
HMS Financial targets – 20/20/50

HMS sales development 2009-2018

HMS Financial targets

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Actual 2009-2018</th>
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</thead>
<tbody>
<tr>
<td><strong>Sales growth (CAGR)</strong></td>
<td>20%</td>
<td>21%</td>
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<tr>
<td><strong>EBIT (% margin)</strong></td>
<td>20%</td>
<td>18%</td>
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<tr>
<td><strong>Dividend (% of EPS)</strong></td>
<td>50%</td>
<td>46%</td>
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</table>
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Business update fourth quarter

- Continued strong development in Americas, record quarter in both sales and orders

- Similar situation as previous quarter in Europe, still slow within Automotive, but solid demand in other sectors

- Development in Asia has been slower Q2-Q4 after a very strong Q1. For the full year the Asian business is still up 15%

- Reported growth 20%: double digit growth in all product lines, partly due to tailwind from a weak Swedish crown
• Technology collaboration with WoMaster for industrial infrastructure solutions

• Component shortage situation under control, lead times are going in the right direction and stock build up is completed

• High activity in fairs during Q4 helped making 2018 a new record year for new business opportunities with over 18 000 new leads, an increase by 13%

• 177 new design wins plus 73 design wins from Beck gives 1 693 (1 590) active design wins

• Many customer are positive about their own growth opportunities – but at the same time concerned about macro data indicating a slowdown
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Order intake of 387 MSEK

Order intake, MSEK

<table>
<thead>
<tr>
<th></th>
<th>Q416</th>
<th>Q117</th>
<th>Q217</th>
<th>Q317</th>
<th>Q417</th>
<th>Q118</th>
<th>Q218</th>
<th>Q318</th>
<th>Q418</th>
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</thead>
<tbody>
<tr>
<td>Order intake, MSEK</td>
<td>267</td>
<td>299</td>
<td>328</td>
<td>289</td>
<td>288</td>
<td>350</td>
<td>336</td>
<td>360</td>
<td>387</td>
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<tr>
<td>+34%</td>
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Comments on order intake

- Group order intake +34% in Q4 and 19% YTD
- Organic growth +23% in Q4 and +14% YTD
- Q4 in Beck is effected by one off-effect of 16 MSEK due to order take over from EMS
Net Sales reached all time high of 363 MSEK

- Sales growth of 20% in Q4 and 15% YTD
- Organic growth +14% in Q4 and 13% YTD
- EMEA +23% in Q4, +17% YTD – underlying good demand except automotive
- Americas +31% in Q4, +11% YTD – investments and focus are starting to pay off
- Asia +3% in Q4, +15% YTD – somewhat slower after a strong start of the year, growth driven by Japan
EBIT margin of 14% in the forth quarter

EBIT per quarter, MSEK

Comments on EBIT

- EBIT of 52 MSEK (14%) in Q4, 251 MSEK (18%) YTD
- Q4 burdened by high marketing cost from fairs
- Q4 gross margin of 59.6%, impacted by low gross margin in Beck. YTD gross margin of 61.1%
- Continued investments in Sales & Marketing and R&D resources, +34 FTE
EPS of 0.90 SEK, more than doubled vs Q4 2017

EPS per quarter, SEK

Q416 0.55
Q117 0.86
Q217 0.86
Q317 0.90
Q417 0.43
Q118 0.80
Q218 0.90
Q318 1.09
Q418 0.90

+108%

Comments on EPS

• Q4: EPS of 0.90 SEK (0.43), 108% growth
• YTD: 3.68 (3.06) YTD, 20% growth
• Q4: Net financials of 0 MSEK (-6)
Cash flow from operating activities, 49 MSEK

Cash flow from operations per quarter, MSEK

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Cash Flow (MSEK)</th>
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<tbody>
<tr>
<td>Q416</td>
<td>36</td>
</tr>
<tr>
<td>Q117</td>
<td>53</td>
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<td>Q217</td>
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<td>Q317</td>
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<tr>
<td>Q417</td>
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<tr>
<td>Q118</td>
<td>20</td>
</tr>
<tr>
<td>Q218</td>
<td>51</td>
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<tr>
<td>Q318</td>
<td>73</td>
</tr>
<tr>
<td>Q418</td>
<td>49</td>
</tr>
</tbody>
</table>

Comments on cash flow:

- Q4: Cash flow from operating activities after changes in NWC 49 MSEK (NWC impacting positively by 5 MSEK)
- YTD: Cash flow from operating activities after changes in NWC of 193 MSEK (NWC impacting negatively by 39 MSEK)
- Inventory build up to offset component shortage ~30 MSEK
- Overall NWC of sales expected to be ~10% going forward
Net debt/EBITDA at 1.13

Net debt and leverage

- Net debt/EBITDA of 1.13
- Net debt/Equity: 0.4
- Increased net debt from:
  - Increased NWC
  - Dividend
  - Beck acquisition
- Balance sheet is in good shape for acquisition
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