



I.A.R. SYSTEMS GROUP AB
INTERIM REPORT JANUARY–SEPTEMBER 2020

Q3

Strengthened cash flow and increased number of strategic customers in Asia

Net sales SEK 88.9m (100.0), EBITDA SEK 36.8m (37.5)

PROFIT SUMMARY

	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
SEK m					
Net sales	281.3	298.8	88.9	100.0	405.6
Operating expenses	-216.5	-217.5	-63.5	-71.9	-297.2
Operating profit	64.8	81.3	25.4	28.1	108.4
Result from financial investments	-2.5	-1.5	-0.5	0.7	-1.4
Profit before tax	62.3	79.8	24.9	28.8	107.0
Tax	-14.9	-18.6	-6.2	-7.2	-25.8
Profit for the period	47.4	61.2	18.7	21.6	81.2

KEY PERFORMANCE MEASURES

	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
Gross margin, %	96.4	97.6	97.0	97.5	97.3
EBITDA margin, %	35.6	36.4	41.4	37.5	35.9
Operating margin, %	23.0	27.2	28.6	28.1	26.7
Cash flow, %	32.2	25.2	36.8	27.3	26.1
Net debt, SEK m	0.4	11.7	0.4	11.7	18.4
No. of employees at end of period	216	215	216	215	219

JANUARY–SEPTEMBER 2020

- › EBITDA of SEK 100.2m (108.8), corresponding to an EBITDA margin of 35.6% (36.4)
- › Operating profit of SEK 64.8m (81.3), corresponding to an operating margin of 23.0% (27.2)
- › Profit before tax of SEK 62.3m (79.8)
- › Basic earnings per share of SEK 3.48 (4.49) and diluted earnings per share of SEK 3.47 (4.48)
- › Cash flow from operating activities of SEK 90.6m (75.2)
- › Net cash of SEK 0.4m (11.7) at the end of the period

JULY–SEPTEMBER 2020

- › EBITDA of SEK 36.8m (37.5), corresponding to an EBITDA margin of 41.4% (37.5)
- › Operating profit of SEK 25.4m (28.1), corresponding to an operating margin of 28.6% (28.1)
- › Profit before tax of SEK 24.9m (28.8)
- › Basic earnings per share of SEK 1.37 (1.58) and diluted earnings per share of SEK 1.37 (1.58)
- › Cash flow from operating activities of SEK 32.7m (27.3)

KEY EVENTS

Due to the ongoing COVID-19 pandemic, the Board decided not to propose any dividends for the 2019 financial year. As a result of this decision, the Board will not convene an extraordinary general meeting.

Strengthened cash flow and increased number of strategic customers in Asia

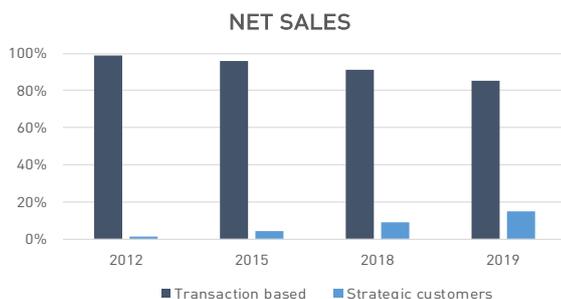
This year's focus on major strategic customers continued to have effects throughout the third quarter as well. Transaction-based business was affected by the pandemic to a greater extent during the third quarter by projects, purchasing and decisions taking longer.

More strategic transactions in Asia

The major contracts we signed with strategic customers during the quarter run for several years and also encompass our newer products. We had the largest major transactions in Europe in the third quarter, and the most in Asia. We have already achieved our objective for 2020 in terms of the share of strategic customers in relation to sales, which has now increased to 17%. A strategic transaction is unique for each customer, which leads to a more complex and protracted sales process, which makes it difficult to predict transactions. We have noted a trend that our major customers were able to invest during the ongoing pandemic, unlike our smaller customers. This led to higher sales of security products in the year than for full-year 2019, since the implementation of security solutions, in particular, is part of the customers' future product launches.

Transaction-based business affected by the pandemic

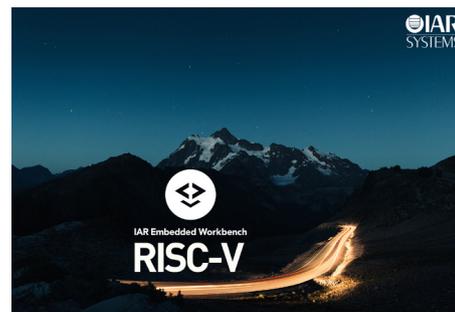
The transaction-based business comprises a large number of smaller transactions that mainly include license renewals and additional licenses.



During the pandemic, many of our customers have been working from home, and our ambition has been to support them in their transition by offering suitable types of licenses. We are seeing a trend of our customers planning to work from home during the first half of 2021. Our customers' development projects are continuing, but the transition means that projects, purchasing and decisions take longer. The largest portion of our customer base includes those who have a smaller number of licenses, which provides both stability in the business model and a lower risk of bad debt loss. The pandemic has not affected our customers' ability to pay. Demand for Linux-based development continues to increase. Customers use our offering for Linux as an integrated solution for developing embedded systems. This refers to an integration that encompasses several functions, such as testing and quality assurance, where most solutions are only available for the Linux operating system. With development teams working in different locations, such as from home, we are seeing that our customers' need for this type of flexible solution for simplified work flows and quality assurance will continue to grow.

First customer to implement a solution for secure large-volume programming of processors

During the third quarter, we had a customer introduce secure large-volume programming using our security offering (Inception Suite) for the first time.



This customer invested in our Security from Inception Suite in autumn 2019 and very quickly implemented it as a solution for volume programming. The customer is unique in its rapid implementation and relies on the strength of our offering, which includes development and programming of secure embedded systems.

Much like for our security products, we are seeing a growing demand for our development tool IAR Embedded Workbench for RISC-V. We see the greatest potential for new RISC-V markets in Asia in particular, primarily in China, but this is also where we see the greatest business delay due to COVID-19.

Consolidation of the market continues

Nvidia's acquisition of Arm is another example of the ongoing market consolidation.

More major product launches coming to meet increased demand

Our business model, where we have also focused on the needs of our various customers in terms of size, has become a critical success factor for the year. Despite the uncertainty created by the pandemic and the volatility of the large transactions, we stand strong due to our business model, our large and loyal customer base and our leading technology. In the coming quarters, we will focus on major product launches in three of our most prioritized areas: security, RISC-V and our core product IAR Embedded Workbench, with special attention on facilitating flexible development processes that need Linux support. We will continue to support our customers, to increase the number of new customers with higher average transactions and to refine our product offering.

STEFAN SKARIN
President and CEO, I.A.R. Systems Group AB

Driven by our ambition, the next phase of I.A.R. Systems Group 4.0 has started

What are our preconditions for I.A.R. Systems Group 4.0?

We have gone through three phases since 2010, resulting in a refined and expanded offering, a strengthened organization and the acquisition of both technologies and expertise. Our business environment has experienced rapid change and consolidation in recent years, and we have met this challenge by creating new opportunities in our offering and market, and by focusing on more strategic relationships with our major customers. Changes take time, and changes across a broad front require focus, stability and resilience. As part of our long-term ambition, we have completed and refined our offering over the past few years in order to take the next step forward. The basic questions we ask ourselves for our ambition with I.A.R. Systems 4.0 are how we can increase our growth without losing focus, and how we can maintain the strength of our current business model with an expanded target group and new market.

I.A.R. Systems Group 4.0

I.A.R. Systems Group 4.0 is a plan with three strategic components: the portfolio, the market and go-to-market. For 2020, the three respective components have different levels of ambition but share a focus to clarify our direction, ambition and potential. This is to create a long-term model through an increased collective participation with customers, partners and employees.

In brief, the ambition for these three components is as follows:

Product portfolio

After a few years of major investments we now have the products we need for 2020. This means that in 2020 we will be able to retain our focus on the major production areas we have invested in, with continued refinement as customers identify a clear need.

Market

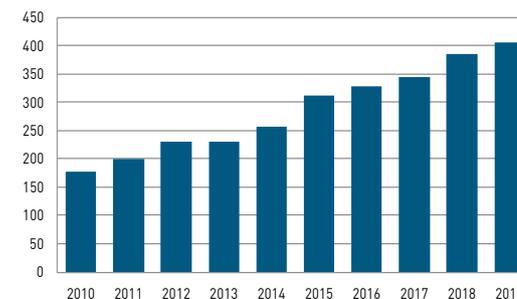
We are increasing our ambition to focus on new markets for 2020. This is with a geographic focus on Asia, specifically China, Taiwan and India and also through complementing the geographic markets with new technological areas for security and RISC-V. These new technological areas function partially in a matrix with Asia, since these technologies have great potential there without interfering with existing markets or offerings.

Go-To-Market

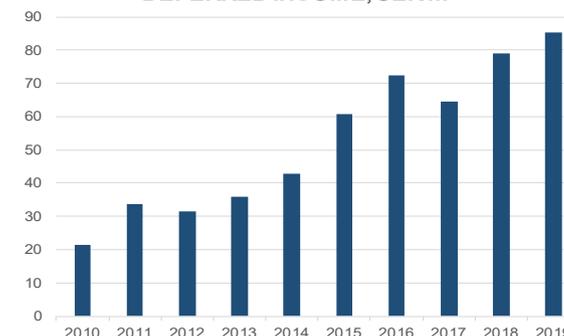
Our go-to-market strategic ambition for 2020 is a combination of new areas and refining existing areas. This includes building a lean and efficient sales organization for our security offering and approaching existing customers with expanded "self service" and new offices in new markets. We also intend to leverage the increased demand from our largest customers who want to standardize their development through our products. We call a customer "strategic" when the agreement covers a need that extends for a long period of time, flexibility in product choice and global use. It also refers to a relationship with a decision forum to discuss the long-term relationship and reach agreements. These agreements are in contrast to transaction-based business, which is unique in its scope, tied to a longer sales cycle and more complex in its predictability.

We are market leaders, we have financial strength, and we have never had more opportunities. I now find myself reflecting on our development and success over the past ten years and preparing for the next stage of our journey. With code as the basis for our software company IAR Systems, we are shifting from I.A.R. Systems 3.0 to I.A.R. Systems Group 4.0.

NET SALES



DEFERRED INCOME, SEK m



OPERATING PROFIT AND OPERATING MARGIN



Financial information

NET SALES

Q3 2020 Net sales

Net sales for the quarter decreased year-on-year and amounted to SEK 88.9m [100.0] and were distributed as follows: SEK 88.5m [99.7] from development tools and SEK 0.4m [0.3] from security solutions. During the third quarter, several strategic customers also chose to deepen their relationship with the company and signed longer agreements, which had a positive effect on net sales. Transaction-based business was affected by the pandemic to a larger extent during the third quarter by projects, purchases and decisions taking longer. In a year-on-year comparison, currency translation had a negative impact of SEK 5.5m on net sales for the period.

Net sales for January–September 2020

Net sales for the period amounted to SEK 281.3m [298.8] and were distributed as follows: SEK 277.5m [297.4] from development tools and SEK 3.8m [1.4] from security solutions. In a year-on-year comparison, currency translation did not have an effect on net sales for the period.

Deferred income September 30, 2020

Deferred income in the form of accrued support agreements increased during the period by SEK 1.6m and amounted to SEK 86.8m [85.2] at September 30, 2020. Of these accrued support agreements, 38% is expected to be recognized as income during the current financial year, which amounts to SEK 32.8m.

EARNINGS

Q3 2020 Earnings

Earnings in the third quarter of the year declined compared with the corresponding quarter in the preceding year. EBITDA for the quarter totaled SEK 36.8m [37.5], corresponding to an EBITDA margin of 41.4% [37.5]. Operating profit for the quarter amounted to SEK 25.4m [28.1].

Reduced travel and canceled market activities had a positive effect on operating profit. In a year-on-year comparison, these costs were reduced by SEK 1.9m.

Operating expenses were reduced by SEK 18.0m [20.3] during the quarter through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 15.4m [18.7] pertained to personnel costs.

In a year-on-year comparison, currency translation had a negative impact of SEK 3.3m on operating profit for the quarter.

Net sales for January–September 2020

EBITDA for the period totaled SEK 100.2m [108.8], corresponding to an EBITDA margin of 35.6% [36.4] for the period. Operating profit for the period amounted to SEK 64.8m [81.3].

Gross margin for the period amounted to 96.4% [97.6]. The decline in gross margin is connected to a major transaction in Asia during the first quarter of 2020 where third-party products were included as a component.

Reduced travel and canceled market activities had a positive effect on operating profit. In a year-on-year comparison, these costs were reduced by SEK 5.9m.

Operating expenses were reduced by SEK 61.5m [58.9] during the period through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 51.6m [50.5] pertained to personnel costs.

In a year-on-year comparison, currency translation did not have an impact on operating profit for the quarter.

INVESTMENTS AND FINANCING

During 2020 we focused on investments in our major product areas. Software investments for the period totaled SEK 61.5m [60.7], of which SEK 17.8m [20.9] was attributable to investments in the third quarter. A large portion of the investments were in foreign currencies, which entailed foreign exchange effects upon conversion to SEK.

Investments in property, plant and equipment for the period totaled SEK 2.4m [1.6], of which SEK 0.3m [0.7] was attributable to the third quarter.

The bank overdraft facility is recognized in the consolidated balance sheet as liabilities to credit institutions and amounted to SEK 17.4m [24.9] on September 30, 2020. During the period, SEK 7.5m was amortized. The bank overdraft facility is issued in SEK. The unutilized credit margin at September 30, 2020 amounted to SEK 207.6m [200.1].

Other interest-bearing liabilities in balance sheet pertain to current and non-current lease liabilities and amounted to SEK 48.7m [54.2] at September 30, 2020. Lease liabilities recognized in the balance sheet pertain to commitments for leases and the largest portion, SEK 45.5m [50.5], is connected to leases for our offices.

The equity/assets ratio at September 30, 2020 was 74% [72].

CASH FLOW AND LIQUIDITY

Cash flow from operating activities for the period amounted to SEK 90.6m (75.2), of which SEK 32.7m (27.3) pertained to the third quarter. Through its subsidiary in England, the Group exercised its right to tax relief related to research and development expenses. This supplied the Group with SEK 18.8m during the second quarter of 2020, which affected the cash flow but not the income statement for the period. See also Note 5. Covid-19 did not have any material impact on our customers' ability to pay, and thus we did not see negative effects from this on cash flow during the period.

Cash flow from investing activities for the period totaled SEK -63.2m (-78.8), of which SEK -17.9m (-21.2) was attributable to the third quarter. Most of these investments pertain to the capitalization of development costs for software.

Cash flow from financing activities for the period amounted to SEK -21.4m (-49.4), of which SEK -4.6m (-6.6) was attributable to the third quarter. Cash flow from financing activities during the period comprised the net of the utilization of the bank overdraft facility and amortization of lease liabilities. In the preceding year, the cash flow was charged with a dividend to shareholders of SEK 68.1m. Due to the ongoing COVID-19 pandemic, in August the Board decided not to propose any dividends for the 2019 financial year.

Cash and cash equivalents

Cash and cash equivalents at the end of the period totaled SEK 65.7m (60.7). In addition, the Group had unutilized bank overdraft facilities of SEK 207.6m (200.1). The Group's total available cash and cash equivalents thus amounted to SEK 273.3m (260.8). At the end of the period, the Company had healthy margins in terms of the contractual covenants that form the basis for the above credit limits.

As of September 30, 2020, the Group had net debt of SEK 0.4m (18.4).

EMPLOYEES

The number of employees at IAR Systems at the end of the period was 216 (215). The average number of employees during the period was 209 (199).

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 9.6m (9.1). The Parent Company posted a loss after financial items of SEK -9.0m (-3.7).

Net investments in property, plant and equipment amounted to SEK 0.1m (0.1). Cash and cash equivalents at September 30, 2020 totaled SEK 0.8 (1.3). The number of employees in the Parent Company at the end of the period was four (four).

SIGNIFICANT RISKS AND UNCERTAINTIES

The market for IAR Systems' software is evolving rapidly and forecasts about future developments are thus uncertain. I.A.R. Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2019 under "Administration report" on pages 44–45 and in Note 2 on pages 62–63 or described below.

The Covid-19 pandemic still has major global health consequences and ultimately the measures being taken to reduce the spread of infection will have a significant impact on the global economy. The company is acting in accordance with decisions and recommendations from the government and authorities in each market as the Group continuously monitors and evaluates the effect on the Group's financial position to minimize the impact going forward. The assessment is still that customer development projects are continuing, but that the transition means that projects, purchasing and decisions are taking longer. The assessment also remains that IAR Systems is facing increased uncertainty regarding customers' future needs extending more than a few quarters in the future.

FUTURE OUTLOOK

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

REVIEW REPORT

Introduction

We have reviewed the interim report for IAR Systems Group AB (publ) for the period from January 1, 2020 to September 30, 2020. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope and focus of the review

We conducted our review in accordance with the International Standard on Review Engagements Performed by the Independent Auditor of the Entity (ISRE 2410).

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and a substantially more limited scope compared with the focus and scope of an audit conducted in accordance with the International Standards on Auditing and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant circumstances that might be identified in an audit. Therefore, the conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report has not, in all material aspects, been compiled in accordance with IAS 34 Interim Reporting and the Swedish Annual Accounts Act, and for the Parent Company, in accordance with the Swedish Annual Accounts Act.

Stockholm, November 5, 2020

Deloitte AB

Andreas Frountzos

FINANCIAL CALENDAR 2021

Year-end report 2020, February 9, 2021

Interim report Jan–Mar 2021, April 27, 2021

2021 Annual General Meeting, April 27, 2021

Interim report Jan–Jun 2021, August 17, 2021

Interim report Jan–Sep 2021, October 27, 2021

This information is inside information that I.A.R. Systems Group AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, by the contact person set out below, on November 5, 2020, at 1:00 p.m. CET.

Contact person: Josefin Skarin, Investor Contact, I.A.R. Systems Group AB, Email: josefin.skarin@iar.com

Income statement

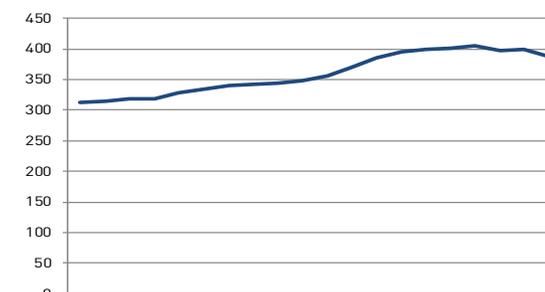
CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	9 months Jan-Sep		3 months Jul-Sep		Full-year
		2020	2019	2020	2019	2019
Net sales	1, 2	281.3	298.8	88.9	100.0	405.6
Goods for resale		-10.1	-7.1	-2.7	-2.5	-10.8
Other external expenses		-30.5	-42.8	-8.5	-14.1	-63.7
Personnel costs		-140.5	-140.1	-40.9	-45.9	-185.3
Depreciation of property, plant and equipment		-2.3	-2.2	-0.4	-0.7	-3.1
Depreciation of right-of-use assets		-12.6	-7.0	-4.4	-2.5	-9.8
Amortization of intangible assets		-20.5	-18.3	-6.6	-6.2	-24.5
Operating profit		64.8	81.3	25.4	28.1	108.4
Financial income		0.5	0.7	0.0	0.7	1.2
Financial expenses		-3.0	-2.2	-0.5	-0.0	-2.6
Profit before tax		62.3	79.8	24.9	28.8	107.0
Tax		-14.9	-18.6	-6.2	-7.2	-25.8
Profit for the period		47.4	61.2	18.7	21.6	81.2
Comprehensive income for the period attributable to owners of the Parent Company		47.4	61.2	18.7	21.6	81.2
Earnings per share for the period, basic, SEK		3.48	4.49	1.37	1.58	5.96
Earnings per share for the period, diluted, SEK		3.47	4.48	1.37	1.58	5.95

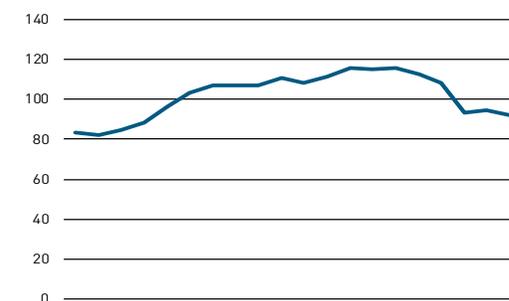
STATEMENT OF COMPREHENSIVE INCOME

SEK m	9 months Jan-Jun		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Profit for the period	47.4	61.2	18.7	21.6	81.2
Other comprehensive income for the period					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences	-21.7	26.3	-1.2	9.7	24.7
Total other comprehensive income	-21.7	26.3	-1.2	9.7	24.7
Comprehensive income for the period	25.7	87.5	17.5	31.3	105.9
Comprehensive income for the period attributable to owners of the Parent Company	25.7	87.5	17.5	31.3	105.9

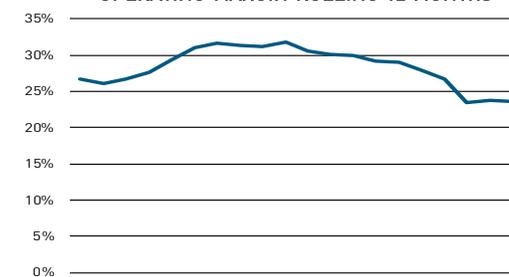
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS



Balance sheet

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Sep 30, 2020	Sep 30, 2019	Dec 31, 2019
ASSETS				
Non-current assets				
Goodwill	3	342.8	355.2	357.2
Other intangible assets	4	242.2	195.1	210.5
Property, plant and equipment		7.7	7.2	7.3
Right-of-use assets		46.9	42.6	56.3
Financial assets	7	2.4	2.5	2.4
Deferred tax assets	5	1.6	21.8	5.3
Total non-current assets		643.6	624.4	638.9
Current assets				
Inventories		7.3	6.9	6.6
Other current assets	7	70.1	47.0	52.1
Trade receivables	7	51.9	66.1	66.6
Cash and cash equivalents	7	65.7	57.4	60.7
Total current assets		195.0	177.4	186.0
TOTAL ASSETS		838.6	801.8	824.9
EQUITY AND LIABILITIES				
Total equity				
		619.2	574.0	592.0
Non-current liabilities				
Lease liabilities	7	32.2	32.3	41.1
Other non-current liabilities		1.0	1.0	1.1
Deferred tax liabilities		36.4	38.2	26.5
Total non-current liabilities		69.6	71.5	68.7
Current liabilities				
Trade payables	7	6.0	8.0	9.2
Liabilities to credit institutions	7	17.4	24.8	24.9
Lease liabilities	7	16.5	12.0	13.1
Deferred income		86.8	82.3	85.2
Other current liabilities	7	23.1	29.2	31.7
Total current liabilities		149.8	156.3	164.2
TOTAL EQUITY AND LIABILITIES		838.6	801.8	824.9

CHANGES IN EQUITY, GROUP

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full- year
	2020	2019	2020	2019	2019
Equity at beginning of period	592.0	550.0	601.1	540.2	550.0
Share buybacks	-	-	-	-	0.0
Share warrants, after deductions for transaction costs and tax	0.1	0.2	-	-0.2	0.4
Value of share-based remuneration	1.4	4.4	0.6	2.7	3.8
Dividend	-	-68.1	-	-	-68.1
Comprehensive income for the period	25.7	87.5	17.5	31.3	105.9
Equity at end of period	619.2	574.0	619.2	574.0	592.0
Of which, attributable to owners of the Parent Company	619.2	574.0	619.2	574.0	592.0

Cash flows

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Incoming payments from customers	296.2	294.0	106.1	105.4	401.2
Outgoing payments to suppliers and employees	-202.6	-204.9	-66.5	-74.3	-277.7
Interest received	0.1	0.0	-	0.0	0.0
Interest paid	-1.4	-2.1	-0.5	-0.9	-2.6
Tax relief received	18.8	-	-	-	-
Income taxes paid	-20.5	-11.8	-6.4	-2.9	-15.2
Cash flow from operating activities	90.6	75.2	32.7	27.3	105.7
Investments in property, plant and equipment	-2.4	-1.6	-0.3	-0.7	-2.5
Investments in intangible assets	-60.8	-58.6	-17.6	-20.5	-81.1
Investments in subsidiaries	-	-18.6	-	-0.0	-18.6
Cash flow from investing activities	-63.2	-78.8	-17.9	-21.2	-102.2
Warrants, after deductions for transaction costs	0.1	0.2	-	-0.2	0.2
Amortization of financial liabilities	-26.9	-11.9	-4.7	-6.4	-14.5
Borrowings	5.4	30.4	0.1	-	30.4
Dividend	-	-68.1	-	-	-68.1
Cash flow from financing activities	-21.4	-49.4	-4.6	-6.6	-52.0
Cash flow for the period	6.0	-53.0	10.2	-0.5	-48.5
Cash and cash equivalents at beginning of period	60.7	106.1	56.7	55.8	106.1
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	-0.9	4.7	-1.1	2.7	2.1
- attributable to cash flow for the period	-0.1	-0.4	-0.1	-0.6	1.0
Cash and cash equivalents at end of period	65.7	57.4	65.7	57.4	60.7

CASH AND CASH EQUIVALENTS, GROUP

SEK m	Sep 30, 2020	Sep 30, 2019	Dec 31, 2019
Cash and cash equivalents at end of period	65.7	57.4	60.7
Unutilized overdraft facilities	207.6	200.2	200.1
Total available cash and cash equivalents	273.3	257.6	260.8

Key performance measures

GROUP

	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
Gross margin, %	96.4	97.6	97.0	97.5	97.3
EBITDA, %	35.6	36.4	41.4	37.5	35.9
Operating margin, %	23.0	27.2	28.6	28.1	26.7
Profit margin, %	22.1	26.7	28.0	28.8	26.4
Cash flow, %	32.2	25.2	36.8	27.3	26.1
Equity/assets ratio, %	73.8	71.6			71.8
Return on equity, %	7.8	10.9	3.1	3.9	14.2
Return on capital employed, %	9.6	14.1	3.8	4.6	18.4
Capital employed, SEK m	685.3	643.1			671.1
Net debt, SEK m	0.4	11.7			18.4
Net debt/equity ratio, multiple	0.0	0.0			0.0
No. of employees at end of period	216	215			219
Average no. of employees	209	199	205	201	201
Sales per employee, SEK m	1.3	1.5	0.4	0.5	2.0

SHARE DATA

	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
Equity per share, SEK	45.43	42.11			43.43
No. of shares at end of period, million	13.63	13.63			13.63
Average no. of shares, million	13.63	13.62	13.63	13.63	13.63
Average no. of shares, diluted, million	13.66	13.66	13.66	13.66	13.66
Cash flow from operating activities per share, SEK	6.65	5.52	2.40	2.00	7.75
Earnings per share, SEK*	3.48	4.49	1.37	1.58	5.96
Earnings per share, diluted, SEK*	3.47	4.48	1.37	1.58	5.95

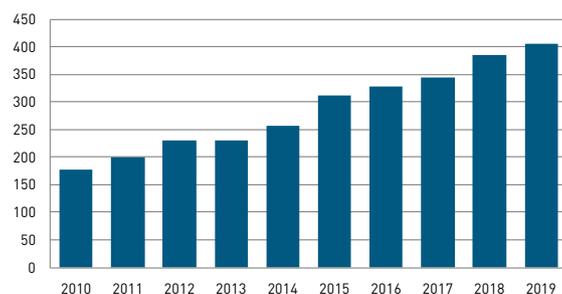
*Definition in accordance with IFRS. Refer also to definitions on page 16.

Multi-year overview

	Net sales, SEK m	EBITDA, SEK m	EBITDA margin, % profit, SEK m	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



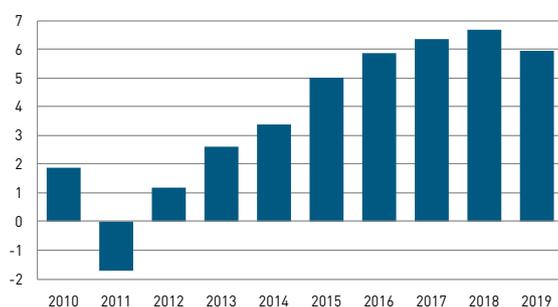
EBITDA AND EBITDA MARGIN



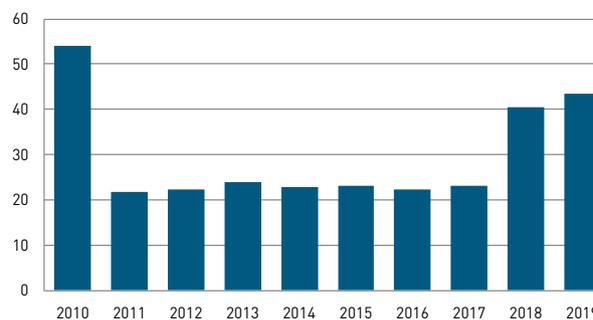
OPERATING PROFIT AND OPERATING MARGIN



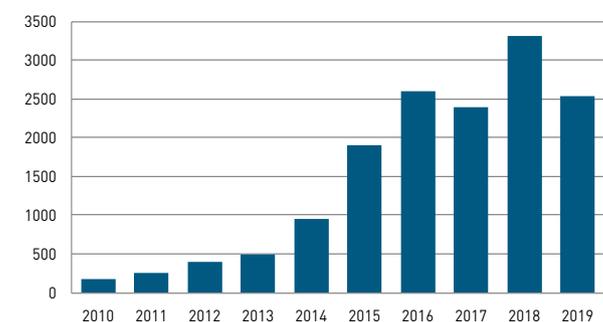
EARNINGS PER SHARE, SEK



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
2020	Q3	88.9	36.8	41.4	25.4	28.6	1.37	3.1	2.40	45.43	161.00	2 195
	Q2	100.1	36.8	36.8	25.0	25.0	1.29	2.9	3.15	44.10	114.80	1,565
	Q1	92.3	26.6	28.8	14.4	15.6	0.81	1.8	1.10	45.14	116.40	1,587
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	9 months Jan-Sep		Full-year
	2020	2019	2019
Net sales	9.6	9.1	12.2
Operating expenses	-12.5	-12.5	-16.3
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-2.9	-3.4	-4.1
Result from financial investments	-6.1	-0.3	97.8
Loss before tax	-9.0	-3.7	93.7
Tax	1.9	0.8	-20.1
Profit/loss for the period	-7.1	-2.9	73.6

STATEMENT OF COMPREHENSIVE INCOME

SEK m	9 months Jan-Sep		Full-year
	2020	2019	2019
Profit/loss for the period	-7.1	-2.9	73.6
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Change in value of non-current securities	-	-	-
Total other comprehensive income	-	-	-
Comprehensive income for the period	-7.1	-2.9	73.6

CONDENSED BALANCE SHEET

SEK m	Sep 30, 2020	Sep 30, 2019	Dec 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	0.2	0.2	0.1
Shares in subsidiaries	481.5	480.6	480.1
Other financial assets	0.1	0.1	0.1
Deferred tax assets	1.9	0.8	0.0
Total non-current assets	483.7	481.7	480.3
Current assets			
Receivables from subsidiaries	107.1	83.3	84.8
Other current assets	17.8	1.6	1.8
Cash and cash equivalents	0.8	0.7	1.3
Total current assets	125.7	85.6	87.9
TOTAL ASSETS	609.4	567.3	568.2
EQUITY AND LIABILITIES			
Total equity	506.4	435.9	512.1
Current liabilities			
Trade payables	0.2	0.3	0.4
Liabilities to credit institutions	17.4	24.8	24.9
Liabilities to subsidiaries	83.0	101.7	26.1
Other current liabilities	2.4	4.6	4.7
Total current liabilities	103.0	131.4	56.1
TOTAL EQUITY AND LIABILITIES	609.4	567.3	568.2

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 standards and new interpretations from the International Accounting Standards Board (IASB) and the IFRS Interpretation Committee (IFRIC) and amendments to RFR 2 effective as of January 1, 2020 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	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
Development tools	277.5	297.4	88.5	99.7	403.9
Security solutions	3.8	1.4	0.4	0.3	1.7
Net sales	281.3	298.8	88.9	100.0	405.6

SEK m	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
License-based revenue	160.4	176.9	50.8	58.3	236.3
Support and software updates	109.9	105.1	35.5	36.3	146.3
Royalty-based revenue	–	4.5	–	1.6	5.9
Other	11.0	12.3	2.6	3.8	17.1
Net sales	281.3	298.8	88.9	100.0	405.6

At a certain point in time	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
Over time	171.4	188.0	53.4	62.1	253.4
Net sales	281.3	298.8	88.9	100.0	405.6

SEK m	9 months Jan–Sep		3 months Jul–Sep		Full-year
	2020	2019	2020	2019	2019
Americas	99.7	106.3	30.4	33.9	141.2
Asia	75.9	82.6	25.8	29.7	111.3
Europe	103.8	103.5	32.2	33.3	144.5
Not allocated by region	1.9	6.4	0.5	3.1	8.6
Net sales	281.3	298.8	88.9	100.0	405.6

3. GOODWILL

Goodwill decreased SEK 14.4m during the period 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 September 30, 2020 amounted to SEK 342.8m (357.2).

4. OTHER INTANGIBLE ASSETS

During the period, other intangible assets increased SEK 31.7m and amounted to SEK 242.2m (210.5) on September 30, 2020. Operating expenses were reduced by SEK 61.5m (58.9) during the period through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 51.6m (50.5) 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 September 30, 2020, the Group had accumulated loss carryforwards outside Sweden of SEK 174m, of which SEK 93m (122) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 1.6m (5.3), and the deferred tax liability is recognized in an amount of SEK 36.4m (26.5), of which SEK 15.9m (19.9) pertains to loss carryforwards. The items deferred tax asset and deferred tax liability also include deferred tax assets or liabilities that will be recognized in a net amount since they are connected to the same tax subject.

Through its subsidiary in England, the Group exercised its right to tax relief related to research and development expenses. After the application was approved, the tax relief was received in the form of payments of loss carryforwards connected to research and development costs, in this case related to the 2018 and 2019 financial years. This supplied the Group with SEK 18.8m during the second quarter of 2020. Upon payment, the aggregate loss carryforwards were reduced by an equivalent amount. The payment affects the cash flow but not the income statement for the period.

Notes, cont.

6. PLEDGED ASSETS

SEK m	Sep 30, 2020	Sep 30, 2019	Dec 31, 2019
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	3.2	3.5	3.7
Total pledged assets	5.0	5.3	5.5

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

7. INFORMATION ABOUT MEASUREMENT AT FAIR VALUE

For cash and cash equivalents, trade receivables and trade payables, the carrying amount is a good approximation of fair value since the maturity is short. For borrowings, the carrying amount is a good approximation of fair value since the interest rate is variable and the credit margin is relatively unchanged. No financial instruments measured at fair value in the Group were acquired/reclassified in the quarter.

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 performance measures	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 for the 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 performance measures	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 performance measure 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 performance measure 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 performance measure 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	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Net sales	281.3	298.8	88.9	100.0	405.6
Goods for resale	-10.1	-7.1	-2.7	-2.5	-10.8
Gross profit	271.2	291.7	86.2	97.5	394.8
Gross margin	96.4%	97.6%	97.0%	97.5%	97.3%

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Operating profit	64.8	81.3	25.4	28.1	108.4
Depreciation of property, plant and equipment	2.3	2.2	0.4	0.7	3.1
Depreciation of right-of-use assets	12.6	7.0	4.4	2.5	9.8
Amortization of intangible assets	20.5	18.3	6.6	6.2	24.5
EBITDA	100.2	108.8	36.8	37.5	145.8

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Net sales	281.3	298.8	88.9	100.0	405.6
EBITDA	100.2	108.8	36.8	37.5	145.8
EBITDA margin	35.6%	36.4%	41.4%	37.5%	35.9%

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Net sales	281.3	298.8	88.9	100.0	405.6
Operating profit	64.6	81.3	25.4	28.1	108.4
Operating margin	23.0%	27.2%	28.6%	28.1%	26.7%

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Net sales	281.3	298.8	88.9	100.0	405.6
Profit before tax	62.3	79.8	24.9	28.8	107.0
Profit margin	22.1%	26.7%	28.0%	28.8%	26.4%

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Net sales	281.3	298.8	88.9	100.0	405.6
Cash flow from operating activities	90.6	75.2	32.7	27.3	105.7
Cash flow	32.2%	25.2%	36.8%	27.3%	26.1%

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

SEK m	Sep 30, 2020	Sep 30, 2019	Dec 31, 2019
	Equity	619.2	574.0
Total assets	838.6	801.8	824.9
Equity/assets ratio	73.8%	71.6%	71.8%

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	Sep 30, 2020	Jun 30, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018
	Equity	619.2	601.1	592.0	574.0	540.2

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Average equity	605.6	562.0	610.2	557.1	571.0

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Profit after tax	47.4	61.2	18.7	21.6	81.2
Average equity	605.6	562.0	610.2	557.1	571.0
Return on equity	7.8%	10.9%	3.1%	3.9%	14.2%

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

SEK m	Sep 30, 2020	Jun 30, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018
	Interest-bearing liabilities	66.1	66.8	79.1	69.1	64.4
Cash and cash equivalents	-65.7	-56.7	-60.7	-57.4	-55.8	-106.1
Net interest-bearing liabilities	0.4	10.1	18.4	11.7	8.6	-103.3
Net debt/equity ratio	0.0	0.0	0.0	0.0	0.0	-0.2

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Profit before tax	62.3	79.8	24.9	28.8	107.0
Financial expenses	3.0	2.2	0.5	0.0	2.6
Profit before tax plus financial expenses	65.3	82.0	25.4	28.8	109.6
Return on capital employed	9.6%	14.1%	3.8%	4.6%	18.4%

Reconciliations, cont.

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

SEK m	Sep 30, 2020	Jun 30, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018
Cash and cash equivalents	65.7	56.7	60.7	57.4	55.8	106.1
Interest-bearing liabilities	-66.1	-66.8	-79.1	-69.1	-64.4	-2.8
Net cash	-0.4	-10.1	-18.4	-11.7	-8.6	103.3

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	Sep 30, 2020	Jun 30, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018
Total assets	838.6	834.8	824.9	801.8	770.8	722.2
Non-interest-bearing liabilities	-153.3	-167.0	-153.8	-158.7	-166.2	-169.4
Capital employed	685.3	667.8	671.1	643.1	604.6	522.8

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Average capital employed	678.2	583.0	676.6	623.9	597.0

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

SEK m	Sep 30, 2020	Dec 31, 2019	Sep 30, 2019
Equity	619.2	592.0	574.0
No. of shares at end of period, million	13.63	13.63	13.63
Equity per share	45.43	43.43	42.11

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2020	2019	2020	2019	2019
Cash flow from operating activities	90.6	75.2	32.7	27.3	105.7
Average no. of shares, million	13.63	13.62	13.63	13.63	13.63
Cash flow from operating activities per share	6.65	5.52	2.40	2.00	7.75

The IAR Systems share

I.A.R. 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 95.80 (217.00) to a high of SEK 193.40 (296.50). The share price at September 30, 2020 was SEK 161.00 (234.50). I.A.R. Systems Group's market capitalization on the same date was SEK 2,195m (3,196).

The number of shareholders in I.A.R. Systems Group at September 30, 2020 was 7,591 (7,509). Of these shareholders, 442 (412) held more than 1,000 shares each. Foreign shareholders held approximately 36% (32) of the share capital and 34% (31) of the votes.

I.A.R. Systems Group's share capital at September 30, 2020 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,534,140 are class B shares and 334,193 are class C shares. All of the class C shares are held in treasury. 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, 3,665 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 25,495 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.

INCENTIVE PROGRAMS

In accordance with the decision of the 2018 and 2019 AGM, a long-term incentive program for IAR Systems Group employees has been introduced ("LTIP 2018" and "LTIP 2019," respectively). The programs encompass 1,132,500 warrants. A total of 915,500 warrants were acquired or allocated, of which 497,500 were under LTIP 2018 and 418,000 under LTIP 2019. The incentive programs consist 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 2018, 2019 and 2020 financial years for LTIP 2018 and the 2019, 2020 and 2021 financial years for LTIP 2019. Refer to the table.

LTIP 2018

A premium of SEK 16.30 per warrant was paid for share warrants. The warrants, which carry the entitlement to subscribe for or acquire one class B share in the company during the period August 20 until September 17, 2021, have a subscription price of SEK 323.90 and an acquisition price of SEK 330.00.

LTIP 2019

A premium of SEK 11.17 per warrant was paid for share warrants. The warrants, which carry the entitlement to subscribe for or acquire one class B share in the company during the period May 1 until May 31, 2022, have a subscription and an acquisition price of SEK 347.70.

Exchange allotment 2018

This pertains to the part of remuneration for the acquisition that entails the exchange of an existing warrant program for employees in Secure Thingz. Stock option holders exchange their stock options in Secure Thingz for new stock options in I.A.R. Systems Group AB. The economic value of the new warrants is to correspond to the value of the existing warrants. A total of 575,000 warrants in Secure Thingz have been exchanged for 73,413 warrants in I.A.R. Systems Group AB in accordance with the approval from the Extraordinary General Meeting held on June 15, 2018. Of the 73,413 warrants, 27,450 have an exercise price of SEK 6.50 and 45,963 have an exercise price of SEK 26.00. The vesting of the warrants in the warrant program will continue until October 2022 and the program extends until 2027. Vested warrants can be exercised on an ongoing basis until 2027 at the latest. A total of 25,495 warrants were exercised in and 17,506 options were forfeited.

INCENTIVE PROGRAMS

	Total	Subscribed /Allotted	Qualifying year				Past due/ forfeited
			2018	2019	2020	2021	
LTIP 2018							
Share warrants	315,000	243,500	80,813	4,850	80,862	n/a	76,975
Stock options	285,000	254,000	56,314	3,380	56,366	n/a	137,940
LTIP 2019							
Share warrants	151,500	63,000	n/a	1,160	19,323	19,355	23,162
Stock options	381,000	355,000	n/a	5,330	88,816	88,874	171,980
EXCHANGE ALLOTMENT 2018							
Stock options	73,413	73,413	25,495	17,506	20,491	9,921	

2020 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of I.A.R. Systems Group AB was held on April 29, 2020. For information about the AGM and the resolutions passed, refer to the company's website: www.iar.com.

BREAKDOWN OF SHAREHOLDINGS

	No. of share holders	No. of share-holders, %	Share of capital, %	Share of votes, %
1-100	5,196	68	1	1
101-1 000	1,953	26	5	5
1,001-10,000	356	5	8	7
10,001-	86	1	86	87
Total *	7,591	100	100	100

* excluding 334,193 class C shares held in treasury

GEOGRAPHICAL DISTRIBUTION

	No. of share-holders	No. of share-holders, %	Share of capital, %	Share of votes, %
Sweden	7,368	97	64	66
Europe excl. Sweden	186	2	29	28
Other countries	37	1	7	6
Total *	7,591	100	100	100

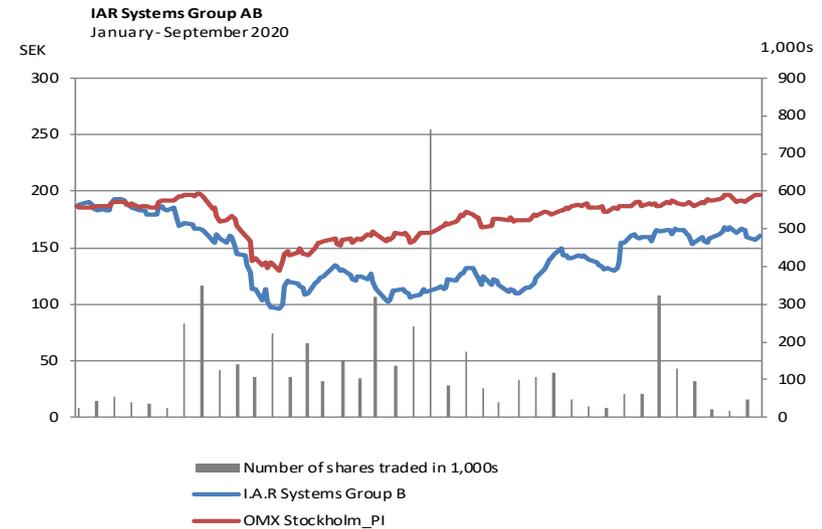
* excluding 334,193 class C shares held in treasury

LARGEST SHAREHOLDERS (VOTES)

	No. of shares	Share of capital, %	Share of votes, %
Andra AP-fonden	1,295,415	9	9
Första AP-fonden	1,176,506	9	8
Futur Pension**	244,795	2	8
Swedbank Robur Fonder	1,070,000	8	7
Ribbskottet AB	827,697	6	6
Other	9,019,727	66	62
Total *	13,634,140	100	100

* excluding 334,193 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 industry. Secure Thingz is a supplier of advanced security solutions with a focus on IoT. Together, the two companies deliver the solutions necessary to create essential security in a world of connected devices and products.

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 36 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 per-

formance, 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, both companies have together developed a 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. The following factors are likely to affect IAR Systems' growth:

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. New opportunities created by new players entering the market for embedded systems. One such player is Amazon Web Services (AWS), with whom IAR Systems has now entered into a collaboration.

5. 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.

6. 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. In 2019, IAR Systems released a new version of IAR Embedded Workbench for RISC-V supporting custom extensions and further optimizing code speed.

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. 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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