

hms networks

INTERIM REPORT 2014

JANUARY - MARCH 2014

Last twelve months

- ❑ Net sales for the last twelve months totalled to 533 MSEK (393), corresponding to a 37 % increase in local currencies
- ❑ Operating profit for the last twelve months was 94 MSEK (63), equal to a 18 % (16) operating margin
- ❑ Order intake for the twelve-month period was 564 MSEK (427)
- ❑ Cash flow from operating activities for the twelve month period amounted to 83 MSEK (90)
- ❑ Profit after tax for the last twelve months amounted to 68 MSEK (51) and earnings per share was 5.99 SEK (4.52)

First quarter

- ❑ Net sales for the first quarter totalled to 139 MSEK (107) corresponding to a 27 % increase in local currencies
- ❑ Operating profit was 22 MSEK (14) corresponding to a 16% (13) operating margin
- ❑ Order intake for the first quarter was 167 MSEK (119)



Comment from the CEO

After the first quarter of 2014 we can see positive signs in a number of areas: Stronger underlying demand on our most important markets, good performance from the acquisition of the IXXAT operations and increasing volumes from recent design-wins. With this we can report an organic growth around our targeted 20% and an acquired growth, as IXXAT was included in the consolidated accounts as of February 1st, 2013, all together this results in a 30% growth compared to the same period the previous year. Order intake reached record levels at 167 MSEK during the first quarter.

We continue the investment in product development from previous years but since the core technology development at present are close to completion we change the direction to broadening the product offer based on the new technology platforms now in place.

The quarter was characterized by several major product releases. We have launched the five most important protocols within the new CBM family (Anybus Embedded) and we have already received some important design-wins. Our investment in Remote Management (Netbiter) continues and we see good opportunities for the new technology platform and the new functionality to increase sales in this product group. We are also starting to deliver the new Remote Access application for the Netbiter products, something we think will increase the market potential within the HMS main market – Factory Automation.

In the short term our customers are cautiously optimistic and we consider the conditions for a continuing long term growth

as positive. During this year our goal is to increase the effect from the opportunities we see in the acquired operation as well as from the investments in expanded resources during the recent years.

Our focus is to drive growth within our three main product brands Anybus, Netbiter and IXXAT. We continue our effort to balance our long term growth strategy with a conscious view on expenses and new resources. In the long term we consider the market for industrial data communication and remote management to be interesting growth areas and we continue to focus around our motto – Connecting Devices.

“ We can see stronger underlying demand on our most important markets.



Staffan Dahlström
CEO, HMS Networks AB



Quarterly data	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Net sales (SEK m)	139	126	140	128	107	87	99	99
Order intake (SEK m)	167	132	125	140	119	100	95	113
Operating profit (SEK m)	22	13	32	27	14	6	23	20
Gross margin (%)	62.1	63.7	63.4	62.2	61.0	57.6	59.9	60.6
Operating margin (%)	15.5	10.7	23.0	21.3	12.8	7.2	23.4	20.2
Return on capital (%)	14.9	10.3	18.0	17.0	15.4	16.3	16.2	17.7
Earnings per share (SEK)	1.27	0.84	2.07	1.80	0.82	0.86	1.49	1.36
Equity per share (SEK)	34.76	33.35	32.21	30.41	31.17	30.21	29.43	28.23
Cash flow for operating activities per share (SEK)	0.81	2.20	2.88	1.41	1.42	1.67	2.23	2.63

Net sales

Net sales for the last twelve months amounted to 533 MSEK (393) corresponding to a 35 % increase. In total, the revaluation of the Swedish currency in relation to the major HMS currencies had a negative effect on net sales by -6 MSEK compared to the previous twelve-month period. In the comparative period sales from IXXAT is included with 16 MSEK for the period February to March. The order intake amounted to 564 MSEK (427).

Net sales for the first quarter 2014 was 139 MSEK (107), corresponding to a 30 % increase compared to the same quarter during the previous year. Adjusted for 3 MSEK in currency effects, the increase amounted to 27 %. During the first quarter 2013, the acquired IXXAT sales were 25 MSEK of which 16 MSEK was included in the consolidated accounts for the period. Adjusted for this sales volume the organic growth was 21% in the first quarter. Order intake for the first quarter increased by 48 MSEK to 167 MSEK (119), of which 151 MSEK (102) is expected to be delivered during the next twelve months. In local currencies and considering the acquisition date of IXXAT the previous year the order intake for the quarter increased by 31 %.

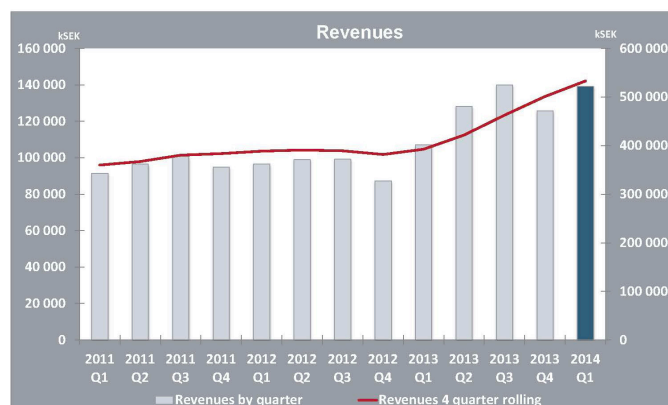
Operating profit

Operating profit totalled to 94 MSEK (63) for the last twelve months, equivalent to an operating margin of 18 % (16). Currency effects had a negative impact on the operating result with 5 MSEK compared to the previous twelve month period. During the comparative period the acquired IXXAT Automation was included in the Group result for two months during the period February through March. During this period the net contribution for the acquired company was 0 MSEK.

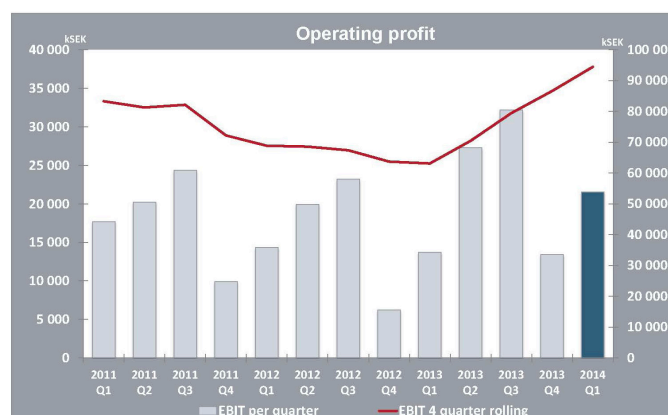
The operating profit for the first quarter 2014 totalled to 22 MSEK (14). Changes in exchange rates had a 0.4 MSEK positive impact compared to the same period the previous year. During the first quarter 2013 the acquired group, including the effect of depreciation on intangible assets and acquisition costs, had no impact on the Group's operating result.

Equity

The Group's equity amounted to 392 MSEK (353). The total number of shares at the end of the year was 11,322,400. The Group's equity/assets ratio amounted to 50 % (46).



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 per quarter in the bars referring 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.

Tax

The tax charge for the first quarter was 4 MSEK (2). The tax charge for the current period has been calculated on the basis of the tax situation applying to the Group at present and the profit development of the reporting entities belonging to the Group.

Change in Group Equity (SEK 000s)	Mar 31 2014	Mar 31 2013	Dev 31 2013
Balance at 1 january	377,557	342,056	342,056
Total comprehensive income for the period	14,578	10,788	64,127
Repurchase of own shares	0	0	-3,895
Share-related payment	252	136	744
Issue of new shares through the exercise of warrants	0	0	0
Dividends	0	0	-25,475
Closing balance	392,387	352,980	377,557

Currency effects

Assets and liabilities in foreign currencies are revaluated at closing date. Currency hedging contracts are revaluated at the date of closing and are also affecting the result on the date of expiration. Changes in book value due to revaluation of operating balance sheet items and currency hedging contracts are disclosed as other operating income and other operating expenses. Changes in book value related to assets in foreign currencies i.e. liquid funds, are disclosed as financial income and expenses. Net sales and expenses are affected by changes in exchange rates. This will have an impact on income and costs. Net sales for the quarter consist of 64 % in EURO, 23 % in USD, 7 % in Japanese Yen and 6 % in SEK and other currencies. Cost of goods sold consists of 74 % in EURO, 17 % in USD and 1 % in Japanese Yen. Operating expenses consists of 56 % in EURO, 12 % in USD, 5 % in Japanese Yen and 27 % of SEK and other currencies. The Group applies a policy for currency hedging described in the annual report.

Cash flow, investments and financial position

Cash flow from operating activities in the first quarter 2013 amounted to 9 MSEK (16).

The investments in tangible assets for the quarter totalled 1 MSEK (1). Investments in intangible assets for the period totalled 7 MSEK (15) and comprise internal development costs related to new technology platforms. As several new technology platforms recently were completed a comparably smaller part of the Groups development expenses was capitalized during the period.

The acquisition of IXXAT in February 2013 generated a over-value for the group of approximately 250 MSEK of which 141 MSEK is allocated on technology platforms, customers and brand name. The annual depreciation on the purchase price allocated to technical platforms and customers is estimated to 7 MSEK. During the first quarter 2014 depreciation on purchase price allocated to assets was reflected with 2 MSEK in the income statement.

To balance the Group's currency exposure a 32 m€ loan was used to finance the acquisition made in the first quarter 2013. At the end of the period the loan amounted to 28 m€. By the end of the period, the cash equivalents totalled 8 MSEK (32) and unutilized credit facilities 30.0 MSEK. The Group's net debt amounted to 243 MSEK (235).

Outlook

The HMS Group long-term growth is supported by a continued inflow of design-wins, a broader product offering within the Gateway product family and Remote Management, supplementary technology platforms from IXXAT and an expansion of the HMS sales channels according to the existing strategy.

At present, the global market for HMS products is still considered to be cautiously positive. The effects on the market for the HMS product offering and the effect of currency fluctuations are difficult to assess, but HMS's overall goals are unchanged: A long term average growth of 20 % per year and an operating margin above 20 %.



Accounting policies

This report has been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34, for Interim Reporting. Amendments to existing standards, new interpretations and new standards that came into effect as of January 1, 2014 did not affect the Groups reporting as of March 31, 2014.

HMS continues to apply the same accounting principles and valuation methods as those described in the most recent Annual Report. The parent company report is prepared in accordance with RFR 2, accounting for legal entities, and the Swedish Annual Accounts Act and accounting principles and the valuation methods as those described in the most recent Annual Report.

HMS Networks AB's share

HMS Networks AB (publ) is listed on the Nasdaq OMX Stockholm Small Cap list, in the Information Technology sector. The total number of shares amounted to 11,322,400.

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 2013. In addition to the risks described in these documents, no additional significant risks have been identified.

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 quarter 2014 amounted to 0 MSEK (0). Cash and cash equivalents amounted to 1 MSEK (1) and borrowing amounted to 0 MSEK (0).

HALMSSTAD COVENTRY PUNE
 GOTHENBURG BEIJING TOKYO
 COPENHAGEN WEINGARTEN
 KARLSRUHE CHICAGO PARIS
 MILAN BOSTON MULHOUSE LA

Short of the company

Strategies

Growth strategy - HMS's main focus is on organic growth. Expansion on existing markets will be through improved and extended product ranges, new technology, high level of service and new sales channels. A certain degree of growth can be through the selective acquisition of businesses that will be a valuable complement to the company's organic growth strategy.

Development strategy - The Company's core expertise is made up of an extensive understanding of industrial network communication. Based on this competence in combination with an extensive network of customers, suppliers and external partners the existing and new product offers and solutions are developed for the best possible customer benefits.

Product strategy - HMS markets four product lines, which to a certain degree are based on a common technical platform:

- ☐ Anybus Embedded – Embedded network interface cards
- ☐ Anybus Gateways – Communication translators between different networks
- ☐ IXXAT – Communication platforms for industrial machines and equipment
- ☐ Netbiter Remote Management – Remote monitoring and controlling of industrial devices

Production strategy - HMS maintains an in-house low-volume production of Anybus products in Halmstad. Volume production takes place in close partnership with subcontractors in Europe and Asia in order to achieve flexible costs and to make use of economies of scale.

Marketing strategy - The Anybus network interface cards are marketed and sold to players in industrial and infrastructure automation and Anybus Gateways to system integrators, machine manufacturers and end-users in industrial and infrastructure automation. IXXAT communication platforms are marketed and sold to machine builders of industrial applications, medical equipment and the automotive industry. Netbiter products are marketed and sold to a wide range of customers, from device manufacturers to owners of installations in need of remote management.

Sales strategy - Sales take place via the company's sales offices on defined key markets in 10 countries. Sales on the company's other markets, in some 50 countries, takes place via agents/ distributors.

Business model

HMS har format sina affärsmodeller efter respektive marknad och produktlinje. För Embedded gäller ramavtal, så kallade design-wins, med relativt lång säljcykel och konstruktionsfas i nära samarbete med kund och därefter säkra långsiktiga intäkter. För Gateways och Remote Management är affärsmodellen mer traditionell med kort säljcykel och tillverkning mot kundorder.

Reporting occasions

- ☐ Annual General meeting will be held at 10.30 am on April 25, 2014
- ☐ Half year report will be presented on July 16, 2014
- ☐ Interim report for the 3rd quarter will be presented on October 28, 2014

Halmstad April 24, 2014

Staffan Dahlström
Chief Executive Officer

This interim report has not been reviewed by the Company's auditor.

Further information can be obtained from:
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CFO Gunnar Högberg, telephone +46 (0) 35-17 29 95

Financial accounts

	Q1 2014	Q1 2013	Q1-Q4 2013	1304-1403 12 months
Net increase in revenue (%)	29.8	11.1	31.3	35.8
Gross margin (%)	62.1	61.0	62.6	62.8
Operating margin EBIT (%)	15.5	12.8	17.3	17.7
EBITDA (SEK t)	27,736	17,713	104,759	114,775
EBITDA (%)	19.9	15.5	20.9	21.5
Return on capital employed (%)*	3.6	3.0	18.4	15.8
Return on total equity (%)*	14.9	10.7	17.4	18.2
Working capital in relation to sales (%)*	2.3	7.9	2.7	2.4
Capital turnover rate	0.72	0.70	0.84	0.69
Debt/equity ratio	0.53	0.57	0.59	0.58
Equity/assets ratio (%)	50.3	46.4	49.0	48.0
Capital expenditure in property, plant and equipm. (SEK 000s)	1,072	1,085	4,493	4,480
Capital expenditure in intangible fixed assets (SEK 000s)	6,804	14,678	52,609	44,735
Depreciation of property, plant and equipment (SEK 000s)	-1,786	-1,729	-6,674	-6,731
Amortisation of intangible fixed assets (SEK 000s)	-4,424	-2,239	-11,438	-13,623
Number of employees (average)	353	346	344	346
Revenue per employee (SEK m)*	1.5	1.1	1.5	1.5
Equity per share, SEK	34.73	31.18	31.82	32.71
Cash flow from operations per share, SEK	0.81	1.42	7.91	7.30
Total number of shares, average, thousands	11,322	11,322	11,322	11,322
Holding of own shares	25	0	12	19
Total outstanding shares	11,297	11,322	11,310	11,304

* The key ratio has been translated into 12 months rolling value when applicable.

Income statements

(SEK 000s)	Q1 2014	Q1 2013	Q1-Q4 2013	1304-1403 12 months
Revenue	139,127	107,215	501,145	533,057
Cost of goods and services sold	-52,758	-41,769	-187,229	-198,218
Gross profit	86,369	65,446	313,916	334,839
Sales and marketing costs	-30,889	-29,668	-128,346	-129,567
Administrative expenses	-11,859	-13,104	-48,442	-47,197
Research and development costs	-23,416	-9,717	-52,018	-65,717
Other operating income	1,321	1,486	2,828	2,663
Other costs	0	-698	-1,290	-592
Operating profit	21,527	13,745	86,647	94,429
Financial income	0	0	203	203
Financial costs	-2,915	-2,046	-5,357	-6,226
Profit before tax	18,611	11,699	81,494	88,406
Tax	-4,281	-2,388	-18,744	-20,637
Profit for the period	14,331	9,311	62,750	67,770
Basic earnings per share, SEK	1.27	0.82	5.55	5.99

Statements of comprehensive income

(SEK 000s)	Q1 2014	Q1 2013	Q1-Q4 2013	1304-1403 12 months
Profit for the period	14,331	9,311	62,750	67,770
Other comprehensive income				
Income/expense recognized directly in equity				
Cash flow hedges	-132	-519	-1,751	-1,364
Translation differences	213	-5,204	10,004	15,422
Hedging of net investments	175	9,085	-9,309	-18,219
Income tax relating to components of other comprehensive income	-9	-1,885	2,433	4,309
Other comprehensive income for the period, net of tax	247	1,477	1,377	148
Total comprehensive income for the period	14,578	10,788	64,127	67,918

Balance Sheets

(SEK 000s)	Mar 31 2014	Mar 31 2013	Dec 31 2013
ASSETS			
Goodwill	390,934	380,272	390,844
Other intangible assets	241,850	204,193	239,405
Property, plant and equipment	19,451	21,832	20,179
Deferred tax assets	724	725	724
Total fixed assets	652,959	607,022	651,152
Inventories	35,449	35,418	35,971
Trade and other receivables	65,067	54,114	53,985
Other current receivables	17,635	31,429	13,637
Cash and cash equivalents	8,414	32,424	15,818
Total current assets	126,565	153,385	119,411
TOTAL ASSETS	779,524	760,407	770,563
EQUITY AND LIABILITIES			
Equity	392,387	352,980	377,557
Liabilities			
Non-current liabilities	215,186	234,182	224,076
Deferred income tax liabilities	65,633	65,026	65,143
Total non-current liabilities	280,819	299,208	289,219
Trade payables	29,635	27,690	28,342
Other current liabilities	76,683	80,528	75,445
Total current liabilities	106,318	108,218	103,787
TOTAL EQUITY AND LIABILITIES	779,524	760,406	770,563

Cash flow statements

(SEK 000s)	Q1 2014	Q1 2013	Q1-Q4 2013	1304-1403 12 months
Cash flow from operating activities before changes in working capital	18,460	5,219	85,268	98,509
Cash flow from changes in working capital	-9,345	10,852	4,234	-15,963
Cash flow from operating activities	9,115	16,071	89,502	82,546
Cash flow from investing activities	-7,876	-260,944	-324,554	-71,486
Cash flow from financing activities	-8,643	245,810	219,383	-35,070
Cash flow for the period	-7,404	937	-15,669	-24,010
Cash and cash equivalents at beginning of the period	15,818	31,487	31,487	32,424
Cash and cash equivalents at end of period	8,414	32,424	15,818	8,414

Quarterly data

Revenue per region (SEK 000s)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
EMEA	91,628	78,378	89,455	82,481	69,182	52,971	60,049	59,169	60,387	55,876	64,900	61,757
Americas	27,291	26,359	30,592	26,439	22,480	19,686	22,687	20,813	20,429	20,330	18,844	17,418
Asia	20,207	21,021	19,920	19,285	15,553	14,608	16,408	18,920	15,677	18,642	16,976	17,322

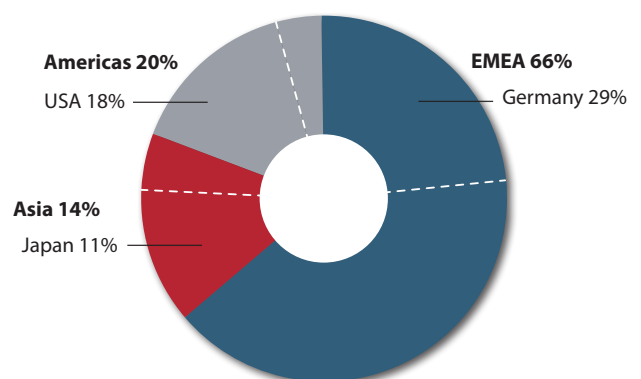
Income statement (SEK 000s)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Revenue (SEK m)	139,127	125,758	139,967	128,205	107,215	87,265	99,144	98,902	96,493	94,848	100,720	96,498
Gross profit	86,369	80,056	88,704	79,709	65,446	50,269	59,382	59,953	59,766	57,686	61,062	59,193
Gross margin	62.1%	63.7%	63.4%	62.2%	61.0%	57.6%	59.9%	60.6%	61.9%	60.8%	60.6%	61.3%
Operating profit	21,527	13,443	32,226	27,260	13,745	6,248	23,186	19,953	14,338	9,925	24,360	20,224
Operating margin	15.5%	10.7%	23.0%	21.3%	12.8%	7.2%	23.4%	20.2%	14.9%	10.5%	24.2%	21.0%
Profit before tax	18,611	12,397	30,479	26,919	11,699	7,001	23,100	20,810	14,286	10,715	25,544	20,536

Sales

Sales by geographical area for the first quarter 2014 are presented in the graph to the right.

Embedded products reached 53 % (57) of the Group's total sales, IXXAT 23 % (15), Gateway products 19 % (19) and Remote Management amounted to 2 % (3).

All product groups are based on a common technology platform and are marketed and sold in the common sales channels. Therefore, no complete segment follow-up is reported.



Parent company income statements

(SEK 000s)	Q1 2014	Q1 2013	Q1-Q4 2013	1304-1403 12 months
Revenue	2,095	2,243	7,845	7,697
Cost of sales and services	0	0	0	0
Gross profit	2,095	2,243	7,845	7,697
Administrative expenses	-2,092	-2,249	-7,818	-7,660
Operating profit	3	-6	27	37
Interest expense, dividends and similar items	-3	6	49,993	49,983
Profit before tax	0	0	50,020	50,020
Tax	-2	0	-4	-6
Profit for the period	-2	0	50,016	50,014

Parent company balance sheets

(SEK 000s)	Mar 31 2014	Mar 31 2013	Dec 31 2013
ASSETS			
Financial fixed assets	244,039	244,039	244,039
Total financial fixed assets	244,039	244,039	244,039
Other receivables	1,011	837	247
Cash and cash equivalents	896	717	808
Total current assets	1,907	1,554	1,056
TOTAL ASSETS	245,946	245,593	245,095
EQUITY AND LIABILITIES			
Equity	143,931	123,285	143,931
Untaxed reserves	8	8	8
Liabilities			
Non-current liabilities	0	0	0
Trade payables	81	104	535
Liabilities to Group companies	99,640	119,749	99,321
Other current liabilities	2,285	2,447	1,299
Total current liabilities	102,007	122,300	101,155
TOTAL EQUITY AND LIABILITIES	245,946	245,593	245,095

Definitions

Return on shareholders' equity

Share of profit after tax attributable to the parent company's shareholders in relation to the average shareholders' equity excluding non-controlling interests.

Return on capital employed

Share of the profit after financial income in relation to the average capital employed.

Capital employed

Total assets less non interest bearing current liabilities and provisions, as well as total deferred tax liabilities.

Capital turnover rate

Operating income in relation to total assets.

Earnings per share

Share of the profit after tax attributable to the parent company's shareholders in relation to the average number of outstanding shares.

Earnings per share after dilution

Share of the profit after tax attributable to the parent company's shareholders in relation to the average number of outstanding shares with addition for the average number of shares that are added when converting the outstanding number of convertible securities and options.

Working capital

Current assets less cash equivalents and current liabilities.

Operating margin

Operating income in relation to net sales.

Equity/assets ratio

Shareholders' equity in relation to total assets.

Net debt

Long-term and current financial liabilities less financial assets.

Net debt/equity ratio

Net debt in relation to shareholders' equity including non-controlling interests.

Total equity per share

Total equity attributable to the parent company's shareholders in relation to total outstanding shares by the end of the period.



HMS Industrial Networks is the leading independent supplier of products for industrial communication including remote management. HMS develops and manufactures solutions for connecting automation devices and systems to industrial networks under the Netbiter, Anybus and IXXAT brands.

Development and manufacturing take place at the headquarters in Halmstad, Sweden and in Weingarten, Germany. Local sales and support are handled by branch offices in China, Denmark, France, Germany, India, Italy, Japan, UK, and USA. HMS employs over 350 people and reported sales of 58 million EUR in 2012. HMS is listed on the NASDAQ OMX in Stockholm.

Our vision

“All industrial devices will be intelligent and networked. We shall be the market leading partner in the world of industrial communication”.

Our purpose

“To create long term value for our customers, employees and investors”.

Our mission

“We provide reliable, flexible and easy-to-use communication and remote management solutions to the world of industrial communication”.

