



# **IAR Systems Group AB**

*Interim report January-March 2017*

# Q1



## Continued profitable growth

Sales for the period of SEK 86.4m and EBITDA of SEK 30.6m  
Operating margin of 30% and cash flow of SEK 26.5m

Profit summary	January-March		Full-year
SEK m	2017	2016	2016
Net sales	86.4	80.5	328.4
Operating expenses	-60.2	-61.3	-231.9
Operating profit	26.2	19.2	96.5

Key ratios	January-March		Full-year
	2017	2016	2016
EBITDA margin, %	35.4	28.7	34.5
Operating margin, %	30.3	23.9	29.4
Net cash, SEK m	118.0	103.9	96.5
No. of employees at end of period	164	164	165

### January-March 2017

- Net sales of SEK 86.4m (80.5)
- EBITDA of SEK 30.6m (23.1), corresponding to an EBITDA margin of 35.4% (28.7)
- Operating profit of SEK 26.2m (19.2), corresponding to an operating margin of 30.3% (23.9)
- Profit before tax of SEK 25.4m (19.2)
- Basic earnings per share of SEK 1.49 (1.20) and diluted earnings per share of SEK 1.49 (1.20)
- Earnings per share of SEK 1.94 (1.51) after current tax
- Cash flow from operating activities of SEK 26.5m (22.0)
- Net cash of SEK 118.0m (103.9) at the end of the period

### Key events after the end of the reporting period

- IAR Systems supplemented its data security product portfolio through an equity stake in SecureThingz



## Continued profitable growth

Looking at the results of our efforts to refine our operations and provide a stable financial performance, the year got off to a strong start. Both the results for license-based revenue and support and upgrade agreements have continued to grow. There have been no major changes compared with previous years in terms of sales per product. However, our add-on products and certified products are growing more rapidly.

The recent consolidation of the processor vendor market, and thus of product portfolios, is increasing the volatility of our sales. This volatility reflects an uncertainty regarding customers' choice of processor vendor. At the same time, launches of new processors are becoming limited as vendors focus more on mergers than market activity. Among processor vendors, ARM continues to have a strong influence on future processors, even if we can see that some new architecture is appearing on the market, though on a very small scale.

Renesas Synergy is following the plan previously communicated by Renesas. The launch is proceeding as expected and manufacturing of Synergy processors began during the period. The production of units involves small volumes and should be seen by most customers as a start-up. Most users are in a development phase in their use of the Renesas Synergy Platform and will, therefore, begin production during the latter part of 2017 or more likely in 2018. The guaranteed remuneration from Renesas Synergy Platform was slightly higher in this quarter compared with preceding years since the agreement with Renesas was signed during the second quarter of 2016.

Our regions displayed mixed performances in the early part of the year. The Americas reported growth exceeding our financial targets as a result of a greater focus on geographical growth in the Americas and larger customers. Europe displayed a negative performance during the period and creating year-on-year growth proved challenging in most countries. The markets in Europe experienced varied developments without any specific negative trend, though some large customers chose to postpone major investment decisions, which had a short-term adverse impact on the region. Asia reported a stable performance, although Korea remains challenging in the wake of Samsung's crisis and the political turbulence in the country. Japan achieved several sales records toward the end of the period. We are beginning to see the effects of the changes and recruitments carried out in 2016.

When it comes to technology and market trends, the Internet of Things (IoT) remains a trend in which many wish to participate, even if most suppliers and customers are now launching both finished products and solutions as well as data security. As products become available, the focus and exposure of related technology and solutions, such as security, will increase. We can see strong demand for various certification and security solutions within several areas where we plan to establish a presence in order to ensure our short and long-term performance.

Another distinct market trend is a focus by many suppliers on the automotive industry. The number of processor-controlled applications in the automotive industry is increasing sharply. Trends such as autonomous vehicles are fueling the development of both innovation and market positioning in all areas of the automotive industry. This trend became very clear at the annual Embedded World trade fair in Germany, which we attended this year in a more ambitious capacity than ever before. At this year's fair, we launched a number of products for the automotive industry and a major upgrade to our flagship product IAR Embedded Workbench for ARM.

For the first time, we also positioned ourselves with the launch of a logotype for the product.

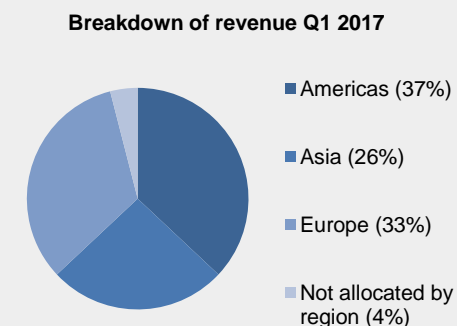
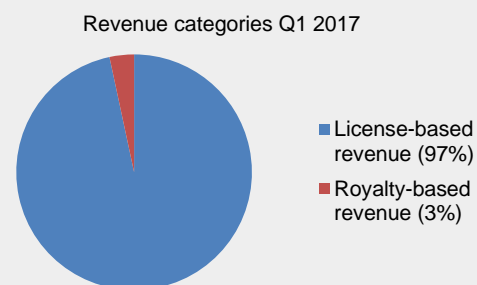
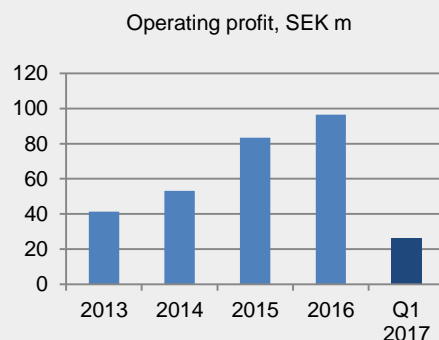
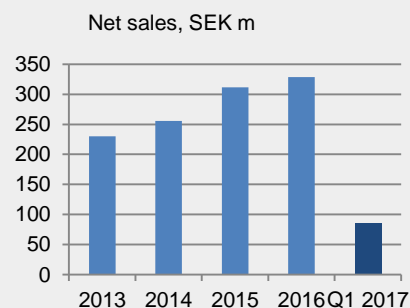


The greatest result of strategic activities was noted after the end of the reporting period and will also characterize our tactical activities during the year. We are at a stage in the company's refinement where we see a trend of embedded systems increasing their value in broader applications. Whether in security solutions or in vertical markets, such as automotive and medical devices, our ambition continues to be to use our technology and expertise to grow our market and be an active partner in developing the market for embedded systems.

Stefan Skarin, CEO of IAR Systems Group AB



With 980 visitors to our seminars and 100 meetings booked, this year's Embedded World was a success.



# The IAR Systems share

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm.

During the period, the share price varied from a low of SEK 192.50 (119.00) to a high of SEK 209.00 (172.50). The share price at March 31, 2017 was SEK 200.00 (172.50). IAR Systems Group's market capitalization on the same date was SEK 2,526m (2,179).

The number of shareholders in IAR Systems Group at March 31, 2017 was 8,742 (8,807). Of these shareholders, 528 (540) held more than 1,000 shares each. Foreign shareholders held approximately 23% (18) of the share capital and 21% (17) of the votes.

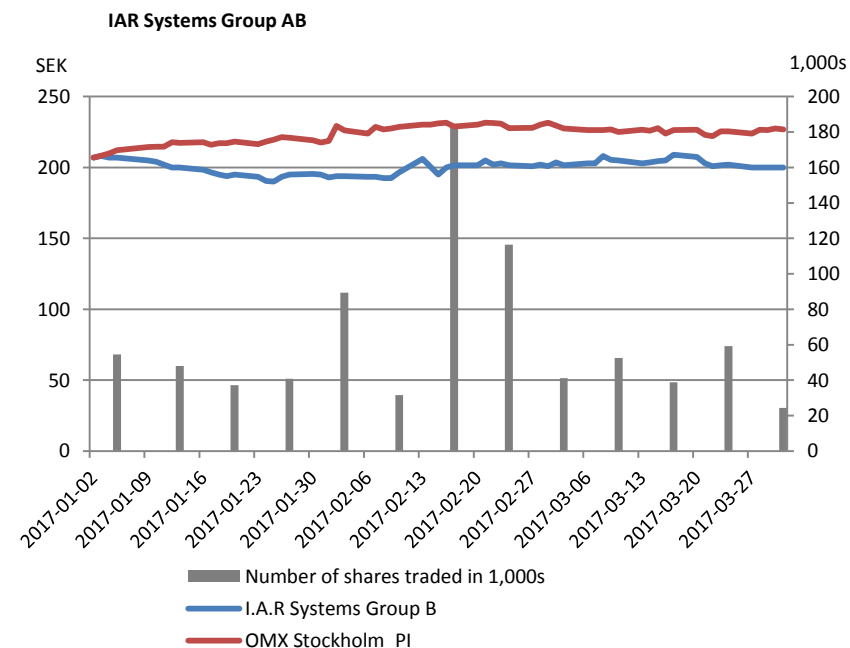
IAR Systems Group's share capital at March 31, 2017 amounted to SEK 126,320,614, divided between 12,632,061 shares, of which 100,000 are class A shares and 12,532,061 are class B shares.

Breakdown of shareholdings	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	5,845	67%	1%	1%
101-1 000	2,369	27%	7%	7%
1,001-10,000	429	5%	10%	9%
10,001-	99	1%	82%	83%
Total	8,742	100%	100%	100%

Geographical distribution	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	8,500	97%	77%	79%
Europe excl. Sweden	201	2%	19%	18%
Other countries	41	1%	4%	3%
Total	8,742	100%	100%	100%

Largest shareholders (votes)	No. of shares	Share of capital, %	Share of votes, %
Handelsbanken Fonder	1,179,017	9%	9%
Andra-AP Fonden	1,135,415	9%	8%
Danica Pension*	225,771	2%	8%
Ribbskottet AB	875,000	7%	6%
Catella Fondförvaltning	822,694	6%	6%
Other	8,424,164	67%	63%
Total	12,632,061	100%	100%

\*of which 100,000 class A shares



# Financial information

## NET SALES AND PROFIT

Net sales for the period rose 7% compared with the corresponding period in the preceding year and amounted to SEK 86.4m (80.5). Royalty-based revenue of SEK 2.9m (0.4) from the agreement with Renesas Electronics Corporation was reported during the period. The guaranteed remuneration from Renesas Synergy Platform was slightly higher this quarter than in year-earlier period since the agreement with Renesas was signed during the second quarter of 2016. In a year-on-year comparison, currency translation had a positive impact of SEK 3.7m on net sales for the period.

EBITDA for the period totaled SEK 30.6m (23.1), corresponding to an EBITDA margin of 35.4% (28.7). Operating profit for the period increased 35% to SEK 26.2m (19.2). Legal costs in the USA of SEK 4.0m were charged to operating profit in the year-earlier period. Excluding this non-recurring item, operating profit increased 13%.

Operating expenses were cut by SEK 4.0m (3.8) during the period through the capitalization of development costs for software and debug probes. Of the internal expenses that were capitalized, SEK 3.1m (3.0) pertained to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 2.3m on operating profit for the period.

During the period, the company participated in an issue of new shares in Northern Parklife to increase the prospects of divesting the financial holding. Financial expenses for the period largely comprise a SEK 0.8m (-) impairment loss on the holding in Northern Parklife, corresponding to the company's share in the issue of new shares above.

## SALES TREND

The Americas reported growth exceeding our financial targets as a result of a greater focus on geographical growth in the Americas and larger customers. Europe displayed a negative performance during the period and creating year-on-

year growth proved challenging in most countries. The markets in Europe experienced varied developments without any specific negative trend, though some large customers chose to postpone major investment decisions, which had a short-term adverse impact on the region. Asia reported a stable performance, although Korea remains challenging in the wake of Samsung's crisis and the political turbulence in the country. Japan achieved several sales records toward the end of the period following a number of changes and recruitments in 2016.

In a year-on-year comparison, total sales growth in local currency was 5%. The 5% sales growth for the period resulted in a 7% increase in net sales, since the accrual of prepaid maintenance revenue (-3%) reduced net sales at the same time as positive foreign exchange effects (+5%) increased net sales.

	Sales growth in local currency	Prepaid maintenance revenue	Foreign exchange effect	Growth in net sales	Share of net sales
Americas	13%	-10%	6%	9%	37%
Europe	-2%	2%	2%	2%	33%
Asia	-6%	1%	7%	2%	26%
Not allocated	200%	-	-	200%	4%
Total	5%	-3%	5%	7%	100%

## INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the period totaled SEK 0.4m (0.5). Investments in intangible assets for the period amounted to SEK 4.0m (3.8). The majority of these investments, SEK 4.0m (3.8), pertain to the capitalization of development costs for software and debug probes. The investments were in line with the company's plans. The equity/assets ratio at March 31, 2017 was 72% (74).

## CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period amounted to SEK 26.5m (22.0). Cash flow from investing activities for the period totaled SEK -5.2m (-5.2). Investments were principally made in intangible assets during the year. Cash flow from financing activities for the period totaled SEK -0.0 (-0.0).

As of March 31, 2017, the Group had net cash of SEK 118.0m (103.9). Cash and cash equivalents at the end of the period totaled SEK 120.5m (106.0). In addition, the Group had unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's total available cash and cash equivalents thus amounted to SEK 145.5m (131.0).

#### **EMPLOYEES**

The number of employees in IAR Systems at the end of the period was 164 (164). The average number of employees during the period was 156 (157).

#### **PARENT COMPANY**

The activities of the Parent Company consist of Group management, finance and IR/PR functions. The Parent Company's net sales for the period amounted to SEK 3.0m (3.0). The Parent Company posted a loss after financial items of SEK -0.9m (-0.5). Net investments in property, plant and equipment amounted to SEK 0.0m (0.0).

Cash and cash equivalents at March 31, 2017, totaled SEK 17.0m (1.2). The number of employees in the Parent Company at the end of the period was 4 (4).

#### **2017 ANNUAL GENERAL MEETING**

The Annual General Meeting of IAR Systems Group will be held on April 26, 2017, at Spårvagnshallarna, Birger Jarlsgatan 57 A, in Stockholm.

IAR Systems Group's annual report will be available starting at the end of March 2017 on the company's website, [www.iar.com](http://www.iar.com), and at the company's offices at Kungsgatan 33 in Stockholm and Strandbodgatan 1 in Uppsala.

#### **NOMINATING COMMITTEE**

In accordance with the decision of the Annual General Meeting in April 2016, a nominating committee has been appointed and consists of Malin Björkmo (Handelsbanken Fonder), Håkan Berg (Robur), Jonas Eixman (Second Swedish

National Pension Fund) and Martin Nilsson (Catella Fondförvaltning). Malin Björkmo was appointed Chairman of the nominating committee.

#### **PROPOSED NEW BOARD MEMBERS**

The Board of Directors proposes the re-election of Maria Wasing, Jonas Mårtensson and Stefan Skarin and the election of Lisa Kati and Kent Sander. Maria Wasing is proposed as Chairman of the Board. Markus Gerdin and Peter Larsson declined re-election.

#### **PROPOSED DIVIDEND**

The Board proposes a dividend of SEK 5.00 for approval by the Annual General Meeting on April 26, 2017. The motion entails a total dividend of SEK 63.2m.

#### **SIGNIFICANT RISKS AND UNCERTAINTIES**

The market for IAR Systems' software is evolving rapidly and forecasts about future developments are thus uncertain. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2016 under "Risk management" on page 32, under "Administration report" on page 35 and in Note 2 on pages 50-52.

#### **FUTURE OUTLOOK**

The Board's financial targets are for IAR Systems Group's sales to grow by 10-15% annually in local currency and for the operating margin to exceed 25% over a business cycle.

Stockholm, Wednesday, April 26, 2017

Stefan Skarin  
CEO of IAR Systems Group AB

#### **FINANCIAL CALENDAR 2017**

2017 Annual General Meeting, April 26, 2017  
Interim report Jan-Jun 2017, August 16, 2017  
Interim report Jan-Sep 2017, October 24, 2017

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**REVIEW**

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

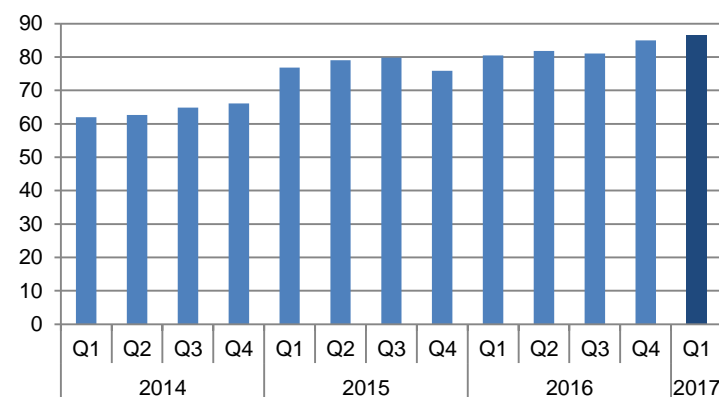


# Income statement

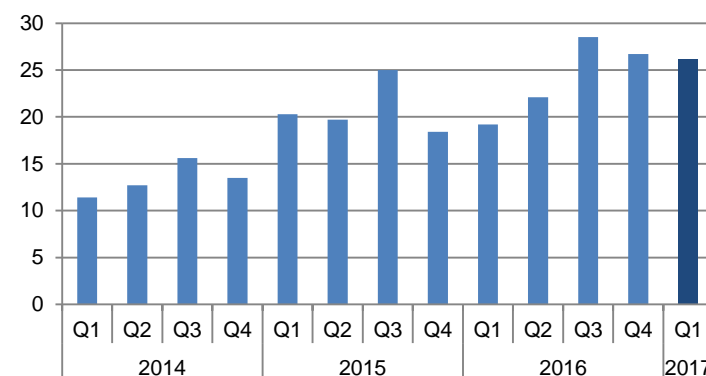
## CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	3 months Jan-Mar		Full-year 2016
		2017	2016	
Net sales	1.2	86.4	80.5	328.4
Goods for resale		-2.4	-3.3	-12.2
Other external expenses		-12.3	-15.8	-48.4
Personnel costs		-41.1	-38.3	-154.6
Depreciation of property, plant and equipment		-0.6	-0.6	-2.5
Amortization of intangible assets		-3.8	-3.3	-14.2
<b>Operating profit</b>		<b>26.2</b>	<b>19.2</b>	<b>96.5</b>
Financial income		0.0	0.0	0.0
Financial expenses		-0.8	-0.0	-0.4
<b>Profit before tax</b>		<b>25.4</b>	<b>19.2</b>	<b>96.1</b>
Tax		-6.6	-4.0	-22.1
<b>Profit for the period</b>		<b>18.8</b>	<b>15.2</b>	<b>74.0</b>
Earnings per share for the period, basic, SEK		1.49	1.20	5.86
Earnings per share for the period, diluted, SEK		1.49	1.20	5.86
STATEMENT OF COMPREHENSIVE INCOME				
SEK m		3 months Jan-Mar		Full-year 2016
		2017	2016	2016
Profit for the period		<b>18.8</b>	<b>15.2</b>	<b>74.0</b>
<b>Other comprehensive income for the period</b>				
Items that will be reclassified subsequently to profit or loss:				
Exchange differences		-0.4	-0.4	3.0
Total other comprehensive income		-0.4	-0.4	3.0
<b>Comprehensive income for the period</b>		<b>18.4</b>	<b>14.8</b>	<b>77.0</b>
Comprehensive income for the period attributable to owners of the Parent Company		18.4	14.8	77.0

Net sales, SEK m



Operating profit, SEK m

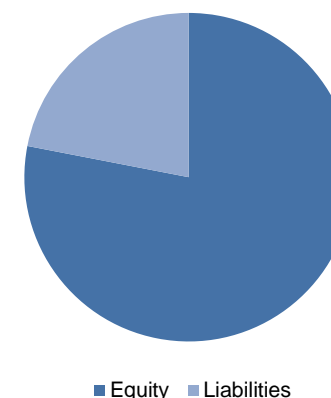


# Balance sheet

## CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Mar 31, 2017	Mar 31, 2016	Mar 31, 2016
<b>ASSETS</b>				
Non-current assets				
Goodwill	3	114.6	113.1	114.9
Other intangible assets	4	82.1	80.2	82.1
Property, plant and equipment		5.9	6.8	6.2
Financial assets		4.7	5.0	4.8
Deferred tax assets	5	10.5	32.7	15.9
Total non-current assets		217.8	237.8	223.9
Current assets				
Inventories		5.7	5.4	5.6
Other current assets		20.2	20.2	18.9
Trade receivables		50.9	41.5	48.3
Cash and cash equivalents		120.5	106.0	99.2
Total current assets		197.3	173.1	172.0
<b>TOTAL ASSETS</b>		<b>415.1</b>	<b>410.9</b>	<b>395.9</b>
<b>EQUITY AND LIABILITIES</b>				
Total equity		297.9	305.7	279.5
Non-current liabilities				
Interest-bearing liabilities		1.5	1.0	1.6
Other non-current liabilities		1.6	1.2	1.4
Deferred tax liabilities		15.0	16.4	14.8
Total non-current liabilities		18.1	18.6	17.8
Current liabilities				
Trade payables		4.7	4.6	5.3
Interest-bearing liabilities		1.0	1.1	1.1
Other current liabilities		93.4	80.9	92.2
Total current liabilities		99.1	86.6	98.6
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>415.1</b>	<b>410.9</b>	<b>395.9</b>

Equity/assets ratio, %  
March 31, 2017



## Changes in equity

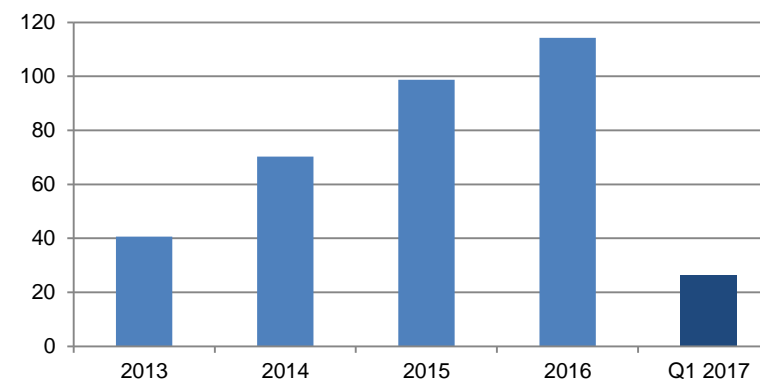
GROUP	January-March		Full-year
SEK m	2017	2016	2016
Equity at beginning of period	279.5	290.9	290.9
Dividend	-	-	-88.4
Comprehensive income for the period	18.4	14.8	77.0
<b>Equity at end of period</b>	<b>297.9</b>	<b>305.7</b>	<b>279.5</b>
of which, attributable to owners of the Parent Company	297.9	305.7	279.5

# Cash flows

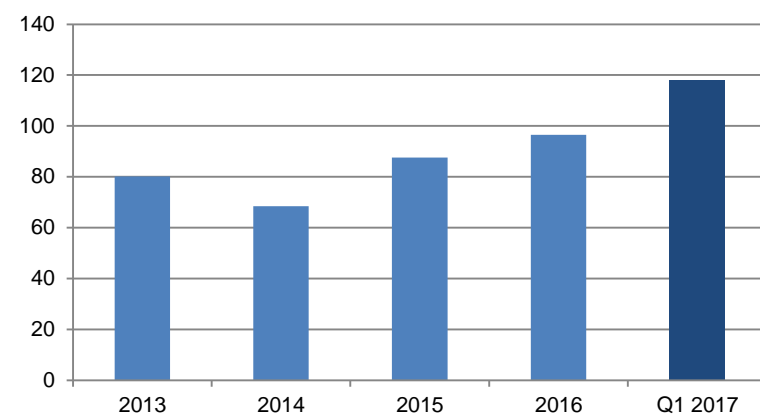
## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	3 months Jan-Mar		Full-year 2016
	2017	2016	
Incoming payments from customers	84.4	82.7	323.5
Outgoing payments to suppliers and employees	-57.2	-59.6	-205.8
Interest received	0.0	0.0	0.0
Interest paid	-0.0	-0.0	-0.0
Income taxes paid	-0.7	-1.1	-3.5
Cash flow from operating activities	26.5	22.0	114.2
Investments in property, plant and equipment	-0.4	-0.5	-1.3
Investments in intangible assets	-4.0	-4.7	-17.3
Sales in other investments	-	-0.0	-0.3
Investments in other investments	-0.8	-	-
Cash flow from investing activities	-5.2	-5.2	-18.9
Amortization of financial liabilities	-0.0	-0.0	-0.0
Dividend	-	-	-88.4
Cash flow from financing activities	-0.0	-0.0	-88.4
Cash flow for the period	21.3	16.8	6.9
Cash and cash equivalents at beginning of period	99.2	89.4	89.4
Exchange difference in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of period	-0.0	-0.2	2.6
- attributable to cash flow for the period	0.0	-0.0	0.3
Cash and cash equivalents at end of period	120.5	106.0	99.2
<b>CASH AND CASH EQUIVALENTS, GROUP</b>			
SEK m	Mar 31, 2017	Mar 31, 2016	
Cash and cash equivalents at end of period	120.5	106.0	
Unutilized overdraft facilities	25.0	25.0	
Total available cash and cash equivalents	145.5	131.0	

Cash flow from operating activities, SEK m



Net cash, SEK m

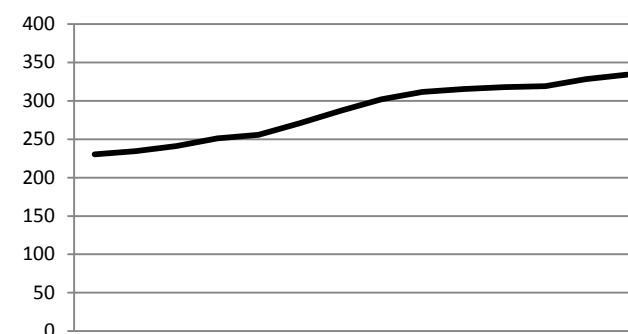


# Key ratios

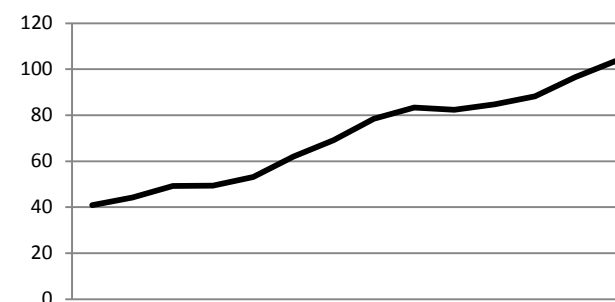
GROUP	3 months Jan-Mar		Full-year 2016
	2017	2016	
Gross margin, %	97.2	95.9	96.3
EBITDA, %	35.4	28.7	34.5
Operating margin, %	30.3	23.9	29.4
Profit margin, %	29.4	23.9	29.3
Cash flow, %	30.7	27.3	34.8
Equity/assets ratio, %	71.8	74.4	70.6
Return on equity, %	6.5	5.1	25.9
Return on capital employed, %	9.0	6.4	33.6
Capital employed, SEK m	300.4	307.8	282.2
Net cash, SEK m	118.0	103.9	96.5
Net debt/equity ratio, multiple	-0.4	-0.4	-0.35
No. of employees at end of period	164	164	165
Average no. of employees	156	157	159
Sales per employee, SEK m	0.6	0.5	2.1
SHARE DATA	3 months Jan-Mar		Full-year 2016
	2017	2016	
Equity per share, SEK	23.58	24.20	22.13
No. of shares at end of period, million	12.63	12.63	12.63
Average no. of shares, million	12.63	12.63	12.63
Average number of shares, diluted, million	12.63	12.63	12.63
Cash flow from operating activities per share, SEK	2.10	1.74	9.04
Earnings per share, basic, after current tax, SEK	1.94	1.51	7.38
Earnings per share, SEK*	1.49	1.20	5.86
Earnings per share, diluted, SEK	1.49	1.20	5.86

\*Definition in accordance with IFRS. Refer also to definitions of page 15.

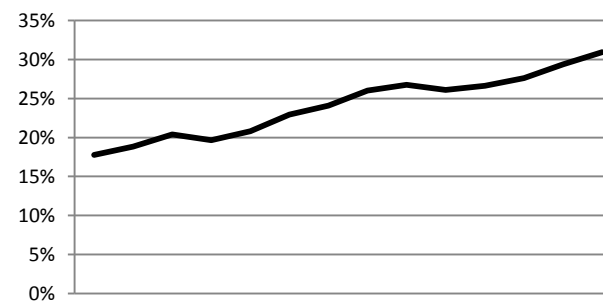
Net sales, rolling 12 months



Operating profit, rolling 12 months



Operating margin, rolling 12 months





## Quarterly overview and multi-year overview

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2017	Q1	86.4	30.6	35.4	26.2	30.3	1.49	6.5	2.10	23.58	200.00	2,526
2016	Q4	85.0	31.2	36.7	26.7	31.4	1.59	7.5	3.13	22.13	206.00	2,602
	Q3	81.1	32.9	40.6	28.5	35.1	1.73	8.8	2.54	20.44	190.00	2,400
	Q2	81.8	26.0	31.8	22.1	27.0	1.34	6.2	1.63	18.64	157.00	1,983
	Q1	80.5	23.1	28.7	19.2	23.9	1.20	5.1	1.74	24.20	172.50	2,179
2015	Q4	75.9	22.2	29.2	18.4	24.2	1.09	4.9	2.22	23.03	150.00	1,895
	Q3	79.8	28.9	36.2	25.0	31.3	1.49	7.0	1.63	21.96	103.25	1,304
	Q2	79.1	23.5	29.7	19.7	24.9	1.21	5.4	2.51	20.43	99.75	1,260
	Q1	76.9	23.7	30.8	20.3	26.4	1.23	5.2	1.45	24.36	104.00	1,314
2014	Q4	66.1	16.3	24.7	13.5	20.4	0.84	3.8	1.27	22.85	74.75	944
	Q3	64.9	18.4	28.4	15.6	24.0	1.06	5.0	1.89	21.83	68.25	862
	Q2	62.7	15.2	24.2	12.7	20.3	0.78	3.4	1.33	20.72	68.50	861
	Q1	62.0	13.7	22.1	11.4	18.4	0.68	2.8	1.12	24.68	57.57	780
2013	Q4	61.5	12.6	20.5	10.1	16.4	0.58	2.5	0.84	23.90	39.77	491
	Q3	54.9	17.9	32.6	15.4	28.1	0.96	4.3	1.56	22.77	38.93	453
	Q2	56.1	9.7	17.3	7.7	13.7	0.53	2.4	0.97	21.42	34.40	388
	Q1	57.7	10.4	18.0	8.1	14.0	0.53	2.3	0.17	22.87	36.07	407
2012	Q4	59.5	11.7	19.7	9.8	16.5	-0.48	-2.1	1.34	22.34	35.24	397
	Q3	56.2	12.0	21.4	10.1	18.0	0.75	3.3	0.68	22.84	37.82	426
	Q2	56.4	8.8	15.6	7.3	12.9	0.42	1.9	1.27	22.15	39.77	448
	Q1	58.0	9.3	16.0	8.0	13.8	0.48	2.2	0.12	22.22	32.37	355
2011	Q4	57.5	9.4	16.3	7.7	13.4	0.96	4.5	1.20	21.82	22.66	248
	Q3	48.2	8.3	17.2	7.1	14.7	0.67	3.3	1.07	20.92	20.25	222
	Q2	48.9	6.7	13.7	5.4	11.0	0.49	1.4	1.19	20.09	21.83	239
	Q1	45.8	5.0	10.9	3.8	8.3	0.33	0.6	-0.37	50.35	17.76	195
2010	Q4	48.0	3.5	7.3	2.2	4.6	0.19	-0.6	0.47	54.16	16.41	180
	Q3	44.2	5.5	12.4	4.4	10.0	0.39	1.4	0.23	55.50	12.58	138
	Q2	42.1	3.2	7.6	2.4	5.7	0.24	1.1	0.33	53.81	13.65	150
	Q1	43.6	3.9	8.9	2.9	6.7	0.26	1.6	0.22	54.42	13.89	152
2016		328.4	113.2	34.5	96.5	29.4	5.86	25.9	9.04	22.13	206.00	2,602
2015		311.7	98.3	31.5	83.4	26.8	5.02	21.9	7.81	23.03	150.00	1,895
2014		255.7	63.6	24.9	53.2	20.8	3.37	14.5	5.61	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.53	23.90	39.77	491
2012		230.1	41.8	18.2	35.2	15.3	1.16	5.3	3.41	22.34	35.24	397
2011		200.4	29.4	14.7	24.0	12.0	-1.70	6.4	3.09	21.82	22.66	248
2010		177.9	16.1	9.1	11.9	6.7	1.88	3.5	1.25	54.16	16.41	180

\*Definition in accordance with IFRS. Refer also to definitions on page 15.

# Parent Company

## Condensed income statement

SEK m	3 months Jan-Mar		
	2017	2016	2016
Net sales	3.0	3.0	12.2
Operating expenses	-3.9	-3.5	-15.8
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-0.9	-0.5	-3.6
Result from financial investments	-0.8	0.0	86.7
Profit/loss before tax	-1.7	-0.5	83.1
Tax	0.4	0.1	-18.4
Profit/loss for the period	-1.3	-0.4	64.7

## Statement of comprehensive income

SEK m	2017	2016
Loss for the period	-1.3	-0.4
Total other comprehensive income	-	-
Comprehensive income for the period	-1.3	-0.4

## Condensed balance sheet

SEK m	Mar 31, 2017	Mar 31, 2016	Dec 31, 2016
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	0.2	0.2	0.2
Shares in subsidiaries	189.4	189.4	189.4
Other financial assets	3.0	3.3	3.0
Deferred tax assets	13.7	31.8	13.3
Total non-current assets	206.3	224.7	205.9
Current assets			
Receivables from subsidiaries	18.6	40.0	38.6
Other current assets	0.8	0.9	0.6
Cash and cash equivalents	17.0	1.2	3.5
Total current assets	36.4	42.1	42.7
<b>TOTAL ASSETS</b>	<b>242.7</b>	<b>266.8</b>	<b>248.6</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	240.0	264.6	241.3
Current liabilities			
Trade payables	0.3	0.3	0.4
Other current liabilities	2.4	1.9	6.9
Total current liabilities	2.7	2.2	7.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>242.7</b>	<b>266.8</b>	<b>248.6</b>



# Notes

## 1 ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted for application in the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups has been applied. This consolidated interim report has been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and IAS 34 Interim Financial Reporting. The accounts of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report.

New or revised IFRS, interpretations from the IFRS Interpretations Committee and amendments to RFR 2 effective as of January 1, 2017 have not had any material impact on the financial statements of the Group or the Parent Company.

Information in accordance with IAS 34 Interim Financial Reporting is included in both the notes and in other parts of the interim report.

## 2 NET SALES

Net sales are distributed into the following revenue categories:

SEK m	3 months Jan-Mar		2016
	2017	2016	
License-based revenue	83.5	80.1	324.3
Royalty-based revenue	2.9	0.4	4.1
Net sales	86.4	80.5	328.4

As part of the agreement with Renesas Synergy, IAR Systems receives a guaranteed annual minimum remuneration. The royalty-based revenue recognized pertains to the guaranteed minimum remuneration for the period.

## 3 GOODWILL

Goodwill is tested annually for impairment and recognized at cost less accumulated impairment. The impairment test performed at year-end did not indicate any requirement for impairment. Goodwill at March 31, 2017 amounted to SEK 114.6m (113.1). This decrease of SEK 0.3m for the period was a result of translation differences.

## 4 OTHER INTANGIBLE ASSETS

Operating expenses were reduced by SEK 4.0m (3.8) during the period through the capitalization of development costs for debug probes and analysis tools.

Of the internal expenses that were capitalized, SEK 3.1m (3.0) pertained to personnel costs.

## 5 DEFERRED TAX ASSETS

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. At March 31, 2017, the Group had accumulated loss carryforwards of approximately SEK 39m (127), all of which were attributable to its Swedish operations. The deferred tax asset is recognized in the balance sheet in an amount of SEK 10.5m (32.7), of which SEK 8.5m (27.8) pertains to loss carryforwards.

## 6 PLEDGED ASSETS

SEK m	Mar 31, 2017	Mar 31, 2016	Dec 31, 2016
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	2.5	2.2	2.6
Total pledged assets	4.3	4.0	4.4

# Definitions

Certain financial performance measures are presented in this interim report that are not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to investors and the company's management since they facilitate evaluations of the company's earnings trend and financial position. These financial performance measures are not always comparable with the measures used by other companies since not all companies calculate financial performance measures in the same way. Accordingly, these financial performance measures must not be regarded as a replacement for the measures defined in accordance with IFRS. The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated.

Key ratios	Definition/Calculation	Use
Gross margin	Net sales less the cost of goods sold as a percentage of net sales.	Measures the company's profitability after cost of goods and is used to follow up cost-efficiency and the effect of changes to the product mix.
EBITDA	Earnings before interest, taxes, depreciation and amortization.	This measure basically shows the earnings-generating cash flow in operations. It provides an overview of the business's ability to generate, in absolute terms, resources for investments and payments to investors and is used as a comparison over time.
EBITDA margin	Earnings before interest, tax, depreciation and amortization (EBITDA) in relation to sales, expressed as a percentage.	Aims to show the profitability ratio for current operations.
Equity, Group	Recognized equity including 78.0% of untaxed reserves. Average equity is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.	Measures the company's net value.
Equity per share	Equity divided by the number of shares at the end of the period.	Measures the company's net value per share.
Sales growth in local currency	Net sales in local currency compared to sales in local currency corresponding period last year.	Measures the company's sales growth in local currency and allows the assessment of growth without the influence of foreign exchange effects.
Cash flow	Cash flow from operating activities as a percentage of net sales.	Measures the company's cash generation in relation to net sales.
Net cash	Cash and cash equivalents less interest-bearing liabilities.	A measure of the ability to use available cash and cash equivalents to pay off all liabilities if they were due for payment on the date of the calculation and thereby a measure of the risk in relation to the company's capital structure.
Net interest-bearing liabilities	Interest-bearing liabilities less cash and cash equivalents.	A measure used to follow the liability trend and see the size of the need for refinancing. This measure is one component in calculating net cash and the net debt/equity ratio.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.	This measure reflects the relationship between the Group's two forms of financing. A measure to show the proportion of loan capital in relation to the capital invested by the owners and accordingly a measure of financial strength and also the gearing effect of loans. A higher net debt/equity ratio entails a higher financial risk and higher financial gearing.
Earnings per share*	Profit for the period after tax divided by the average number of shares during the period.	A measure of the company's profitability after tax per share. This key ratio is important in assessing the value of a share.
Earnings per share after current tax	Profit for the period after current tax divided by the average number of shares during the period.	The company has substantial loss carryforwards which have been gradually utilized in recent years. This measure shows the company's profitability after tax taking into consideration loss carryforwards utilized during the period.
Return on equity	Profit after tax as a percentage of average equity.	Return on equity shows the total accounting returns on capital invested by the owners and reflects the effects of both the profitability of operations and financial gearing. This measure is mainly used to analyze the profitability of owners over time.
Return on capital employed	Profit before tax plus financial expenses as a percentage of average capital employed.	Return on capital employed shows how well operations use the capital tied up in the business. This measure is mainly used to study the Group's profitability over time.
Interest-bearing liabilities	Borrowings in banks or the equivalent.	This measure is one component in calculating net cash and the net debt/equity ratio.
Operating margin	Operating profit as a percentage of net sales.	This measure reflects the operating profitability of the business. It is useful for following up profitability and efficiency in operations before taking into account capital tied up. This key ratio is used both internally in governance and follow-up of operations and to compare with other companies.
Operating profit	Profit before tax less financial income plus financial expenses.	Used to calculate the operating margin.
Equity/assets ratio	Equity as a percentage of total assets.	This key ratio shows the proportion of assets financed with equity and can be used as an indication of the company's long-term solvency.
Capital employed	Total assets less non-interest-bearing liabilities. Average capital employed is calculated as capital employed at the beginning of the year plus capital employed at the end of the year divided by two.	The capital made available to the company by shareholders and lenders. This shows the net capital invested in operating activities with the addition of financial assets.
Profit margin	Profit before tax as a percentage of net sales.	Profit margin shows the earnings capacity of the business from operating activities regardless of the tax situation in relation to the company's net sales and can be used to in a comparison with other companies in the same industry.

- Definition in accordance with IFRS.



# Reconciliations

**EBITDA** is calculated as follows:

	3 months Jan-Mar		Full-year
SEK m	2017	2016	2016
Operating profit	26.2	19.2	96.5
Depreciation of property, plant and equipment	0.6	0.6	2.5
Amortization of intangible assets	3.8	3.3	14.2
<b>EBITDA</b>	<b>30.6</b>	<b>23.1</b>	<b>113.2</b>

**Earnings per share after current tax** is calculated as profit for the period after current tax divided by the average number of shares during the period.

	3 months Jan-Mar		Full-year
SEK m	2017	2016	2016
Tax	6.6	4.0	22.1
Deferred tax	-5.7	-3.9	-19.2
<b>Current tax</b>	<b>0.9</b>	<b>0.1</b>	<b>2.9</b>
Profit before tax	25.4	19.2	96.5
Current tax	-0.9	-0.1	-2.9
<b>Profit after current tax</b>	<b>24.5</b>	<b>19.1</b>	<b>92.4</b>
Average no. of shares, million	12.63	12.63	12.63
<b>Earnings per share after current tax, SEK</b>	<b>1.94</b>	<b>1.51</b>	<b>7.31</b>

**Return on capital employed** is calculated as Profit before tax plus financial expenses as a percentage of average capital employed.

SEK m	Mar 31, 2017	Mar 31, 2016	Dec 31, 2016	151231
Total assets	415.1	410.9	398.2	398.7
Non-interest-bearing liabilities	-114.7	-103.1	-116.0	-106.0
Capital employed	300.4	307.8	282.2	292.7
	3 months Jan-Mar		Full-year	
	2017	2016	2016	
Profit before tax	25.4	19.2	96.1	
Financial expenses	0.8	0.0	0.4	
Profit before tax plus financial expenses	26.2	19.2	96.5	
<b>Return on capital employed, %</b>	<b>9.0</b>	<b>6.4</b>	<b>33.6</b>	



# Investment case

IAR Systems is the world's leading provider of software for programming of processors in embedded systems. The software is used by many of the world's largest corporations as well as thousands of small and medium-sized companies, mainly within industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry. The superior technology and service offered by IAR Systems enables customers to create the products of today and the innovations of tomorrow.

## **A PROFITABLE GROWTH COMPANY**

IAR Systems is in a unique market position thanks to its leading technology. The company was founded more than 30 years ago, and since then has continually evolved and refined its products in order to meet customer demand. Our headquarters are located in Uppsala, Sweden, but due to the company's international reach, over 95% of sales are attributable to markets outside the Nordic region. Most product development takes place in Uppsala, but also to a certain extent in the USA. In addition, there are sales and support offices in Sweden, Germany, France, Japan, China, Korea and the USA. IAR Systems is represented in an additional 43 countries around the world through its distributors.

The company has a license-based sales model in which IAR Systems sells a license to a user who is then authorized to use IAR Embedded Workbench. The model is flexible and can be adapted depending on the number of users the customer needs. This model creates closer relationships with the customers at the same time that it generates a consistent revenue stream. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and the Internet of Things.

As part of IAR Systems' investment in the Internet of Things, the company has signed an exclusive royalty agreement with Renesas for the Renesas Synergy Platform, providing a comprehensive solution for innovative product development. The agreement with Renesas means that IAR Systems is complementing its current license-based business model with a royalty-based model. The new agreement with Renesas will provide revenue from royalties for each microprocessor used in the products the customer eventually manufactures. For a customer in the new model, IAR Systems will receive revenue throughout the entire period in which the customer's products are produced, which could last many years.

## **SUPERIOR TECHNOLOGY**

In an increasingly digitized world, the software that IAR Systems offers is a key enabler for the development of smart products. Today, digital products are found in every industry – from consumer electronics, medical technology and healthcare to manufacturing and the automotive industry. All smart products have an embedded system controlled by one or more processors. The developer requires software to program instructions into the processor that then controls the smart product. IAR Systems' IAR Embedded Workbench helps developers program these processors so that they fulfill their function in the embedded system. This complete software helps facilitate, streamline and quality-assure customers' product development.

IAR Embedded Workbench is available in a number of different versions in order to match different types of processors. It is continually updated with improved functionality and support for new processors in order to meet the needs of customers and the market. IAR Embedded Workbench supports over 11,000 processors for embedded systems with 8- 16- and 32-bit architecture, which is a major reason why IAR Systems holds such a unique position in the market. This broad support creates far-reaching flexibility and benefits for customers, since they can maintain their development environment even when they intend to change



processors for reasons such as a new project, and can also reuse 70-80% of previously developed code. This produces valuable savings in terms of both time and money. IAR Systems' product portfolio is continually being refined, and in recent years the company has expanded its portfolio by offering add-on products that facilitate customers' day-to-day work. Aside from driving lucrative additional sales, a broader product portfolio enables IAR Systems to further strengthen its competitiveness. IAR Systems is able to offer all customers who purchase software a comprehensive support contract that gives them access to technical support and continuous product updates. IAR Systems' support department is well-known and much appreciated for its extensive experience and impressive expertise which provide added value for customers.

#### **DEDICATED TEAM WITH AN EMPHASIS ON SERVICE**

IAR Systems' global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all of the countries in which it operates. Our employees' diverse cultural backgrounds, unique perspectives and local knowledge are important contributing factors to IAR Systems' strong presence worldwide, and enable the company to meet customers in their own market. By sharing knowledge and experience among highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.

#### **INTERNET OF THINGS DRIVES GROWTH**

The market is now facing continued growth driven by the Internet of Things as more and more people realize the potential contained in this area. Connected products and services have grown enormously in recently years, and it is estimated that there will be more than 50 billion connected products by 2020. Almost all industries have devices and products that could be developed further through improved communication and connectivity. There are therefore many opportunities linked to the Internet of Things in almost every area, from the automotive industry, health and medical care, and logistics to smart cities and industrial automation.

IAR Systems helps to make the Internet of Things possible, enabling innovation in this field by linking products with technologies, and has already demonstrated the strength of its business model. Thanks to its technology and strong market position, IAR Systems is well equipped to meet customers' needs for stable and complete solutions for efficient product development linked to the Internet of Things. The cooperation with Renesas for the Renesas Synergy Platform is part of IAR Systems' investment in the Internet of Things.