

**I.A.R. SYSTEMS GROUP AB**  
YEAR-END REPORT 2019

**Q4**

# Net sales SEK 106.8m (102.8)

## Operating margin 25.4%

A year of new products and healthy growth in strategic transactions

### PROFIT SUMMARY

	Full-year		3 months Oct-Dec	
SEK m	2019	2018	2019	2018
Net sales	405.6	385.2	106.8	102.8
Operating expenses	-297.2	-269.6	-79.7	-71.7
Operating profit	108.4	115.6	27.1	31.1

### KEY RATIOS

	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
EBITDA margin, %	35.9	36.4	34.6	36.6
Operating margin, %	26.7	30.0	25.4	30.3
Net cash, SEK m	-18.4	103.3	-18.4	103.3
No. of employees at end of period	219	200	219	200

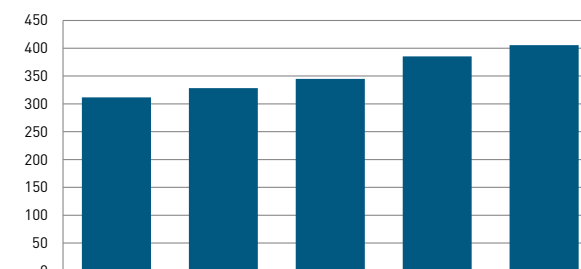
### FULL-YEAR 2019

- › Net sales of SEK 405.6m (385.2), corresponding to a 5% increase in net sales
- › Sales growth in local currency of 1%
- › EBITDA of SEK 145.8m (140.1), corresponding to an EBITDA margin of 35.9% (36.4)
- › Operating profit of SEK 108.4m (115.6), corresponding to an operating margin of 26.7% (30.0)
- › Profit before tax of SEK 107.0m (113.8)
- › Basic earnings per share of SEK 5.96 (6.67) and diluted earnings per share of SEK 5.95 (6.65)
- › Cash flow from operating activities of SEK 105.7m (92.6)
- › Net cash of SEK -18.4m (103.3) at the end of the period
- › The Board intends to propose a dividend of SEK 3.00 per share for approval by the AGM on April 29, 2020.

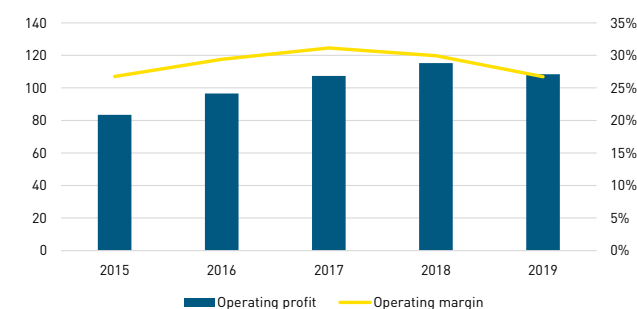
### OCTOBER-DECEMBER 2019

- › Net sales of SEK 106.8m (102.8), corresponding to a 4% increase in net sales
- › Sales growth in local currency of 7%
- › EBITDA of SEK 37.0m (37.6), corresponding to an EBITDA margin of 34.6% (36.6)
- › Operating profit of SEK 27.1m (31.1), corresponding to an operating margin of 25.4% (30.3)
- › Profit before tax of SEK 27.2m (31.7)
- › Basic earnings per share of SEK 1.47 (1.60) and diluted earnings per share of SEK 1.46 (1.58)
- › Cash flow from operating activities of SEK 30.5m (33.4)

### NET SALES



### OPERATING PROFIT AND OPERATING MARGIN



# 2019 – A year of new products

## A year characterized by new products and healthy growth in strategic transactions

Major strategic transactions also had a positive effect on sales for the fourth quarter. These transactions included several multi-year licenses, the result of customers choosing to standardize their development based on our products. Our financial and technological stability creates the confidence and long-term viability that our major customers demand. Because decisions take longer and are more complex, this kind of business is more volatile. It is not as easy to forecast strategic transactions as it is with the traditional model of several smaller, continuous transactions, which continue to account for the largest portion of our sales. Strategic transactions have increased from 1% of sales in 2012 to close to 15% in 2019.

Our ambition to increase the share of strategic transactions is built on creating a longer and more robust relationship with customers beyond individual developers as well as improving efficiency since the number of orders per customer is consolidated. This places greater demands on our financial reporting, as comparisons between quarters are not as relevant or interesting since strategic transactions are more volatile than our traditional customer relationships.

### **A year of new products**

Our ambition for 2019 was to focus on product launches, which continued during the fourth quarter. We launched new products in the security area early in the quarter, and during the latter half of the year, we launched our packaged offering for customers who intend to develop products connected to Amazon's cloud computing function.

The offering is also a fully integrated solution for developers, something that is one of our strengths and that is in constant demand. Reception of the new products was better than expected, especially during the latter half of the year, when we refined both the package and the message. For the sake of clarity, these are the major product launches carried out during the year:

- Security from Inception Suite (products as services), C-Trust and Embedded Trust, which all fall under the category of security products.
- RISC-V, which is a new toolbox for the new architecture. This was also updated during the autumn when the RISC-V market was growing very quickly.
- STM8FS, which is the fifth product in functional safety and the automotive industry.
- IAR Embedded Workbench AWS for customers who want to use cloud applications based on Amazon's cloud computing services.

### **Market**

RISC-V has doubtless had the biggest positive impact on the traditional market for embedded systems. The implementation of RISC-V is still in an early stage, but is increasing. In China in particular, growing numbers of processor vendors are choosing RISC-V for their future product portfolios. The trend in China has naturally affected most of Asia, but this has also created opportunities for processor vendors who previously found themselves in niche markets. Processor vendors are choosing RISC-V in part because it is economically advantageous, since RISC-V is open source and entails no licensing or royalty fees to Arm. It is also competitively advantageous, since processor vendors are not tied to Arm and Arm's ecosystem. Processor vendors can create their own ecosystem within RISC-V and in this way compete on the basis of innovation and increased customer focus.

More than one new processor vendor chooses RISC-V every day, and this is creating opportunities for a broad ecosystem of solutions. An ecosystem we want to be part of.

The protracted consolidation of the market is affecting processor vendors. The trade war between the USA and China has created major changes in the availability of components and a state of competition which is further driving negative developments for processor manufacturers. Overall, several processor vendors have reported declining growth as a result of the business climate, but there are obviously exceptions, for example in markets such as the automotive industry and IoT. We still see major opportunities in the markets we have chosen to prioritize.

Within security solutions, the fastest-growing trend is the motivation of government agencies to legislate rules for managing connected electronics and the information they contain. The EU General Data Protection Regulation (GDPR), whose implementation impacted most people in Europe, is now being followed by a similar trend in the electronics market. This will essentially involve a framework of obligatory best practices connected to penalty payments. One year ago, fewer than five countries had introduced laws and regulations concerning IT security. That list now includes more than 20 countries. Historically, we have not been noticeably impacted by business cycles or seasonal variations, but we naturally keep a close eye on the markets and act as needed. We are seeing a major change in the market and the emergence of new driving forces, such as government regulations, processor vendors building equipment for the future and customer demands for new, effective solutions and long-term suppliers.

Through new technology and new products, we are creating possibilities while also meeting our customers' needs in a market that is still going through a major shift that will last for several years.

### The organization

We continued to be successful in recruiting both in Sweden and abroad. We have primarily recruited developers, but also for certain other support functions. We have surpassed 200 employees and with close to 100 developers in the Group, we have made a significant investment in new technology and refining our existing products. Despite substantial investments, we have maintained stable profitability, which is important both for us and for our customers and partners. To a large extent, 2019 was about investing in our products and recruitment in product development. In 2020, this phase will focus more on refining our existing product portfolio, although it may also lead to a major product launch. This means that the overall rate of recruitment will decrease – except in sales, where it will increase in order to meet the growing demand for our offering.

### Renesas Synergy Platform

In 2016, we signed an agreement with Renesas for a unique product in the launch of a product platform developed by Renesas. Renesas Synergy Platform was launched as an alternative where customers can receive all software and services when they purchase the processor, allowing the customer to focus on product function rather than choice of processor or integrated development environment.

We came to the agreement that compensation for our specially packaged product IAR Embedded Workbench for Synergy would be royalty-based in relation to the processors supplied. Renesas was responsible for all marketing, sales and customer support. Like the rest of the market, Renesas has gone through major changes since 2016, and many of its priorities have been within the automotive industry, where Renesas is a market leader. Renesas has also completed two acquisitions in a market that is farther from IoT solutions than where Renesas Synergy Platform is positioned.

During the latter half of 2019, we chose to renegotiate with Renesas and once again take responsibility for sales, marketing and support. This also means that instead of royalty-based revenue, we are reverting to our traditional license-based model. During the fourth quarter, Renesas chose to compensate us according to this model for the increase in use during the ongoing negotiations. In addition, we will be able to help all existing users to migrate to our solutions within beneficial conditions during 2020. Renesas currently has almost 5,000 registered active Renesas Synergy Platform users.

### IAR Systems 4.0

The fourth quarter marked 25 quarters, and ten years, of continuous growth. We changed our offering at a faster rate during 2019 and even entered new markets. We have a stable business model supplemented with new services and business models Both the number of customers and the share of strategic customers are growing. We have not only doubled the number of licenses sold in the last ten years, but also tripled the average value per license.

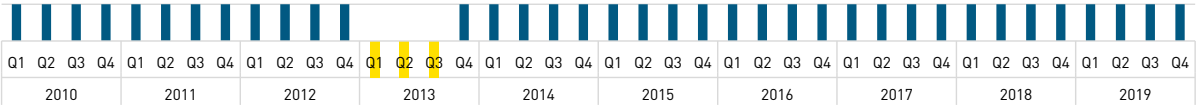
The time is ripe for a new phase of the company's evolution in 2020. IAR Systems 4.0 will be about continuing to refine our soul as a technology company, focusing on new markets and on increasing our presence in existing ones as well as fostering a closer relationship with our customers. We will be clearer in our strategic focus and ambition to increase the number of license users and the value of licenses for new and existing products. Our goals remain long-term, and there is more clarity regarding annual milestones.

After ten years as CEO of IAR Systems, I still think I have the world's best job. It is incredibly exciting to be able to look back on ten successful years and, together with all of you, begin a new journey forward to take IAR Systems to the next level.



## NET SALES

(increase/decrease compared with corresponding quarter in the preceding year)



# Financial information

## Sales

The trend of customers choosing to standardize their development based on our products continued. Traditionally, our business model is built on transaction-based sales, with a large number of transactions at relatively low order values. In recent years, major transactions resulting from standardization have made our sales more volatile, which makes comparisons between quarters complicated.

We had five product launches during the year. Although these products are attracting considerable and growing interest, they have not resulted in a significant increase in sales in the short time since their launch.

## Net sales

This 1% sales growth for the year resulted in an increase in net sales of 5% after the allocation of prepaid maintenance and support agreements (-2%) and positive foreign exchange effects (6%). Refer to the table below.

Net sales for the year amounted to SEK 405.6m [385.2] and were distributed as follows: SEK 403.9m [380.2] from development tools and SEK 1.7m [5.0] from security solutions. Currency translation had a positive impact of SEK 23.5m on net sales for the year, compared with the preceding year.

Royalty-based revenue of SEK 5.9m [5.5] from the agreement with Renesas Electronics Corporation was reported during the year. This royalty-based revenue pertained to the guaranteed minimum remuneration for the period. In addition to royalty-based revenue, the agreement with Renesas was renegotiated during the fourth quarter and had a positive effect of SEK 7.3m on net sales.

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
Full-year					
Americas	-3%	2%	9%	8%	35%
Europe	-1%	-7%	3%	-5%	36%
Asia	10%	0%	8%	18%	27%
Not allocated	-	-	-	-	2%
Total	1%	-2%	6%	5%	100%

In a year-on-year comparison, sales growth for the fourth quarter in local currency increased by 7%.

Overall, net sales increased 4% during the quarter as a result of positive foreign exchange effects (+6%) and the allocation of prepaid maintenance and support agreements (-9%). Refer to the table below.

Net sales for the fourth quarter amounted to SEK 106.8m [102.8] and were distributed as follows: SEK 106.5m [99.3] from development tools and SEK 0.3m [3.5] from security solutions. In a year-on-year comparison, currency translation had a positive impact of SEK 5.3m on net sales for the quarter.

Royalty-based revenue of SEK 1.4m [1.5] from the agreement with Renesas Electronics Corporation was reported during the fourth quarter. The renegotiated agreement with Renesas had a positive effect of SEK 7.3m on net sales for the quarter.

## Earnings

EBITDA for the year totaled SEK 145.8m [140.1], corresponding to an EBITDA margin of 35.9% [36.4] for the period. Compared with the preceding year, IFRS 16 [Note 1] positively affected EBITDA by an amount essentially corresponding to the item "Depreciation of right-of-use assets" in the income statement. Operating profit for the period amounted to SEK 108.4m [115.6]. Operating expenses were reduced by SEK 81.9m [45.4] during the year through the capitalization of development costs for security products and software. The increase in capitalized expenses is due to developments in security products and the development of IAR Embedded Workbench for RISC-V. Of the internally generated costs that were capitalized, SEK 67.3m [38.1] pertained to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 13.7m on operating profit for the period.

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
3 months Oct-Dec					
Americas	0%	-9%	6%	-4%	33%
Europe	14%	-14%	3%	3%	38%
Asia	9%	1%	8%	18%	27%
Not allocated	-	-	-	-	2%
Total	7%	-9%	6%	4%	100%

EBITDA for the fourth quarter totaled SEK 37.0m (37.6), corresponding to an EBITDA margin of 34.6% (36.6) for the period. In a year-on-year comparison, IFRS 16 (Note 1) positively affected EBITDA by an amount essentially corresponding to the item "Depreciation of right-of-use assets" in the income statement. Operating profit for the fourth quarter amounted to SEK 27.1m (31.1). Operating expenses were reduced by SEK 23.0m (17.4) during the quarter through the capitalization of development costs for security products and software. Of the internally generated costs that were capitalized, SEK 16.8m (14.2) pertained to personnel costs.

In a year-on-year comparison, currency translation had a positive impact of SEK 2.9m on operating profit for the quarter.

Financial expenses for the year mainly comprised credit expenses for the credit margin of SEK 225m.

### **Investments and financing**

Investments in property, plant and equipment for the year totaled SEK 2.9m (4.3), of which SEK 1.3m (0.9) was attributable to the fourth quarter. Investments in intangible assets for the year amounted to SEK 84.1m (46.7). Most of these investments, SEK 81.9m (45.4), pertain to the capitalization of development costs for software. During the fourth quarter, investments in intangible assets amounted to SEK 23.4m (17.5), of which SEK 22.9m (17.4) pertained to the capitalization of development costs for security products and software.

The equity/assets ratio at December 31, 2019 was 72% (77).

During the year, the bank overdraft facility was utilized, which is recognized in the consolidated balance sheet as liabilities to credit institutions. The bank overdraft facility is issued in SEK.

### **Cash flow, cash and cash equivalents**

Cash flow from operating activities for the year amounted to SEK 105.7m (92.6), of which SEK 30.5m (33.4) pertained to the fourth quarter.

Cash flow from investing activities for the year totaled SEK -102.2m (-217.5), of which SEK -23.4m (-18.5) was attributable to the fourth quarter. Most of these investments pertain to the capitalization of development costs for software.

Cash flow from financing activities for the year amounted to SEK -52.0m (107.7), of which SEK -2.6m (-1.7) pertained to the fourth quarter. Most of the cash flow from financing activities during the year comprised the net of the utilization of the bank overdraft facility, amortization of lease liabilities and payment of a dividend to shareholders.

As of December 31, 2019, the Group had net cash of SEK -18.4m (103.3). Net cash was affected negatively by the application of IFRS 16 after the end of 2018. See also Note 1 Accounting policies. Cash and cash equivalents at year-end totaled SEK 60.7m

(106.1). In addition, the Group had unutilized bank overdraft facilities of SEK 200.1m (225.0). The Group's total available cash and cash equivalents thus amounted to SEK 260.8m (331.1).

### **EMPLOYEES**

The number of employees in IAR Systems at year-end was 219 (200). The average number of employees during the year was 201 (171).

### **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 12.2m (12.2). Profit after financial items amounted to SEK 93.7m (91.2).

Net investments in property, plant and equipment amounted to SEK 0.0m (0.0). Cash and cash equivalents at December 31, 2019 totaled SEK 1.3m (9.3). The number of employees in the Parent Company at the end of the period was three (four).

### **2019 ANNUAL GENERAL MEETING**

The Annual General Meeting (AGM) of IAR Systems Group was held on April 24, 2019. For information about the AGM and the resolutions passed, refer to the company's website: [www.iar.com](http://www.iar.com).

### **NOMINATING COMMITTEE**

In accordance with the decision of the AGM in April 2019, the nominating committee has been appointed and consists of Jonas Eixmann (appointed by Andra AP-fonden), Malin Björkmo (appointed by Handelsbanken Fonder) and Jonas Wikström (representing the shareholder group led by Stefan Skarin). Jonas Eixmann was appointed Chairman of the nominating committee.

### **PROPOSED DIVIDEND**

The Board intends to propose a total dividend of SEK 3.00 (5.00) per share for approval by the AGM on April 29, 2020. The intention is for the dividend to correspond to 30–50% of the Group's profit after tax. The Board's proposal for the dividend corresponds to 50% of the Group's profit after tax. The motion entails a total dividend of SEK 40.9m. The Board based its proposal on the fact that the historically positive effects of tax loss carryforwards on cash flow have decreased. The company also increased its investments in new product areas in 2019 to boost its rate of growth. The Board expects the Group to generate a positive cash flow in 2020, despite the increased level of investment continuing throughout 2020.

The Board intends to provide a healthy return to its shareholders, while ensuring that its investments in the operations can, as they have thus far, given the goal of maintaining a conservative level of indebtedness and a strong capital structure, favorable liquidity and financial flexibility. The Group's equity/assets ratio will amount to 71.8% before the dividend and 70.3% after.

## **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 2018 under "Administration report" on pages 46–47 and in Note 2 on pages 63–64.

IAR Systems Group is continuously following developments in Brexit and does not currently believe it will entail any significant risks or uncertainties in the Group. In the UK, the Group primarily conducts development operations through the wholly owned subsidiary Secure Thingz.

## **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.

## **FINANCIAL CALENDAR 2020**

Interim report Jan–Mar 2020, April 29, 2020

2020 Annual General Meeting, April 29, 2020

Interim report Jan–Jun 2020, August 26, 2020

Interim report Jan–Sep 2020, 5 November 2020

## **REVIEW**

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

# Income statement

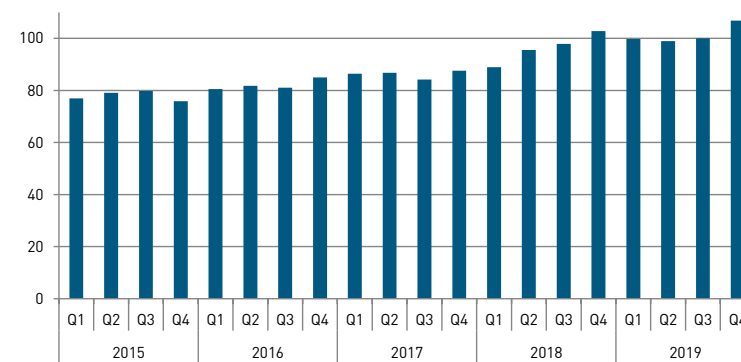
## CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	Full-year		3 months Oct-Dec	
		2019	2018	2019	2018
Net sales	1, 2	405.6	385.2	106.8	102.8
Goods for resale		-10.8	-9.0	-3.7	-2.2
Other external expenses		-63.7	-68.2	-20.9	-19.6
Personnel costs		-185.3	-167.9	-45.2	-43.4
Depreciation of property, plant and equipment		-3.1	-2.6	-0.9	-0.8
Depreciation of right-of-use assets		-9.8	-	-2.8	-
Amortization of intangible assets		-24.5	-21.9	-6.2	-5.7
<b>Operating profit</b>		<b>108.4</b>	<b>115.6</b>	<b>27.1</b>	<b>31.1</b>
Financial income		1.2	0.1	0.5	0.1
Financial expenses		-2.6	-1.9	-0.4	0.5
<b>Profit before tax</b>		<b>107.0</b>	<b>113.8</b>	<b>27.2</b>	<b>31.7</b>
Tax		-25.8	-26.2	-7.2	-9.9
<b>Profit for the period</b>		<b>81.2</b>	<b>87.6</b>	<b>20.0</b>	<b>21.8</b>
Earnings per share for the period, basic, SEK		5.96	6.67	1.47	1.60
Earnings per share for the period, diluted, SEK		5.95	6.65	1.46	1.58

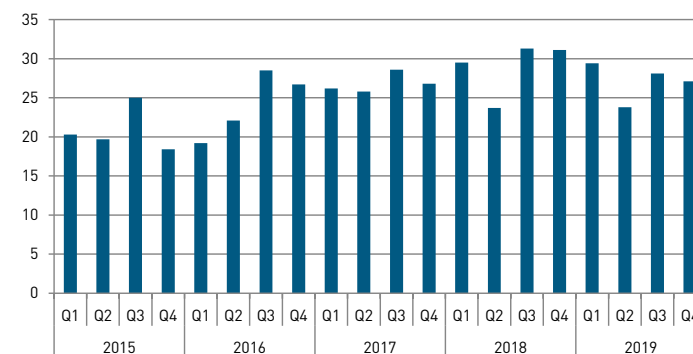
## STATEMENT OF COMPREHENSIVE INCOME

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Profit for the period	81.2	87.6	20.0	21.8
<b>Other comprehensive income for the period</b>				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences	24.7	-6.7	-1.6	-28.8
Change in value of non-current securities	-	17.5	-	-
Total other comprehensive income	24.7	10.8	-1.6	-28.8
<b>Comprehensive income for the period</b>	<b>105.9</b>	<b>98.4</b>	<b>18.4</b>	<b>-7.0</b>
Comprehensive income for the period attributable to owners of the Parent Company	105.9	98.4	18.4	-7.0

## NET SALES, SEK m



## OPERATING PROFIT, SEK m





# Balance sheet

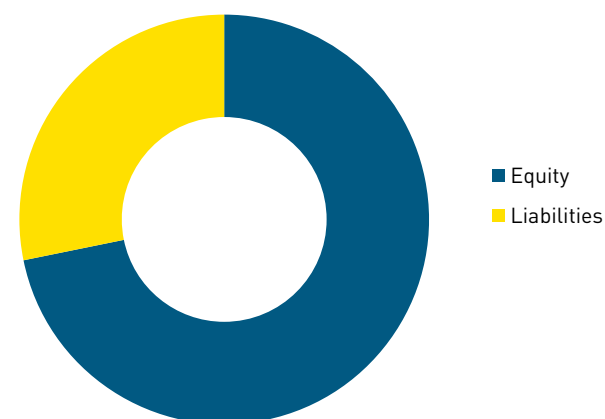
## CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Dec 31, 2019	Dec 31, 2018
<b>ASSETS</b>			
Non-current assets			
Goodwill	3	357.2	339.3
Other intangible assets	4	210.5	144.8
Property, plant and equipment		7.3	8.9
Right-of-use assets		56.3	–
Financial assets		2.4	1.8
Deferred tax assets	5	5.3	13.3
Total non-current assets		638.9	508.1
Current assets			
Inventories		6.6	6.6
Other current assets		52.1	38.2
Trade receivables		66.6	63.2
Cash and cash equivalents		60.7	106.1
Total current assets		186.0	214.1
<b>TOTAL ASSETS</b>		<b>824.9</b>	<b>722.2</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity		592.0	550.0
Non-current liabilities			
Lease liabilities		41.1	1.2
Other non-current liabilities		1.1	1.6
Deferred tax liabilities		26.5	29.6
Total non-current liabilities		68.7	32.4
Current liabilities			
Trade payables		9.2	7.3
Liabilities to credit institutions		24.9	–
Lease liabilities		13.1	1.6
Deferred income		85.2	79.0
Other current liabilities		31.7	51.9
Total current liabilities		164.2	139.8
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>824.9</b>	<b>722.2</b>

## CHANGES IN EQUITY, GROUP

SEK m	Full-year		3 months Oct–Dec	
	2019	2018	2019	2018
Equity at beginning of period	550.0	290.4	574.0	556.3
New share issue, after deductions for transaction costs and tax	–	177.5	–	2.4
Share buybacks	0.0	-3.6	–	-3.6
Warrants, after deductions for transaction costs and tax	0.4	3.6	0.2	3.1
Non-cash issue	–	39.7	–	–
Value of share-based remuneration	3.8	12.0	-0.6	1.8
Dividend	-68.1	-68.0	–	–
Comprehensive income for the period	105.9	98.4	18.4	-7.0
<b>Equity at end of period</b>	<b>592.0</b>	<b>550.0</b>	<b>592.0</b>	<b>550.0</b>
Of which, attributable to owners of the Parent Company	592.0	550.0	592.0	550.0

## EQUITY/ASSETS RATIO December 31, 2019



# Cash flows

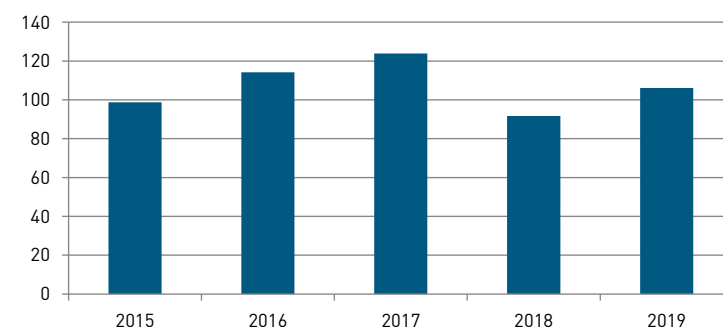
## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Incoming payments from customers	401.2	381.1	107.2	108.2
Outgoing payments to suppliers and employees	-277.7	-250.0	-72.8	-63.2
Interest received	0.0	0.0	0.0	0.0
Interest paid	-2.6	-1.7	-0.5	-0.4
Income taxes paid	-15.2	-36.8	-3.4	-11.2
Cash flow from operating activities	105.7	92.6	30.5	33.4
Investments in property, plant and equipment	-2.5	-4.3	-0.9	-0.9
Investments in intangible assets	-81.1	-42.5	-22.5	-16.4
Investments in subsidiaries	-18.6	-170.8	-	-0.8
Sale of other investments	-	0.1	-	0.1
Investments in other investments	-	-	-	0.1
Cash flow from investing activities	-102.2	-217.5	-23.5	-18.0
New share issue, after deductions for transaction costs	-	176.0	-	0.9
Warrants, after deductions for transaction costs	0.2	3.6	-	0.1
Share buybacks	-	-3.6	-	-3.6
Amortization of financial liabilities	-14.5	-1.2	-2.6	-
Borrowings	30.4	0.9	-	0.9
Dividend	-68.1	-68.0	-	-
Cash flow from financing activities	-52.0	107.7	-2.6	-1.7
Cash flow for the period	-48.5	-17.2	4.5	13.7
Cash and cash equivalents at beginning of period	106.1	119.5	57.4	91.5
Exchange difference in cash and cash equivalents				
- attributable to cash and cash equivalents at beginning of period	2.1	3.6	-2.6	0.8
- attributable to cash flow for the period	1.0	0.1	1.4	0.1
Cash and cash equivalents at end of period	60.7	106.1	60.7	106.1

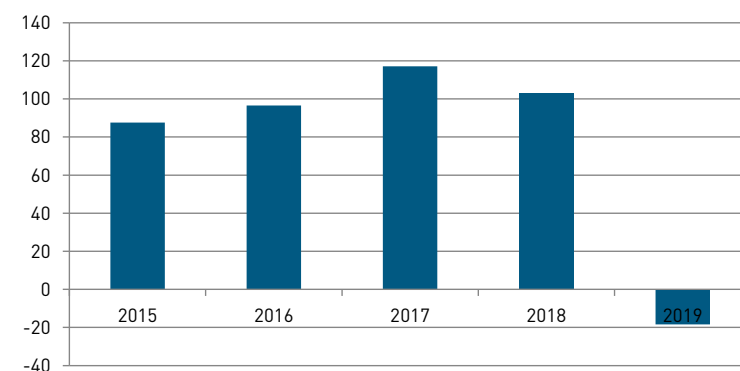
## CASH AND CASH EQUIVALENTS, GROUP

SEK m	Dec 31, 2019	Dec 31, 2018
Cash and cash equivalents at end of period	60.7	106.1
Unused overdraft facilities	200.1	225.0
Total available cash and cash equivalents	260.8	331.1

## CASH FLOW FROM OPERATING ACTIVITIES, SEK m



## NET CASH, SEK m



# Key ratios

## GROUP

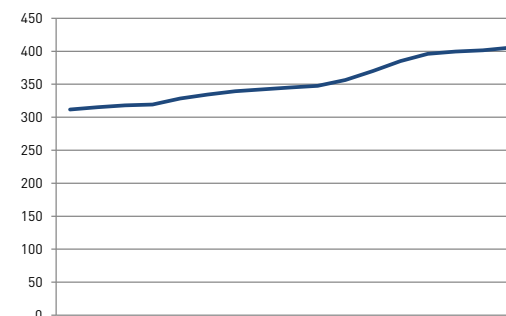
	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Gross margin, %	97.3	97.7	96.5	97.9
EBITDA, %	35.9	36.4	34.6	36.6
Operating margin, %	26.7	30.0	25.4	30.3
Profit margin, %	26.4	29.5	25.5	30.8
Cash flow, %	26.1	24.0	28.6	32.5
Equity/assets ratio, %	71.8	76.2		
Return on equity, %	14.2	20.8	3.4	3.9
Return on capital employed, %	18.4	27.4	4.2	5.6
Capital employed, SEK m	671.1	552.8		
Net cash, SEK m	-18.4	103.3		
Net debt/equity ratio, multiple	0.0	-0.2		
No. of employees at end of period	219	200		
Average no. of employees	201	171	207	188
Sales per employee, SEK m	2.0	2.3	0.5	0.5

## SHARE DATA

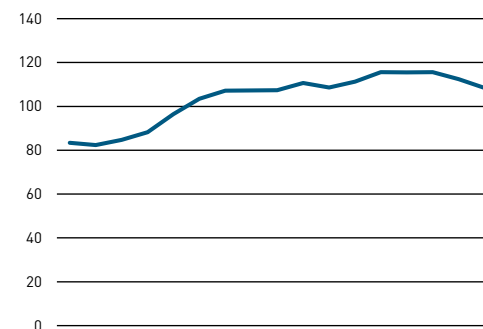
	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Equity per share, SEK	43.43	40.38		
No. of shares at end of period, million	13.63	13.62		
Average no. of shares, million	13.63	13.13	13.63	13.62
Average no. of shares, diluted, million	13.66	13.13	13.66	13.63
Cash flow from operating activities per share, SEK	7.75	7.05	2.24	2.45
Earnings per share, SEK*	5.96	6.67	1.47	1.60
Earnings per share, diluted, SEK*	5.95	6.65	1.46	1.58

\*Definition in accordance with IFRS. Refer also to definitions on page 19.

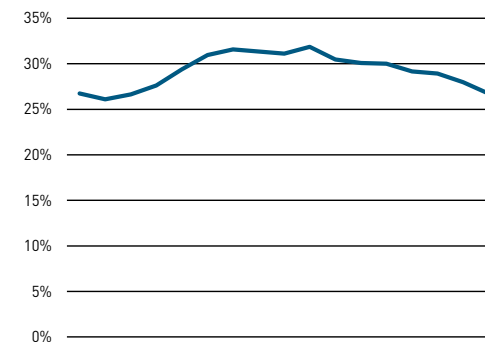
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS

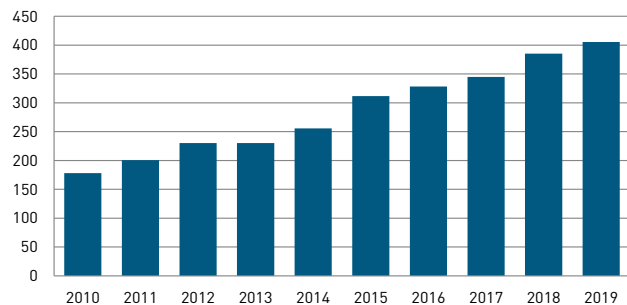


# Multi-year overview

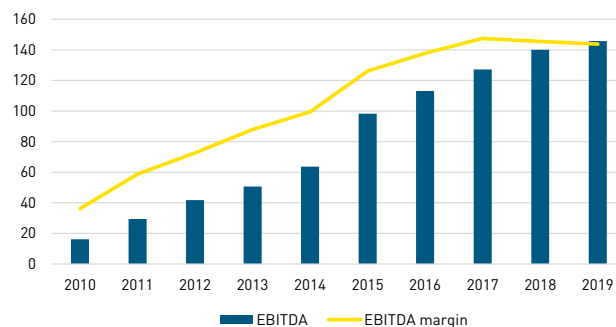
	Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2019	405.6	145.8	35.9	108.4	26.7	5.96	14.2	7.78	43.43	186.00	2,535
2018	385.2	140.1	36.4	115.6	30.0	6.67	20.8	7.05	40.38	243.00	3,310
2017	345.0	127.2	36.9	107.4	31.1	6.33	28.1	9.81	22.99	189.00	2,387
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.

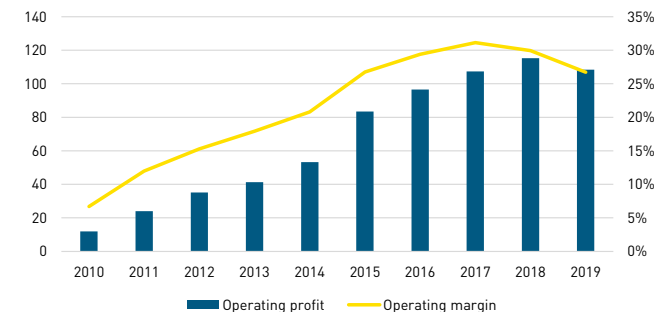
## NET SALES



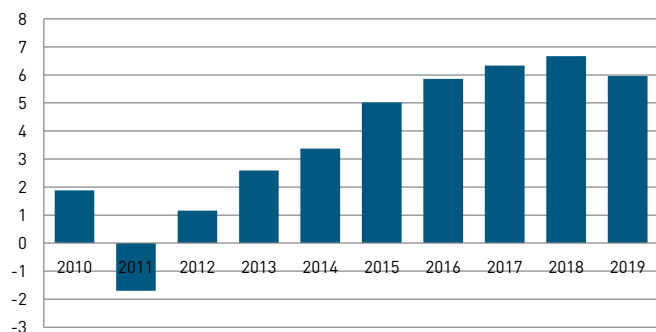
## EBITDA AND EBITDA MARGIN



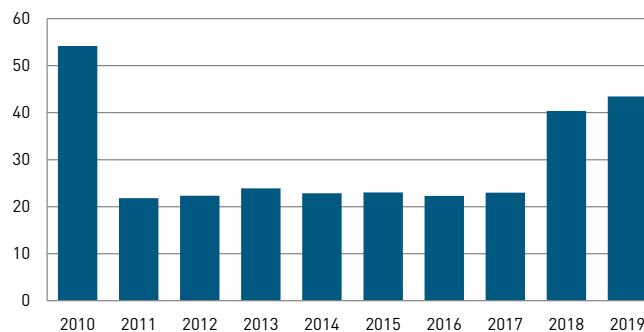
## OPERATING PROFIT AND OPERATING MARGIN



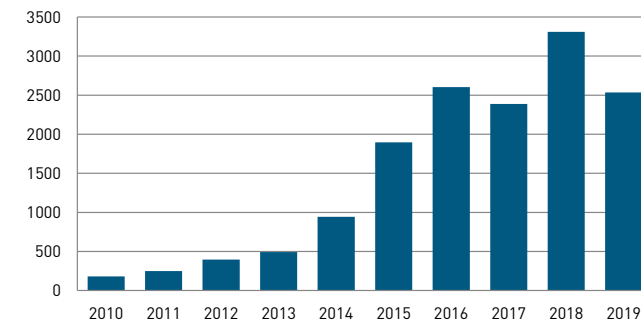
## EARNINGS PER SHARE, SEK



## EQUITY PER SHARE, SEK



## MARKET CAPITALIZATION, SEK m



## Quarterly 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
2019	Q4	106.8	37.0	34.6	27.1	25.4	1.47	3.4	2.27	43.43	186.00	2,535
	Q3	100.0	37.5	37.5	28.1	28.1	1.58	3.9	2.00	42.11	234.50	3,196
	Q2	99.0	32.9	33.2	23.8	24.0	1.23	2.9	2.11	39.63	269.50	3,673
	Q1	99.8	38.4	38.5	29.4	29.5	1.68	4.0	1.40	43.58	260.00	3,542
2018	Q4	102.8	37.6	36.6	31.1	30.3	1.60	3.9	2.45	40.38	243.00	3,310
	Q3	97.9	37.8	38.6	31.3	32.0	1.97	5.0	1.09	40.88	258.50	3,518
	Q2	95.6	30.0	31.4	23.7	24.8	1.20	3.2	1.86	37.29	277.00	3,770
	Q1	88.9	34.7	39.0	29.5	33.2	1.81	5.7	1.51	32.76	230.00	2,905
2017	Q4	87.6	31.9	36.4	26.8	30.6	1.56	7.0	2.64	22.99	189.00	2,387
	Q3	84.2	33.8	40.1	28.6	34.0	1.61	7.7	2.52	21.56	180.50	2,280
	Q2	86.8	30.9	35.6	25.8	29.7	1.68	7.7	2.56	20.09	175.00	2,211
	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

\* Definition in accordance with IFRS.

# Parent Company

## CONDENSED INCOME STATEMENT

SEK m	Full-year	
	2019	2018
Net sales	12.2	12.2
Operating expenses	-16.3	-21.9
Depreciation of property, plant and equipment	-0.0	-0.0
Operating loss	-4.1	-9.7
Result from financial investments	97.8	100.9
Profit before tax	93.7	91.2
Tax	-20.1	-20.1
Profit for the period	73.6	71.1

## STATEMENT OF COMPREHENSIVE INCOME

SEK m	Full-year	
	2019	2018
Profit for the period	73.6	71.1
<b>Other comprehensive income for the period</b>		
Items that may be reclassified subsequently to profit or loss:		
Change in value of non-current securities	-	17.5
Total other comprehensive income	-	17.5
Comprehensive income for the period	73.6	88.6

## CONDENSED BALANCE SHEET

SEK m	Dec 31, 2019	Dec 31, 2018
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	0.1	0.1
Shares in subsidiaries	480.1	476.2
Other financial assets	0.1	0.1
Deferred tax assets	0.0	1.5
Total non-current assets	480.3	477.9
Current assets		
Receivables from subsidiaries	84.8	42.0
Other current assets	1.8	2.2
Cash and cash equivalents	1.3	9.3
Total current assets	87.9	53.5
<b>TOTAL ASSETS</b>	<b>568.2</b>	<b>531.4</b>
<b>EQUITY AND LIABILITIES</b>		
Total equity	512.1	502.3
Current liabilities		
Trade payables	0.4	0.9
Liabilities to credit institutions	24.9	-
Liabilities to subsidiaries	26.1	-
Other current liabilities	4.7	28.2
Total current liabilities	56.1	29.1
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>568.2</b>	<b>531.4</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, with the exception of the information presented below pertaining to IFRS 16.

The Group applies the following new or amended IFRS from the IFRS Interpretations Committee as of January 1, 2019:

IFRS 16 Leases replaced IAS 17 Leases and applies from January 1, 2019. For the lessee, IFRS 16 essentially entails that all leases are to be recognized in the statement of financial position. Classification in operating or finance leases is no longer applicable. The underlying asset in the lease is recognized in the statement of financial position. IAR applies the modified retrospective intermediate method regarding recognition of leases previously recognized as operating leases. This method entails that lease liabilities are calculated as the present value of remaining lease payments discounted by the incremental borrowing rate in the beginning of the period in which the company first applies the standard, and that the comparative year is not adjusted.

At the beginning of a contract, the Group assesses whether it constitutes or contains a lease. The Group recognizes a right-of-use and an equivalent lease liability for all leases in which the Group is the lessee. This does not apply, however, for short-term leases (defined as leases with a term of 12 months or less) or for leases where the underlying asset has a low value. For such leases, the Group recognizes lease payments as operating expenses on a straight-line basis over the term of the lease, if no other systematic method better reflects how the economic benefits associated with the underlying asset are consumed by the lessee.

Lease liabilities are initially measured at the present value of the lease payments that have yet to be made as of the commencement date, discounted by the interest rate implicit in the lease. If this interest rate cannot be easily established, the Group uses the incremental borrowing rate. The incremental borrowing rate is the interest rate that a lessee would need to pay for financing through loans over a similar term, and with a similar security, for a right-of-use.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments.

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- Amounts expected to be payable under a residual value guarantee.
- The exercise price under a purchase option that the Group is reasonably certain to exercise.
- Penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group remeasures the lease liability (and makes a corresponding adjustment to the right-of-use asset) when:

- The term of the lease has changed, or the Group has changed its assessment of whether it will exercise a purchase option. The lease liability is remeasured by discounting the adjusted lease payments using an adjusted discount rate.
- Lease payments are changed based on changes in the index or rate, or changes to the amounts expected to be payable under a residual value guarantee. In such cases, the lease liability is remeasured by discounting the adjusted lease payments using the initial discount rate.
- The lease changes and the change is not recognized as a separate lease. In such cases, lease payments are remeasured by discounting the adjusted lease payments using an adjusted discount rate.

No remeasurements have been carried out according to the above during the reporting period.

On initial recognition, the right-of-use asset is recognized at the value of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The carrying amount of the right-of-use asset is subsequently reduced by the accumulated depreciation and any impairment.

Divested assets are depreciated over the term of the lease or the useful life of the underlying asset, whichever is shorter. If a lease entails that ownership of the underlying asset is transferred or the cost of the right-of-use asset reflects the Group's expectation that it will exercise a purchase option, depreciation is carried out over the useful life of the underlying asset. Depreciation begins on the commencement date of the lease.

The Group applies IAS 36 Impairment of Assets to determine whether the carrying amount of a right-of-use asset exceeds its recoverable amount.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset. These lease payments are recognized as an expense in the period when the event or the terms that trigger these payments occur and are included in the line "Other external expenses" in consolidated profit or loss.

Right-of-use assets are presented on a separate line in the consolidated financial statements.

As a practical expedient, IFRS 16 permits a lessee to report each lease component and relevant non-lease component as a single component rather than separating non-lease components from lease components. The Group has not chosen to apply this exemption. The Group used the following practical expedients when initially applying IFRS 16 to leases previously classified as operating leases under IAS:

- A single discount rate is applied to leases with similar characteristics.
- Leases with a remaining term of less than 12 months as of January 1, 2019 are not recognized in the balance sheet if they are not likely to be extended.
- Initial direct costs are excluded when measuring the right-of-use asset on the date of initial application.
- Short-term leases (12 months or less) and leases where the underlying asset has a low value (USD 5,000 or less) are not recognized in the balance sheet but in the same manner as operating leases were previously recognized.
- Hindsight is used when determining the lease term if the contract contains options to extend or terminate the lease.

At the beginning of 2019, the lease for the company's headquarters in Uppsala had a remaining term of less than 12 months. The premises were thus not reported as a right-of-use asset in the opening balance. At the end of 2019, an agreement was reached regarding an extension, which is why the right-of-use asset for the property has been reported in the balance sheet according to IFRS 16.

#### Effects on assets, liabilities and equity, January 1, 2019

SEK m	Ref	Recognized balance sheet items, January 1, 2019	Transition to IFRS 16	Restated balance sheet items, January 1, 2019
<b>Assets</b>				
Equipment	A	7.6	-2.8	4.8
Right-of-use assets	B, C	–	30.5	30.5
Total effect on assets			27.7	
<b>Liabilities and equity</b>				
Non-current lease liability	D	1.2	21.3	22.5
Current lease liability	D	1.6	7.7	9.3
Accrued expenses	C	23.1	-1.3	21.8
Total effect on liabilities and equity			27.7	

#### Description of adjustment A

Ref:

A Pertains to finance leases recognized under the item "Equipment" in the most recent annual report.

B Restatement of leases in accordance with IFRS 16

C Pertains to the restatement of rent discounts previously allocated over the term of the lease

D Lease liability recognized under the item "Borrowings (Non-current/Current)" in the most recent annual report.

#### Reconciliation, operating lease disclosure (IAS 17) and recognized lease liability (IFRS 16)

##### Obligations for operating leases at December 31, 2018

SEK m	
Obligations for operating leases at December 31, 2018	40.9
Finance lease liabilities at December 31, 2018	2.8
Short-term leases (deducted as expensed)	-7.6
Low-value leases (deducted as expensed)	–
Effects of extension options	–
Discount effect	-1.7
<b>Recognized lease liability in the opening balance on January 1, 2019</b>	<b>31.8</b>

The Group has applied a weighted average incremental borrowing rate of 1.75% when establishing the lease liability in the opening balance on January 1, 2019.

Other new or amended IFRS and interpretations from the IFRIC and amendments to RFR 2 effective as of January 1, 2019 have not had any material impact on the financial statements of the Group or the Parent Company. Disclosures in accordance with IAS 34 Interim Financial Reporting are included in both the notes and in other parts of the interim report. With consideration given to the connection between accounting and taxation, IFRS 16 does not need to be applied in legal entities. The Parent Company has chosen to apply this exemption.

## 2. NET SALES

Net sales are distributed as follows:

SEK m	Full-year		3 months Oct–Dec	
	2019	2018	2019	2018
Development tools	403.9	380.2	106.5	99.3
Security solutions	1.7	5.0	0.3	3.5
<b>Net sales</b>	<b>405.6</b>	<b>385.2</b>	<b>106.8</b>	<b>102.8</b>

SEK m	Full-year		3 months Oct–Dec	
	2019	2018	2019	2018
License-based revenue	236.0	242.9	59.3	62.7
Support and software updates	146.3	119.4	41.2	32.2
Royalty-based revenue	5.9	5.5	1.4	1.5
Other	15.7	12.4	4.6	2.9
<b>Net sales</b>	<b>403.9</b>	<b>380.2</b>	<b>106.5</b>	<b>99.3</b>

At a certain point in time	2019	2018	2019	2018
	152.2	124.9	42.6	33.7
<b>Net sales</b>	<b>403.9</b>	<b>380.2</b>	<b>106.5</b>	<b>99.3</b>



## Notes, cont.

	Full-year		3 months Oct-Dec	
SEK m	2019	2018	2019	2018
Americas	139.5	126.2	34.6	32.9
Asia	111.3	94.2	28.7	24.3
Europe	144.5	151.6	41.0	40.0
Not allocated by region	8.6	8.2	2.2	2.1
<b>Net sales</b>	<b>403.9</b>	<b>380.2</b>	<b>106.5</b>	<b>99.3</b>

Security solutions	Full-year		3 months Oct-Dec	
SEK m	2019	2018	2019	2018
License-based revenue	0.3	–	0.1	–
Support and software updates	–	–	–	–
Royalty-based revenue	–	–	–	–
Other	1.4	5.0	0.2	3.5
<b>Net sales</b>	<b>1.7</b>	<b>5.0</b>	<b>0.3</b>	<b>3.5</b>

At a certain point in time	1.7	5.0	0.3	3.5
Over time	–	–	–	–
<b>Net sales</b>	<b>1.7</b>	<b>5.0</b>	<b>0.3</b>	<b>3.5</b>

SEK m	2019	2018	2019	2018
Americas	1.7	5.0	0.3	3.5
Asia	–	–	–	–
Europe	–	–	–	–
Not allocated by region	–	–	–	–
<b>Net sales</b>	<b>1.7</b>	<b>5.0</b>	<b>0.3</b>	<b>3.5</b>

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 increased by SEK 17.9m during the year as a result of currency translation. Goodwill is tested annually or when a requirement for impairment is indicated. Goodwill is recognized at cost less accumulated impairment. The impairment test performed at year-end did not indicate any requirement for impairment. No indications of impairment arose during the period. Goodwill at December 31, 2019 amounted to SEK 357.2m (339.3).

### 4. OTHER INTANGIBLE ASSETS

During the year, other intangible assets increased by SEK 65.7m. Operating expenses were reduced by SEK 81.9m (45.4) during the year through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 67.3m (38.1) 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. As of December 31, 2019, the Group had accumulated loss carryforwards outside Sweden of SEK 220m, of which SEK 122m (45) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 5.3m (13.3), of which SEK 19.9m (8.5) pertains to loss carryforwards. The item deferred tax asset also includes deferred tax liabilities that will be recognized in a net amount since they are connected to the same tax subject.

### 6. PLEDGED ASSETS

SEK m	Dec 31, 2019	Dec 31, 2018
To secure pensions	1.8	1.8
To secure liabilities to credit institutions	3.7	2.8
<b>Total pledged assets</b>	<b>5.5</b>	<b>4.6</b>

In addition to the above pledged assets in the Group, the Parent Company IAR Systems Group AB has committed financial support as needed to the Group company Secure Thingz Ltd.

### 7. WARRANT PROGRAMS

In accordance with the decision of the AGM on April 24, 2019, a long-term incentive program for IAR Systems Group employees has been introduced ("LTIP 2019"). The program encompasses a total of 532,500 warrants, of which 418,000 were acquired or allocated under LTIP 2019. The warrants grant entitlement to the holder to subscribe for or acquire one class B share in the company according to the conditions below. In total, LTIP 2019 corresponds to about 3.6% of the share capital and approximately 3.4% of the votes in the company after dilution.

LTIP 2019 consists of two different types of warrants: share warrants and stock options. The share warrants are intended for employees in Sweden and the stock options are intended for employees outside Sweden. The final number of warrants to which each participant is entitled is dependent on the degree to which the Group's performance conditions are fulfilled. The performance conditions are based on average annual growth of the Group's net sales for the 2019, 2020 and 2021 financial years. The performance condition targets are presented in the table below and the relative weight of each performance condition is one third.

Performance conditions	Minimum level	Maximum level
Growth in net sales, 2019	5%	10%
Growth in net sales, 2020	5%	10%
Growth in net sales, 2021	5%	10%

For share warrants, participants are invited to acquire a certain number of warrants. The market price of the warrants, according to the pricing model from Black & Scholes, is calculated as SEK 16.67. The participants have paid SEK 11.17, which is the calculated market price adjusted for performance conditions. Based on performance condition fulfillment, each share warrant grants entitlement to subscribe for one new class B share during the period from May 1 to May 31, 2022 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from May 3 to May 13, 2019, which is fixed at SEK 347.70. The participants acquired a total of 63,000 share warrants.

For stock options, participants are allocated stock options at no cost, which may not be pledged or transferred. The stock options are vested at a rate of one third per year from the date of allotment. Based on performance condition fulfillment, each stock option grants entitlement to acquire one new class B share during the period from May 1 to May 31, 2022 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from May 3 to May 13, 2019, which is fixed at SEK 347.70. A total of 355,000 stock options were allocated to the participants.

LTIP 2019 is recognized in accordance with IFRS 2 Share-based Payment, which means that the cost of the warrant program is recognized on a straight-line basis during the vesting period. The total cost of the warrant program is estimated at SEK 3.8m, of which SEK 0.1m has been charged to profit for the period. LTIP costs for the fourth quarter decreased from the preceding quarter as a result of the above performance terms.

Information about the Group's other current incentive programs is available in the latest annual report.

## 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. The following section "Reconciliations" presents reconciliations and accounts for the components included in the alternative performance measures used in the company's financial reporting.

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 78.6% 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.
Cash flow from operating activities per share	Cash flow from operating activities divided by the average number of shares during the period.	Measures the company's cash generation in relation to the number of shares in the company.
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.

## Definitions, cont.

Key ratios	Definition/Calculation	Use
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.
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

**GROSS MARGIN** is calculated as net sales less the cost of goods sold as a percentage of net sales.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Net sales	405.6	385.2	106.8	102.8
Goods for resale	-10.8	-9.0	-3.7	-2.2
Gross profit	394.8	376.2	103.1	100.6
Gross margin	97.3%	97.7%	96.5%	97.9%

**EBITDA** is calculated as operating profit before depreciation of property, plant and equipment, and amortization of intangible assets.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Operating profit	108.4	115.6	27.1	31.1
Depreciation of property, plant and equipment	3.1	2.6	0.9	0.8
Depreciation of right-of-use assets	9.8	-	2.8	-
Amortization of intangible assets	24.5	21.9	6.2	5.7
EBITDA	145.8	140.1	37.0	37.6

**EBITDA MARGIN** is calculated as EBITDA as a percentage of net sales.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Net sales	405.6	385.2	106.8	102.8
EBITDA	145.8	140.1	37.0	37.6
EBITDA margin	35.9%	36.4%	34.6%	36.6%

**OPERATING MARGIN** is calculated as operating profit as a percentage of net sales.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Net sales	405.6	385.2	106.8	102.8
Operating profit	108.4	115.6	27.1	31.1
Operating margin	26.7%	30.0%	25.4%	30.3%

**PROFIT MARGIN** is calculated as profit before tax as a percentage of net sales.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Net sales	405.6	385.2	106.8	102.8
Profit before tax	107.0	113.8	27.2	31.7
Profit margin	26.4%	29.5%	25.5%	30.8%

**CASH FLOW** is calculated as cash flow from operating activities as a percentage of net sales.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Net sales	405.6	385.2	106.8	102.8
Cash flow from operating activities	105.7	92.6	30.5	33.4
Cash flow	26.1%	24.0%	28.6%	32.5%

**EQUITY/ASSETS RATIO** is calculated as equity as a percentage of total assets.

SEK m	Dec 31, 2019	Dec 31, 2018
Equity	592.0	550.0
Total assets	824.9	722.2
Equity/assets ratio	71.8%	76.2%

**AVERAGE EQUITY** is calculated as equity at the beginning of the period plus equity at the end of the period divided by two.

SEK m	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2018	172131
Equity	592.0	574.0	550.0	556.3	290.4

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Average equity	571.0	420.2	583.0	553.2

**RETURN ON EQUITY** is calculated as profit after tax as a percentage of average equity.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Profit after tax	81.2	87.6	20.0	21.8
Average equity	571.0	420.2	583.0	553.2
Return on equity	14.2%	20.8%	3.4%	3.9%

**NET DEBT/EQUITY RATIO** is calculated as net interest-bearing liabilities divided by equity.

SEK m	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Interest-bearing liabilities	79.1	69.1	2.8	2.9	2.5
Cash and cash equivalents	-60.7	-57.4	-106.1	-91.5	-119.5
Net interest-bearing liabilities	18.4	11.7	-103.3	-88.6	-117.0
Net debt/equity ratio	0.0	0.0	-0.2	-0.2	-0.4

**RETURN ON CAPITAL EMPLOYED** is calculated as profit before tax plus financial expenses as a percentage of average capital employed.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Profit before tax	107.0	113.8	27.2	31.7
Financial expenses	2.6	1.9	0.4	-0.5
Profit before tax plus financial expenses	109.6	115.7	27.6	31.2
Return on capital employed	18.4%	27.4%	4.2%	5.6%

## Reconciliations, cont.

**NET CASH** is calculated as cash and cash equivalents less interest-bearing liabilities.

SEK m	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Cash and cash equivalents	60.7	57.4	106.1	91.5	119.5
Interest-bearing liabilities	-79.1	-69.1	-2.8	-2.9	-2.5
<b>Net cash</b>	<b>-18.4</b>	<b>-11.7</b>	<b>103.3</b>	<b>88.6</b>	<b>117.0</b>

**CAPITAL EMPLOYED** is calculated as total assets less non-interest-bearing liabilities.

Average capital employed is calculated as capital employed at the beginning of the period plus capital employed at the end of the period divided by two.

SEK m	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Total assets	824.9	801.8	722.2	721.3	410.1
Non-interest-bearing liabilities	-153.8	-158.7	-169.4	-162.1	-117.2
<b>Capital employed</b>	<b>671.1</b>	<b>643.1</b>	<b>522.8</b>	<b>559.2</b>	<b>292.9</b>

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Average capital employed	597.0	422.8	657.1	556.0

**EQUITY PER SHARE** is calculated as equity divided by the number of shares at the end of the period.

SEK m	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Equity	592.0	574.0	550.0	556.3	290.4
No. of shares at end of period, million	13.63	13.63	13.62	13.61	12.63
<b>Equity per share</b>	<b>43.43</b>	<b>42.11</b>	<b>40.38</b>	<b>40.88</b>	<b>22.99</b>

**CASH FLOW FROM OPERATING ACTIVITIES PER SHARE** is calculated as cash flow from operating activities divided by the average number of shares.

SEK m	Full-year		3 months Oct-Dec	
	2019	2018	2019	2018
Cash flow from operating activities	105.7	92.6	30.5	33.4
Average no. of shares, million	13.63	13.13	13.63	13.62
<b>Cash flow from operating activities per share</b>	<b>7.75</b>	<b>7.05</b>	<b>2.24</b>	<b>2.45</b>

# 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 168.80 (188.00) to a high of SEK 296.50 (288.00). The share price at December 31, 2019 was SEK 186.00 (243.00). IAR Systems Group's market capitalization on the same date was SEK 2,535 (3,518).

The number of shareholders in IAR Systems Group at December 31, 2019 was 7,500 (7,262). Of these shareholders, 430 (425) held more than 1,000 shares each. Foreign shareholders held approximately 32% (32) of the share capital and 30% (30) of the votes.

IAR Systems Group's share capital at December 31, 2019 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,530,475 are class B shares, and 337,858 are class C shares. All of the class C shares are in own holdings. These are not included in the information submitted regarding the IAR Systems share. Class C shares do not entitle the holder to dividends.

The aim of the company's treasury holding of class C shares is to ensure the delivery of shares to employees through the exercise of stock options according to the Group's incentive program and, in terms of cash flow, to ensure payment of future social security expenses attributable to this program. Prior to any delivery of shares according to the Group's employee ownership program, the company will convert the class C shares into class B shares. During the period, 8,762 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 21,830 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buy-back of 359,688 class C shares.

## BREAKDOWN OF SHAREHOLDINGS

	No. of share-holders	No. of share-holders, %	Share of capital, %	Share of votes, %
1-100	5,219	70	1	1
101-1,000	1,851	25	5	5
1,001-10,000	344	4	7	7
10,001-	86	1	87	87
Total *	7,500	100	100	100

## GEOGRAPHICAL DISTRIBUTION

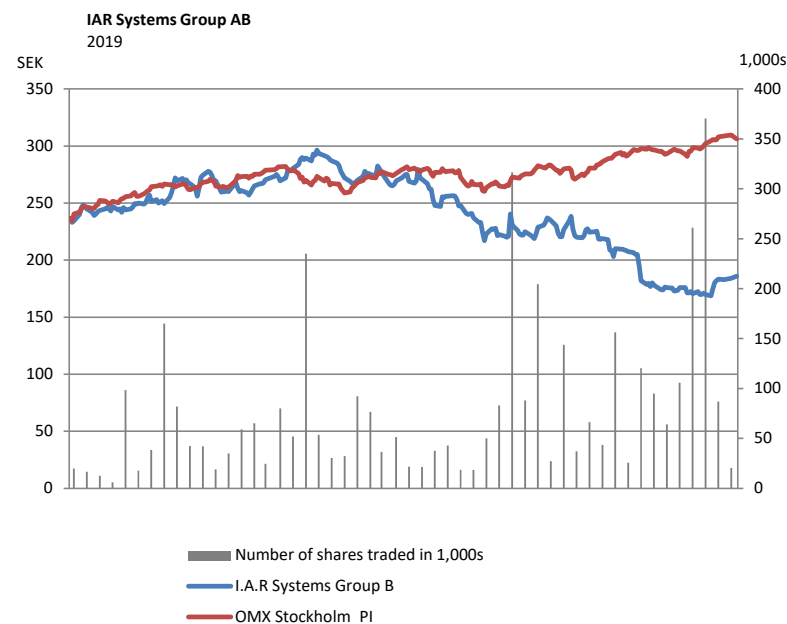
	No. of share-holders	No. of share-holders, %	Share of capital, %	Share of votes, %
Sweden	7,292	97	68	70
Europe excl. Sweden	168	2	26	25
Other countries	40	1	6	5
Total *	7,500	100	100	100

## LARGEST SHAREHOLDERS (VOTES)

	No. of shares	Share of capital, %	Share of votes, %
Andra AP-fonden	1,295,415	9	9
SEB S.A.	1,196,258	9	8
Första AP-fonden	1,176,506	9	8
Danica Pension **	214,300	2	8
Ribbskottet AB	829,623	6	6
Other	8,918,373	65	61
Total *	13,630,475	100	100

\* excluding 337,858 class C shares held in treasury

\*\* of which, 100,000 class A shares.



# Investment case

IAR Systems is a world-leading supplier of programming tools and services for embedded systems. These tools and services enable the development of digital products for over 46,000 corporate clients and 150,000 developers, supported by growing demand for digital technology, primarily within industrial automation, medical technology, telecommunication, consumer electronics and the automotive

After securing important strategic partnerships and collaborations, IAR Systems is nearing its next development phase – driving change in the industry and establishing a presence in a significantly larger market to become the first choice in software partners for industry leaders positioning their embedded systems for IoT.

## A PROFITABLE GROWTH COMPANY DRIVING CHANGE IN THE INDUSTRY

Thanks to its leading technology, IAR Systems' software commands a unique market position with a global market share of approximately 50%. The company was founded more than 35 years ago and has continually evolved and refined its products in order to meet customer demand. IAR Systems is headquartered in Uppsala, Sweden, but due to the company's international reach, over 95% of sales are attributable to markets outside the Nordic region. The tailorable business model includes selling flexible user licenses for access to the IAR Embedded Workbench software, which enables close customer relations, a high level of customer loyalty – 95% of customers return – and even revenue streams. For over 35 years, this core business has been a springboard to larger and growing markets. One such example is the company's shared vision and collaboration with Secure Thingz, which began in 2018 and has significantly expanded

the company's potential market from only product development to the provision of services, manufacturing and product management.

## SUPERIOR TECHNOLOGY WITH NEW PATENTED ADDITIONS

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. The most important competitive advantages are the following:

1. IAR Systems offers a unique product range consisting of a complete tool chain for product developers.
2. IAR Systems is independent and thereby supports a variety of different processor architectures, which means that customers can choose the exact programming environment that fits their needs, regardless of processor and project. This way, customers do not need to lock themselves into a particular technical platform,

which provides a number of advantages, such as being able to reuse 70–80% of previously written code.


3. IAR Systems provides superior quality so that customers do not need to compromise on product performance, reliability and user-friendliness and so that the time from product to market launch is as efficient as possible.

4. Through the acquisition of Secure Thingz, IAR Systems has expanded its offering to include unique, patented technology that aims to fulfill the customer's need to protect its intellectual property. This can also be a crucial determining factor when it comes to maximizing the market potential for security for embedded systems.

## THE SPREAD OF DIGITAL TECHNOLOGY AND IOT IS DRIVING MARKET GROWTH

The spread of digital technology is driving the market for embedded systems, largely as a result of IoT. Almost all industries have devices and products that could be developed further through improved communication and connectivity. The market has a number of underlying driving forces that all indicate that the recent decade of stable growth within the industry will continue.



- 
1. Largely driven by IoT, embedded systems are growing in number and in complexity.
  2. Continued high demand for reliable and advanced programming tools that provide a complete development platform and efficient time management from product to market launch.
  3. New possibilities within the automotive industry as increasingly advanced vehicles reach the market.
  4. Unexploited potential within security solutions for embedded systems. Secure Thingz operates as its own company, but takes advantage of IAR Systems' worldwide sales and support organization, and thereby its large and loyal customer base. To illustrate the market potential, ABI Research predicts that the security market for embedded systems will grow quickly as the number of secure IoT products grows from today's 4% to close to 20% by 2022.
  5. The processor architecture RISC-V will challenge the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area.

#### ENGAGED TEAM WHO KNOWS HOW TO TAKE ADVANTAGE OF GROWTH POTENTIAL

IAR Systems' global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all countries where it operates. During 2018, IAR Systems expanded its management group, adding individuals with experience from senior roles at leading international technology companies, something that highlights our ability to leverage this growth potential without compromising the organization's well-known

and service-oriented approach.

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 markets. By sharing knowledge and experience among highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.



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