

**I.A.R. SYSTEMS GROUP AB**  
INTERIM REPORT JANUARY-MARCH 2021

**Q1**

# Q1 2021 – Growth in all regions

Net sales SEK 88.9m (92.3) MSEK, EBITDA SEK 29.8m (26.6)

## PROFIT SUMMARY

	3 months Jan-Mar		Full-year
	2021	2020	2020
SEK m			
Net sales	88.9	92.3	372.0
Operating expenses	-71.9	-77.9	-288.2
<b>Operating profit</b>	<b>17.0</b>	<b>14.4</b>	<b>83.8</b>
Loss from financial items	-0.6	-0.1	-7.0
<b>Profit before tax</b>	<b>16.4</b>	<b>14.3</b>	<b>76.8</b>
Tax	-3.6	-3.2	-17.4
<b>Profit for the period</b>	<b>12.8</b>	<b>11.1</b>	<b>59.4</b>

## JANUARY-MARCH 2021

- › EBITDA of SEK 29.8m (26.6), corresponding to an EBITDA margin of 33.5% (28.8)
- › Operating profit of SEK 17.0m (14.4), corresponding to an operating margin of 19.1% (15.6)
- › Profit before tax of SEK 16.4m (14.3)
- › Basic earnings per share of SEK 0.94 (0.81) and diluted earnings per share of SEK 0.94 (0.81)
- › Cash flow from operating activities of SEK 22.0m (15.0)
- › Net cash of SEK 3.0m (1.5) at the end of the quarter

## KEY PERFORMANCE MEASURES

	3 months Jan-Mar		Full-year
	2021	2020	2020
Gross margin, %	96.2	95.7	96.2
EBITDA margin, %	33.5	28.8	35.7
Operating margin, %	19.1	15.6	22.5
Cash flow, %	24.8	16.3	31.8
Net cash, SEK m	3.0	-24.4	1.5
No. of employees at end of period	212	224	215

## KEY EVENTS

The nominating committee announced a proposal that the Annual General Meeting on April 27, 2021 elect Nicolas Hassbjer as the new Board Chairman and Cecilia Wachtmeister as a new Board member. Current Chairman Maria Wasing has declined re-election.

# Q1 2021 – growth in all regions

## Growth in all regions

All regions delivered growth in the first quarter! Americas reported the most significant growth compared with the year-earlier period, and we are mainly seeing increased investments in new products and projects in the western US. In Asia, China reported the largest growth, with an increase of more than 200%, primarily based on the major establishment carried out in 2020 and increased customer demand for RISC-V products.

## Sales growth

%	Sales growth in local currency	Share of net sales
Americas	24%	34%
Asia	4%	30%
Europe	1%	36%
Group	6%	100%

The share of strategic transactions declined during the first quarter compared with the year-earlier period. Most of the transactions that we deem to be strategic extend for several years. This means that when we sign a strategic agreement in one year, we do not recognize recurring revenue until the next agreement period (usually within three to five years). This is the opposite of what happens in the transaction-based business, where the customer's licenses and support agreement are renewed on a yearly basis. Provided that the customer decides to keep the product, a strategic transaction generates as much recurring revenue, if not more, with a longer time horizon. In the coming year, we will continue to focus on strategic, multi-year agreements that consolidate the use of our products over a longer period of time, including a new focus on annual updates instead of updates spanning a number of years.

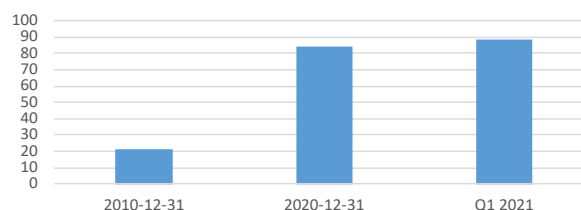
## Earnings positively impacted by ongoing efficiency improvements

Currency translation had a significant negative impact on our results for the quarter. Our earnings nevertheless improved as we shifted our focus toward greater digital marketing.

The share of customers signing agreements increased last year, and the effect of this became clear during the first quarter of this year in the form of an increase in accrued support revenue. Cash flow was also positively impacted by this increased share of support revenue, and we continued to report a strong cash flow despite the impact of the pandemic on sales.

We have noted increased demand for support and update agreements (SUAs) during the pandemic, and SUAs have gone from 40% to 65% of licenses sold over the past ten years.

## DEFERRED INCOME, SEKm

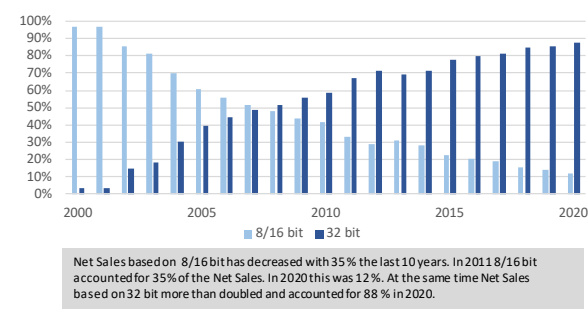


**Stability.** Deferred Income in the form of accrued support agreements has increased from 21 SEKm at the end of 2010 to more than 84 SEKm 10 years later. Most of this deferred income will be recognized the following year. The deferred income at the end of 2010 accounted for 9 % of Net Sales in 2011. The corresponding share 2020 was 23 % of Net Sales.

## Products and technology

We launched a new version of our product for Arm-based processors during the quarter, and we have now moved on to a more advanced offering for 64-bit processors. Our product for Arm-based processors – a 32-bit offering that has growing significantly in the past ten years – currently accounts for nearly 80% of our sales. The launch of a 64-bit offering is important for us, particularly when it comes to heavier applications/products for which a better performance is required – for example, in the automotive industry, ML and AI. We saw an increase in demand and sales shortly after the launch, which is an important signal for a new product.

## NET SALES 8/16 AND 32 BIT



As customer interest in Arm has grown, demand for 8- and 16-bit products has declined. The availability of processors in these categories has also been affected by the consolidation among processor vendors in recent years.



In many cases, a merger between processor vendors also means a merger of different processor technologies. For us, this means that demand for products that support these processors decreases.

Sales of the new RISC-V architecture increased during the first quarter. Both customers and processor vendors are investing in the new architecture, primarily in consumer electronics. Sales of security products declined during the first quarter, mainly because the sales process for these products is longer than for development tools, and demand is volatile. The main demand continues to be for products for secure development, specifically for processors from Renesas.

In recent years, we have launched a number of add-on products in response to clear demand from our customers. The average transaction has nearly doubled in size, largely as a result of additional sales of add-on products to existing customers. Our add-on products are the only products that have not been negatively impacted by the pandemic, which reinforces our belief that we will be able to continue increasing our average transaction.

During the quarter, we launched updated versions of the tools for our products for secure development. We are experiencing a stable, albeit low, level of demand that will increase as regulations are implemented worldwide. When it comes to products and our recent launches, our focus during the year will be on meeting customer needs to protect their products from code theft and overproduction of programmed products. Our offering in this application area is important in terms of scalability, since the offering – and its license-based business model – is a prerequisite for the more profitable royalty-based business related to programming and updating products.

### **Effects of the pandemic on the operations**

The global pandemic has impacted all of our markets to varying degrees as our customers have shifted from working at the office to working from home. We are continuing to see increased demand for licenses suited to remote virtual development as well as products that improve the customer's development efficiency. During the second and third waves of the pandemic, we have seen a growing share of projects being postponed or canceled as the world waits for the effects of the pandemic to stabilize. This has mainly impacted resources in the form of availability and the scope of project staffing. As the willingness to invest has increased, a shortage of components in the electronic industry has also resulted in delayed investment decisions and decisions regarding the application of new processors. Throughout the pandemic, we have learned to plan for these delayed decisions, but delays in our customers' evaluations of processors also impact their purchasing processes. There is a shortage of components and evaluation kits, which is prolonging our normally short sales cycle.

### **Summary**

We expect the effects of the pandemic to continue during the second quarter and into the third. Only toward the end of the year will vaccinations create the conditions for a stable market and customer behavior. We have adapted our business model to include more digital marketing and have a clear focus on the products where we are seeing the greatest demand.

The growth in new users among our existing customers in recent years is an important driver, even though new customers offer greater financial value through their initial investment in new products. A higher number of users represents an important marketing channel for our new products since we currently almost exclusively reach customers via digital channels. In addition to generating a higher value per transaction, focusing on new customers is important since the sales cycle is often shorter for new customers and is often driven by time-to-market.

In summary, our ambition is to grow! More users, more customers, more licenses sold and learning more about how customers apply our new product areas, such as security products, RISC-V and 64-bit. In geographic terms, our main goal is to boost our sales in Americas and China through strong local growth. Over the past year, we have become stronger and having to keep our distance has reconfirmed our conviction that growth is our common goal.



**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 both our offering and our 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 and how we can maintain the strength of our current business model with an expanded target group and new markets.

## **New and improved 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. Our initial plan for 4.0 was largely shelved as the pandemic spread across the world. The conditions for recruiting, opening new offices and managing new and existing customers changed quickly. Instead, we were forced to tackle new challenges and adopt a more short-term approach than we had hoped. We are now renewing our efforts and, despite the pandemic, we were able to recruit new employees, establish offices and successfully launch several new products in 2020. Our new goal for 4.0 is to further clarify our ambition both internally and externally, to more clearly demonstrate the potential of a supplemented business model in security solutions and, finally, to clearly express our aim to work even more collaboratively to achieve a common goal. We have established an ambition for each component, but are using six prioritized markets and a more specific selection of products from our

broad portfolio to clarify these objectives. In doing so, our aim is to create a long-term model and growth opportunities through an increased collective participation with customers, partners and employees. In brief, our ambitions for the three components are as follows:

### **Product portfolio**

After a few years of major investments, we now have the products we need. We carried out 26 product launches in 2020, compared with ten in 2019. This means that we will be in a better position in 2021 than we were at the start of 2020. We will be able to retain our focus on the major product areas that we have invested in, supplemented with a higher ambition for our development tool, IAR Embedded Workbench, which accounts for more than 90% our sales.

### **Market**

We have identified six prioritized markets, mainly with a geographic focus on Asia and the USA, but also broken down into smaller regions with significant growth potential. Our aim is to continue focusing on certain, more technology-oriented markets by complementing the geographic markets with new technological areas for security and RISC-V as well as technology with significant growth potential. 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 2021 involves a combination of new areas and refining existing areas. We expect to have more opportunities to recruit key employees, particularly in the second half of 2021. This includes building a lean and efficient sales organization for our security offering and a generally expanded sales organization. Naturally, we have chosen to continue refining our use of digital marketing, and our large customer base of developers will help us in this regard.

### **Supplemented business model**

Our security offering has added new opportunities to our business model. Over the years, our business model has been based on a license-based model, with licenses for using and updating products. Licenses are personal and available in various forms, depending on the customer's IT environment. Under our business model, the fact that the product the customer uses the code for is produced in small or large volumes does not create added value. We therefore target developers, and a positive driver for us is when a developer becomes a loyal user and begins using more of our licensed products.

### **Business model: Security offering**

Our security offering is based on a process that ensures that both the code and the final product are secure for our customers and our customers' customers. The process for this starts with developers developing the code based on our security offering, wherein we create both a model and a framework for secure development, production and updates. In this phase of our security offering, our business model focuses on license-based products. When the developer is finished with the code, the final product is programmed. This programming takes place via encrypted code per processor. At this stage, our solution includes a service that utilizes the technology and certificates we have embedded in the code, which requires that each processor is unique.

This service has a royalty-based business model and is provided through a collaboration between us, the customer and the programming partner selected by the customer. This means that with this service, unlike with a license-based business model, we have an interest in ensuring that the product that the customer develops is produced in large volumes.

The final phase of our security offering also involves a service whereby we offer the customer the opportunity to update the final product. This phase also takes place through a collaboration between us, the customer and the partner selected by the customer to update the product. This is usually a cloud service provider with a solid infrastructure for updating products wirelessly over a mobile network. Our main focus is on the initial phase of this process, namely secure development, where we also have a large customers base. We are adding a new target group comprising the heads of security for our customers' development projects, with responsibility for policies, guidelines decisions. Major potential can of course be found in the repetitive process, which is where we gain leverage in terms of manufactured and updated products.

### **Summary**

We are the market leader, we are financially strong, and we have never had more opportunities. Although the pandemic changed our focus in the short term, it also made us significantly stronger, clearer and more aware that we want to grow. Grow in our awareness of our potential, grow our offering, grow in terms of the strength of our existing organization and, above all, grow together. 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.

# Our product offering

Our products facilitate, streamline and quality-assure the development of embedded systems. We collaborate with a number of partners in many different areas to consistently provide customers with a complete solution. We always focus on and listen to customers' needs in order to update our offering in a way that satisfies their requirements and needs.

## **IAR Embedded Workbench**

All digital products have an embedded system controlled by one or more processors. Development tools are required to help developers program these processors so that they work correctly and fulfill their function. IAR Embedded Workbench is a complete software for programming processors in embedded systems in an efficient and quality-assured manner.

### **8-, 16-, 32-bit**

Processor architectures vary in complexity and size.

8-, 16- and 32-bit define the amount of code and data the processor can address.

IAR Embedded Workbench supports 8-, 16- and 32-bit processors from the majority of processor vendors, which ensures it has a unique position in the market. IAR Embedded Workbench is available in over 20 different versions in order to match different types of processors. It is continually updated with improved functionality and support for new processors.

### **Products for 64-bit processors**

As of 2021, IAR Embedded for Arm supports 64-bit processors. In the embedded industry, more and more applications are being based on 64-bit cores, specifically within low-power applications, deeply embedded and handheld devices. In these application areas, IAR Embedded Workbench has a strong foothold and is the toolchain of choice for many companies to reach maximum performance and energy efficiency.

## **Solutions for security in embedded systems**

Together, IAR Systems and Secure Thingz offer possibilities for new security solutions.

The companies share a vision of making security and safety accessible in an easy and sustainable manner. Using the products Embedded Trust and C-Trust, it will be easier and more efficient to implement security in embedded systems. These products enable companies to ensure that their intellectual property is protected against overproduction and piracy, that software updates can be managed in a secure manner and that end users of the company's products are protected against sabotage programs and data intrusion. With Embedded Trust, companies that have a security specialist, or someone with the necessary know-how, are able to set security guidelines, configurations and settings themselves, in accordance with the security policy of their company.

C-Trust is an extension of IAR Embedded Workbench that makes it possible for developers to easily prepare secure, encrypted code that automatically follows the prevailing general security guidelines.

We support customers throughout the entire process with the comprehensive solution Security from Inception Suite, which includes both software and security services. In 2020, we expanded this offering to include the product Secure Desktop Provisioner, which makes it easy to securely program products by giving each device a unique identity. Through this offering, we provide our customers with an opportunity to develop and expand the competence that they require in order to implement security in their operations at an early stage. Our comprehensive solution is available at different levels depending on the needs of the customer.

## **Add-on products**

What all add-on products for IAR Embedded Workbench have in common is that they facilitate the work of the developer and are a natural part of the work flow. The add-on products C-STAT and C-RUN are fully integrated into IAR Embedded Workbench and enable the code to be quality-assured at an early stage. Instead of carrying out code analyses exclusively at the end of the development process, these analysis tools provide a complete code analysis naturally integrated into day-to-day work as well as full control over the code throughout the entire process.

### **Build tools for Linux**

An important part of developing embedded systems is compiling code, when the written code is translated to instructions that a processor can understand and carry out. Many companies choose to compile their code in a server environment, often based on Linux.

IAR Systems' build tools for Linux, which launched in 2020, support the implementation of automated application build and test processes in Linux-based server environments.

# Financial information

## NET SALES

### Q1 2021 Net sales

Net sales for the quarter decreased year-on-year and amounted to SEK 88.9m (92.3), distributed as follows: SEK 88.6m (91.4) from development tools and SEK 0.3m (0.9) from security solutions.

All markets reported local growth, with Americas and China accounting for the largest change in percent. However, currency translation had a negative impact of SEK 8.9m on net sales for the quarter, with lower recognized sales compared with the corresponding quarter in the preceding year.

### Deferred income March 31, 2021

Deferred income in the form of accrued support agreements increased by SEK 3.9m during the quarter and amounted to SEK 88.2m (84.3) at March 31, 2021. Of these accrued support agreements, 84% is expected to be recognized as income during 2021, which amounts to SEK 74.4m.

## EARNINGS

### Q1 2021 Earnings

Earnings in the first quarter of the year increased compared with the corresponding quarter in the preceding year. EBITDA for the quarter totaled SEK 29.8m (26.6), corresponding to an EBITDA margin of 33.5% (28.8). Operating profit for the quarter amounted to SEK 17.0m (14.4).

Operating expenses were reduced by SEK 20.3m (23.1) during the quarter through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 16.8m (19.3) pertained to personnel costs.

Compared with the corresponding quarter in the preceding year, the operations shifted focus to more efficient digital marketing, allowing them to retain their relationships with customers while also cutting travel costs, which had a positive impact on operating profit.

In a year-on-year comparison, currency translation had a negative impact of SEK 5.4m on operating profit.

## INVESTMENTS AND FINANCING

During the first quarter of 2021, we focused on investments in our major product areas. Investments in software during the quarter totaled SEK 20.3m (23.1). A large portion of the investments was in foreign currencies, which entailed foreign exchange effects upon conversion to SEK.

Investments in property, plant and equipment for the quarter totaled SEK 0.4m (0.3).

The bank overdraft facility is recognized in the consolidated balance sheet as liabilities to credit institutions and amounted to SEK 17.8m (17.5) on March 31, 2021. The bank overdraft facility is issued in SEK. The unutilized credit margin at March 31, 2021 amounted to SEK 207.2m (207.5).

Other interest-bearing liabilities in balance sheet pertain to current and non-current lease liabilities and amounted to SEK 46.0m (48.8) at March 31, 2021. Lease liabilities recognized in the balance sheet pertain to commitments for leases and the largest portion, SEK 43.5m (45.8), is connected to leases for our offices.

The equity/assets ratio at March 31, 2021 was 75% (74).



## CASH FLOW AND LIQUIDITY

Cash flow from operating activities for the quarter amounted to SEK 22.0m (15.0). Our customers' ability to pay remained adequate during the first quarter of 2021, and we have not noted any negative effects on cash flow as a result of the pandemic.

Cash flow from investing activities for the quarter totaled SEK -20.6m (-23.1). Most of these investments pertain to the capitalization of development costs for software.

Cash flow from financing activities for the quarter amounted to SEK -4.1m (1.1). Cash flow from financing activities during the quarter comprised the net of the utilization of the bank overdraft facility and amortization of lease liabilities.

### Cash and cash equivalents

Cash and cash equivalents at the end of the quarter totaled SEK 66.8m (67.8). In addition, the Group had unutilized bank overdraft facilities of SEK 207.2m (207.5). The Group's total available cash and cash equivalents thus amounted to SEK 274.0m (275.3). At the end of the quarter, the company had healthy margins in terms of the contractual covenants that form the basis for the above credit limits.

As of March 31, 2021, the Group had net cash of SEK 3.0m (1.5).

## EMPLOYEES

The number of employees in IAR Systems at the end of the quarter was 212 (215). The average number of employees during the quarter was 202 (213).

## 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 quarter amounted to SEK 3.3m (3.0). Profit after financial items amounted to SEK 4.1m (-0.2).

Net investments in property, plant and equipment amounted to SEK 0.0m (0.0). Cash and cash equivalents at March 31, 2021 totaled SEK 0.6m (0.6). The number of employees in the Parent Company at the end of the period was three (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 2020 annual report under "Administration report" on pages 48-49 and in Note 2 on pages 65-67.

## FUTURE OUTLOOK

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

## REVIEW

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

## FINANCIAL CALENDAR 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, through the agency of the contact person set out below, on April 27, 2021 1:00 p.m. CEST.**

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

# Income statement

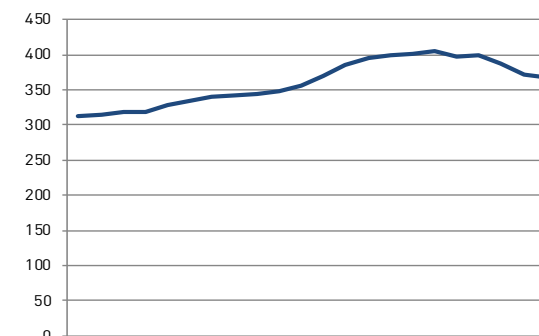
## CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	3 months Jan-Mar		Full-year
		2021	2020	2020
Net sales	1, 2	88.9	92.3	372.0
Goods for resale		-3.4	-4.0	-14.1
Other external expenses		-7.4	-13.8	-37.7
Personnel costs		-48.3	-47.9	-187.5
Depreciation of property, plant and equipment		-0.6	-0.7	-3.1
Depreciation of right-of-use assets		-4.3	-4.2	-17.2
Amortization of intangible assets		-7.9	-7.3	-28.6
<b>Operating profit</b>		<b>17.0</b>	<b>14.4</b>	<b>83.8</b>
Financial income		0.0	0.4	0.5
Financial expenses		-0.6	-0.5	-7.5
<b>Profit before tax</b>		<b>16.4</b>	<b>14.3</b>	<b>76.8</b>
Tax		-3.6	-3.2	-17.4
<b>Profit for the period</b>		<b>12.8</b>	<b>11.1</b>	<b>59.4</b>
Comprehensive income for the period attributable to owners of the Parent Company		12.8	11.1	59.4
Earnings per share for the period, basic, SEK		0.94	0.81	4.35
Earnings per share for the period, diluted, SEK		0.94	0.81	4.35

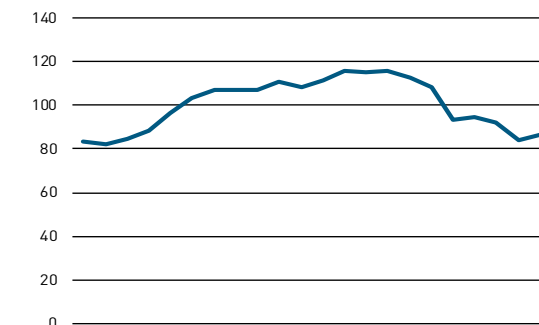
## STATEMENT OF COMPREHENSIVE INCOME

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Profit for the period	12.8	11.1	59.4
<b>Other comprehensive income for the period</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences	35.5	11.7	-41.4
Tax effect, items reported in comprehensive income	-2.0	-	2.2
Total other comprehensive income	33.5	11.7	-39.2
<b>Comprehensive income for the period</b>	<b>46.3</b>	<b>22.8</b>	<b>20.2</b>
Comprehensive income for the period attributable to owners of the Parent Company	46.3	22.8	20.2

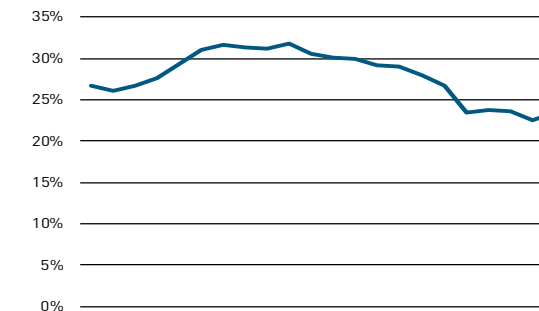
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS



# Balance sheet

## CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Mar 31, 2021	Mar 31, 2020	Dec 31, 2020
<b>ASSETS</b>				
Non-current assets				
Goodwill	3	351.7	362.1	332.7
Other intangible assets	4	272.0	229.6	244.0
Property, plant and equipment		7.6	7.4	7.5
Right-of-use assets		44.0	53.8	46.9
Financial assets	7	2.9	2.5	2.9
Deferred tax assets	5	3.4	7.7	3.5
Total non-current assets		681.7	663.1	637.5
Current assets				
Inventories		7.1	7.8	5.7
Other current assets	7	67.4	56.3	63.8
Trade receivables	7	61.4	64.5	58.7
Cash and cash equivalents	7	66.8	57.4	67.8
Total current assets		202.7	186.0	196.0
<b>TOTAL ASSETS</b>		<b>884.4</b>	<b>849.1</b>	<b>833.5</b>
<b>EQUITY AND LIABILITIES</b>				
Total equity		659.9	615.2	613.4
Non-current liabilities				
Lease liabilities	7	28.6	38.6	31.7
Other non-current liabilities		1.2	1.1	1.1
Deferred tax liabilities		36.8	27.5	37.2
Total non-current liabilities		66.6	67.2	70.0
Current liabilities				
Trade payables	7	6.9	6.8	5.0
Liabilities to credit institutions	7	17.8	30.2	17.5
Lease liabilities	7	17.4	13.0	17.1
Deferred income		88.2	89.0	84.3
Other current liabilities	7	27.6	27.7	26.2
Total current liabilities		157.9	166.7	150.1
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>884.4</b>	<b>849.1</b>	<b>833.5</b>

## CHANGES IN EQUITY, GROUP

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Equity at beginning of period	613.4	592.0	592.0
Share buybacks	-	-	-
Warrants, after deductions for transaction costs and tax	0.1	-	0.1
Value of share-based remuneration	0.1	0.4	1.1
Dividend	-	-	-
Comprehensive income for the period	46.3	22.8	20.2
<b>Equity at end of period</b>	<b>659.9</b>	<b>615.2</b>	<b>613.4</b>
Of which, attributable to owners of the Parent Company	659.9	615.2	613.4

# Cash flows

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months Jan-Mar		Full-year
SEK m	2021	2020	2020
Incoming payments from customers	85.3	93.5	378.4
Outgoing payments to suppliers and employees	-57.1	-70.7	-250.4
Interest received	0.0	0.0	0.1
Interest paid	-0.4	-0.5	-1.8
Tax relief received	-	-	18.8
Income taxes paid	-5.8	-7.3	-26.7
Cash flow from operating activities	22.0	15.0	118.4
Investments in property, plant and equipment	-0.4	-0.3	-3.2
Investments in intangible assets	-20.2	-22.8	-78.2
Investments in subsidiaries	-	-	-
Cash flow from investing activities	-20.6	-23.1	-81.4
Warrants, after deductions for transaction costs	0.1	-	0.1
Amortization of financial liabilities	-4.5	-4.2	-30.2
Borrowings	0.3	5.3	5.5
Dividend	-	-	-
Cash flow from financing activities	-4.1	1.1	-24.6
Cash flow for the period	-2.7	-7.0	12.4
Cash and cash equivalents at beginning of period	67.8	60.7	60.7
Exchange difference in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of period	1.8	3.7	-4.3
- attributable to cash flow for the period	-0.1	0.0	-1.0
Cash and cash equivalents at end of period	66.8	57.4	67.8

## CASH AND CASH EQUIVALENTS, GROUP

SEK m	Mar 31, 2021	Mar 31, 2020	Dec 31, 2020
Cash and cash equivalents at end of period	66.8	57.4	67.8
Unutilized overdraft facilities	207.2	194.8	207.5
Total available cash and cash equivalents	274.0	252.2	275.3

## Key performance measures

### GROUP

	3 months Jan-Mar		Full-year
	2021	2020	2020
Gross margin, %	96.2	95.7	96.2
EBITDA, %	33.5	28.8	35.7
Operating margin, %	19.1	15.6	22.5
Profit margin, %	18.5	15.5	20.6
Cash flow, %	24.8	16.3	31.8
Equity/assets ratio, %	74.6	72.5	73.6
Return on equity, %	2.0	1.8	9.9
Return on capital employed, %	2.4	2.2	12.5
Capital employed, SEK m	723.7	697.0	679.7
Net cash, SEK m	3.0	-24.4	1.5
Net debt/equity ratio, multiple	-0.0	0.0	-0.0
No. of employees at end of period	212	224	215
Average no. of employees	202	213	208
Sales per employee, SEK m	0.4	0.4	1.8

### SHARE DATA

	3 months Jan-Mar		Full-year
	2021	2020	2020
Equity per share, SEK	48.38	45.14	44.97
No. of shares at end of period, million	13.64	13.63	13.64
Average no. of shares, million	13.64	13.63	13.63
Average no. of shares, diluted, million	13.65	13.66	13.65
Cash flow from operating activities per share, SEK	1.61	1.10	8.69
Earnings per share, SEK*	0.94	0.81	4.35
Earnings per share, diluted, SEK*	0.94	0.81	4.35

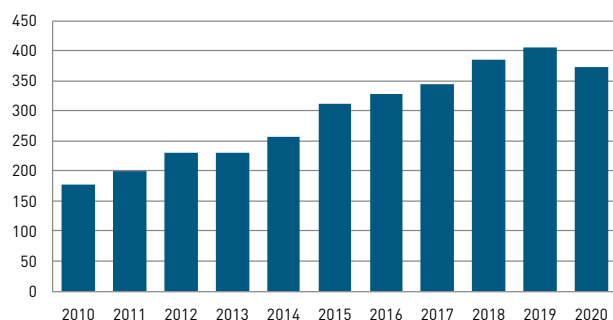
\*Definition in accordance with IFRS. Refer also to definitions on page 20.

# Multi-year overview

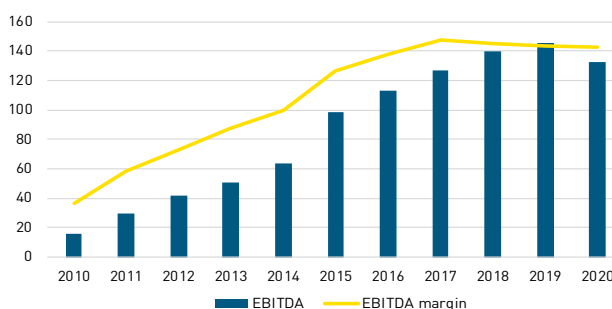
	Net sales, SEK m	EBITDA, SEK m	EBITDA margin, % profit, SEK m	Operating margin, %	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2020	372.0	132.7	35.7	83.8	22.5	4.35	9.9	8.69	44.97	139.80	1,906
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.

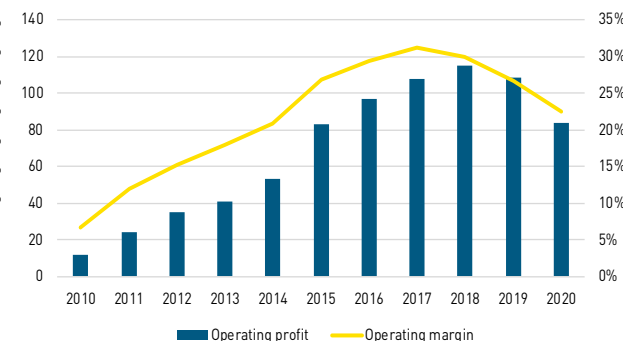
## NET SALES



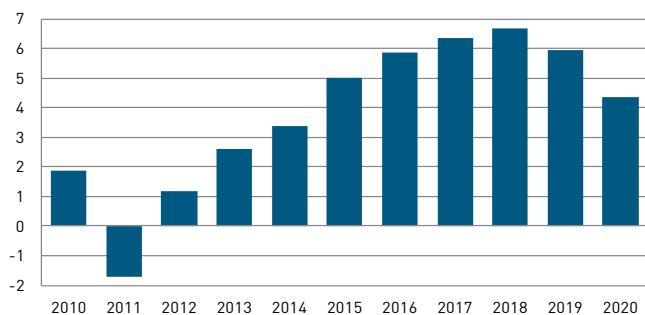
## EBITDA AND EBITDA MARGIN



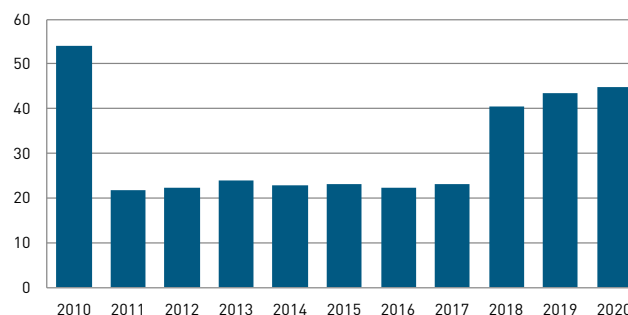
## OPERATING PROFIT AND OPERATING MARGIN



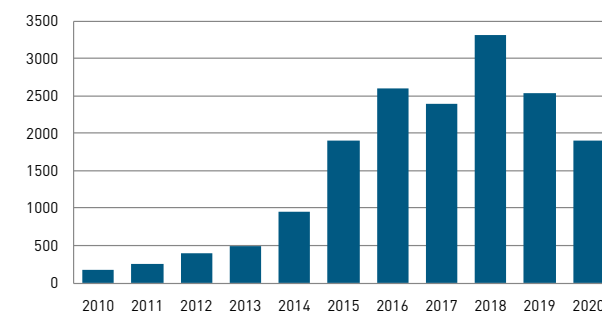
## EARNINGS PER SHARE, SEK



## 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
2021	Q1	88.9	29.8	33.5	17.0	19.1	0.94	2.0	1.61	48.38	132.40	1,806
2020	Q4	90.7	32.5	35.8	19.0	20.9	0.88	1.9	2.04	44.97	139.80	1,906
	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

	3 months Jan-Mar		Full-year
SEK m	2021	2020	2020
Net sales	3.3	3.0	13.0
Operating expenses	-8.9	-4.5	-19.1
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-5.6	-1.5	-6.1
Profit from financial items	9.7	1.3	61.8
Profit/loss before tax	4.1	-0.2	55.7
Tax	-1.0	0.0	-11.9
Profit/loss for the period	3.1	-0.2	43.8

## STATEMENT OF COMPREHENSIVE INCOME

	3 months Jan-Mar		Full-year
SEK m	2021	2020	2020
Profit/loss for the period	3.1	-0.2	43.8
<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	-	-	-
Total other comprehensive income	-	-	-
Comprehensive income for the period	3.1	-0.2	43.8

## CONDENSED BALANCE SHEET

SEK m	Mar 31, 2021	Mar 31, 2020	Dec 31, 2020
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	0.2	0.1	0.2
Shares in subsidiaries	481.2	480.1	481.2
Other financial assets	0.1	0.1	0.1
Deferred tax assets	0.0	0.0	0.0
Total non-current assets	481.5	480.3	481.5
Current assets			
Receivables from subsidiaries	138.7	104.5	116.6
Other current assets	12.7	7.3	8.9
Cash and cash equivalents	0.6	1.3	0.6
Total current assets	152.0	113.1	126.1
<b>TOTAL ASSETS</b>	<b>633.5</b>	<b>593.4</b>	<b>607.6</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	560.1	511.9	557.0
Current liabilities			
Trade payables	0.6	0.3	0.3
Liabilities to credit institutions	17.8	30.2	17.5
Liabilities to subsidiaries	50.3	48.8	27.0
Other current liabilities	4.7	2.2	5.8
Total current liabilities	73.4	81.5	50.6
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>633.5</b>	<b>593.4</b>	<b>607.6</b>



# Notes

## 1. ACCOUNTING POLICIES

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

The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report. New or revised 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, 2021 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.

## 2. NET SALES

Net sales are distributed as follows:

	3 months Jan-Mar		Full-year
SEK m	2021	2020	2020
Development tools	88.6	91.4	367.0
Security solutions	0.3	0.9	5.0
<b>Net sales</b>	<b>88.9</b>	<b>92.3</b>	<b>372.0</b>

	3 months Jan-Mar		Full-year
SEK m	2021	2020	2020
License-based revenue	50.1	50.5	212.4
Support and software updates	34.7	37.5	145.2
Other	4.1	4.3	14.4
<b>Net sales</b>	<b>88.9</b>	<b>92.3</b>	<b>372.0</b>

At a certain point in time	54.2	54.8	226.8
Over time	34.7	37.5	145.2
<b>Net sales</b>	<b>88.9</b>	<b>92.3</b>	<b>372.0</b>

	3 months Jan-Mar		Full-year
SEK m	2021	2020	2020
Americas	29.7	30.0	132.0
Asia	26.5	27.3	101.9
Europe	32.3	34.6	135.5
Not allocated by region	0.4	0.4	2.6
<b>Net sales</b>	<b>88.9</b>	<b>92.3</b>	<b>372.0</b>

## 3. GOODWILL

Goodwill increased by SEK 19.0m 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. Goodwill at March 31, 2021 amounted to SEK 351.7m (332.7).

## 4. OTHER INTANGIBLE ASSETS

Other intangible assets increased SEK 28m during the year and amounted to SEK 272.0m (244.0) on March 31, 2021. Operating expenses were reduced by SEK 20.3m (23.1) during the period through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 16.8m (19.3) 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 March 31, 2021, the Group had accumulated loss carryforwards outside Sweden of SEK 172, of which SEK 104 (91) are recognized in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 3.4m (3.5), and the deferred tax liability is recognized in an amount of SEK 36.8m (37.2), of which SEK 17.9m (15.4) 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. The tax relief payment in the UK for 2021 connected to research and development costs is estimated at approximately SEK 11.0m (18.8). The payment reduced aggregate loss carryforwards by an equivalent amount.

## Notes, cont.

### 6. PLEDGED ASSETS

SEK m	Mar 31, 2021	Mar 31, 2020	Dec 31, 2020
To secure pensions	14,4	8,2	9.1
To secure liabilities to credit institutions	2,5	3,2	2.9
<b>Total pledged assets</b>	<b>16,9</b>	<b>11,4</b>	<b>12.0</b>

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 year.

## 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	3 months Jan-Mar		Full-year
	2021	2020	2020
Net sales	88.9	92.3	372.0
Goods for resale	-3.4	-4.0	-14.1
Gross profit	85.5	88.3	357.9
Gross margin	96.2%	95.7%	96.2%

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

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Operating profit	17.0	14.4	83.8
Depreciation of property, plant and equipment	0.6	0.7	3.1
Depreciation of right-of-use assets	4.3	4.2	17.2
Amortization of intangible assets	7.9	7.3	28.6
EBITDA	29.8	26.6	132.7

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

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Net sales	88.9	92.3	372.0
EBITDA	29.8	26.6	132.7
EBITDA margin	33.5%	28.8%	35.7%

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

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Net sales	88.9	92.3	372.0
Operating profit	17.0	14.4	83.8
Operating margin	19.1%	15.6%	22.5%

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

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Net sales	88.9	92.3	372.0
Profit before tax	16.4	14.3	76.8
Profit margin	18.4%	15.5%	20.6%

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

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Net sales	88.9	92.3	372.0
Cash flow from operating activities	22.0	15.0	118.4
Cash flow	24.7%	16.3%	31.8%

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

SEK m	Mar 31, 2021	Mar 31, 2020	Dec 31, 2020
	2021	2020	2020
Equity	659.9	615.2	613.4
Total assets	884.4	849.1	833.5
Equity/assets ratio	74.6%	72.5%	73.6%

**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	Mar 31, 2021	Dec 31, 2020	Mar 31, 2020	Dec 31, 2019
	2021	2020	2020	2019
Equity	659.9	613.4	615.2	592.0

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Average equity	636.7	603.6	602.7

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

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Profit after tax	12.8	11.1	59.4
Average equity	636.7	603.6	602.7
Return on equity	2.0%	1.8%	9.9%

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

SEK m	Mar 31, 2021	Dec 31, 2020	Mar 31, 2020	Dec 31, 2019
	2021	2020	2020	2019
Interest-bearing liabilities	63.8	66.3	81.8	79.1
Cash and cash equivalents	-66.8	-67.8	-57.4	-60.7
Net interest-bearing liabilities	-3.0	-1.5	24.4	18.4
Net debt/equity ratio	-0.0	-0.0	0.0	0.0

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

SEK m	3 months Jan-Mar		Full-year
	2021	2020	2020
Profit before tax	16.4	14.3	76.8
Financial expenses	0.6	0.5	7.5
Profit before tax plus financial expenses	17.0	14.8	84.3
Return on capital employed	2.4%	2.2%	12.5%

## Reconciliations, cont.

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

SEK m	Mar 31, 2021	Dec 31, 2020	Mar 31, 2020	Dec 31, 2019
Cash and cash equivalents	66.8	67.8	57.4	60.7
Interest-bearing liabilities	-63.8	-66.3	-81.8	-79.1
<b>Net cash</b>	<b>3.0</b>	<b>1.5</b>	<b>-24.4</b>	<b>-18.4</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	Mar 31, 2021	Dec 31, 2020	Mar 31, 2020	Dec 31, 2019
Total assets	884.4	833.5	849.1	824.9
Non-interest-bearing liabilities	-160.7	-153.8	-152.1	-153.8
<b>Capital employed</b>	<b>723.7</b>	<b>679.7</b>	<b>697.0</b>	<b>671.1</b>

SEK m	3 months 2021	Jan-Mar 2020	Full-year 2020
Average capital employed	701.7	684.0	675.4

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

SEK m	Mar 31, 2021	Dec 31, 2020	Mar 31, 2020	Dec 31, 2019
Equity	659.9	613.4	615.2	592.0
No. of shares at end of period, million	13.64	13.64	13.63	13.63
<b>Equity per share</b>	<b>48.38</b>	<b>44.97</b>	<b>45.14</b>	<b>43.43</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	3 months 2021	Jan-Mar 2020	Full-year 2020
Cash flow from operating activities	22.0	15.0	118.4
Average no. of shares, million	13.64	13.63	13.63
<b>Cash flow from operating activities per share</b>	<b>1.61</b>	<b>1.10</b>	<b>8.69</b>

# 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 quarter, the share price varied from a low of SEK 123.00 [95.80] to a high of SEK 166.00 [193.40]. The share price at March 31, 2021 was SEK 132.40 [116.40]. I.A.R. Systems Group's market capitalization on the same date was SEK 1,806m [1,587].

The number of shareholders in I.A.R. Systems Group at March 31, 2021 was 7,823 [7,258]. Of these shareholders, 476 [422] held more than 1,000 shares each. Foreign shareholders held approximately 27% [34] of the share capital and 25% [32] of the votes.

I.A.R. Systems Group's share capital at March 31, 2021 amounted to SEK 139,683,334, divided between 13,968,334 shares, of which 100,000 are class A shares, 13,540,974 are class B shares and 327,359 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 quarter, 4,815 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 32,329 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buyback 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 stock option 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 stock options is to correspond to the value of the existing stock options. A total of 575,000 stock options in Secure Thingz have been exchanged for 73,413 stock options 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 stock options, 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 stock options in the stock option program will continue until October 2022 and the program extends until 2027. Vested stock options can be exercised on an ongoing basis until 2027 at the latest. A total of 32,329 stock options were exercised and 20,621 stock options were forfeited.

## INCENTIVE PROGRAMS

			Qualifying year				Past due/ forfeited
	Total	Subscribed /Allotted	2018	2019	2020	2021	
LTIP 2018							
Share warrants	315,000	243,500	80,813	4,850	0	n/a	157,837
Stock options	285,000	254,000	55,648	3,380	0	n/a	194,678
LTIP 2019							
Share warrants	151,500	63,000	n/a	1,160	0	19,355	42,485
Stock options	381,000	355,000	n/a	5,370	0	89,541	260,089
EXCHANGE ALLOTMENT 2018	Total	Sub- scribed/ Allocated	Exercised Mar 31, 2021	Forfeited Mar 31, 2021	Qualified Mar 31, 2021	Qualified after Mar 31, 2021	
Stock options	73,413	73,413	32,329	20,621	14,776	5,687	

## 2021 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of I.A.R. Systems Group AB will be held on April 27, 2020.

Due to Covid-19, the Board has decided that the AGM will be held without physical attendance by shareholders, proxies or outside parties, and that shareholders will only be entitled to exercise their voting rights via post ahead of the meeting. Information regarding the resolutions passed by the AGM will be published on April 27, 2021 as soon as the results of the postal voting have been finalized.

As of the end of March 2020, the annual report for I.A.R. Systems Group is available on the company's website, [www.iar.com](http://www.iar.com), and at the company's offices at Kungsgatan 33 in Stockholm and Strandbodgatan 1 in Uppsala.

## NOMINATING COMMITTEE

In accordance with the resolution of the AGM in April 2020, the nominating committee has been appointed and consists of Jonas Eixmann (appointed by Andra AP-fonden), Ossian Ekdahl (appointed by Första AP-fonden) and Evert Carlsson (appointed by Swedbank Robur Fonder). Jonas Eixmann was appointed Chairman of the nominating committee. The nominating committee's proposals for the 2020 AGM are available on the company's website, [www.iar.com](http://www.iar.com).

## PROPOSED DIVIDEND

The Board of Directors intends to propose to the AGM on April 27, 2021 that no dividend be paid. The Board based this proposal on the fact that it will enable the company's growth strategy to be accelerated.

The Board aims to provide a healthy return to its shareholders, while ensuring that its investments in the operations can be made, as they have been thus far, with the goal of ensuring a strong capital structure, favorable liquidity and financial flexibility by maintaining a conservative level of indebtedness.

## BREAKDOWN OF SHAREHOLDINGS

	No. of share-holders	No. of share-holders, %	Share of capital, %	Share of votes, %
1-500	6,943	89	4	4
501-1,000	404	5	2	2
1,001-10,000	387	5	8	8
10,001-	89	1	86	86
<b>Total *</b>	<b>7,823</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* excluding 327,359 class C shares held in treasury

## GEOGRAPHICAL DISTRIBUTION

	No. of share-holders	No. of share-holders, %	Share of capital, %	Share of votes, %
Sweden	7,568	97	73	75
Europe excl. Sweden	221	3	26	19
Other countries	34	0	1	6
<b>Total *</b>	<b>7,823</b>	<b>100</b>	<b>100</b>	<b>100</b>

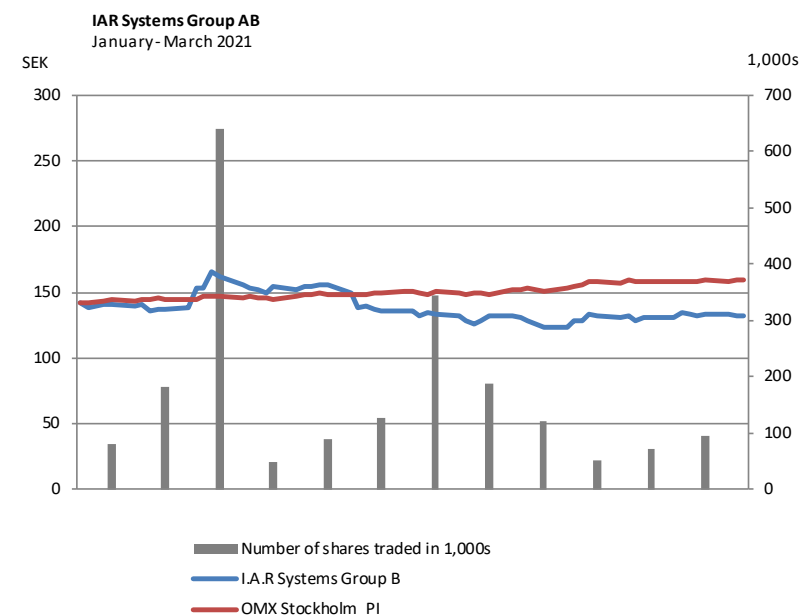
\* excluding 327,359 class C shares held in treasury

## 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**	260,387	2	8
Swedbank Robur Fonder	1,070,000	8	7
Tredje AP-fonden	728,930	5	5
Other	9,109,736	67	63
<b>Total *</b>	<b>13,640,974</b>	<b>100</b>	<b>100</b>

\* excluding 327,359 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.

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 37 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 37 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 controller, 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:

- > IAR Systems offers a unique product range consisting of a complete tool chain for product developers.
- > 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
- > 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.


- > Through the acquisition of Secure Thingz, both companies have together developed a unique, patented technology and specialist security expertise that fulfill the customer's need to protect its products and intellectual property.

## **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:

- > Largely driven by IoT, embedded systems are growing in number and in complexity.
- > Continued high demand for reliable and advanced programming tools that provide a complete development platform and efficient time management from product to market launch.
- > New possibilities within the automotive industry as increasingly advanced vehicles reach the market.





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.

› The processor architecture RISC-V is challenging the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area. We remain active in RISC-V and launched a number of updates in our tools in 2020 that allow customers to take better advantage of the possibilities offered by the RISC-V processor architecture.

**Committed team who knows how to take advantage of growth potential**

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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