

I.A.R. SYSTEMS GROUP AB
INTERIM REPORT JANUARY–SEPTEMBER 2021

Q3

Q3 2021

Net sales SEK 87.9m (88.9), EBITDA SEK 34.3m (36.8)

PROFIT SUMMARY

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2021	2020	2021	2020	2020
Net sales	264.2	281.3	87.9	88.9	372.0
Other income	2.1	-	2.1	-	-
Operating expenses	-215.8	-216.5	-69.1	-63.5	-288.2
Operating profit	50.5	64.8	20.9	25.4	83.8
Loss from financial items	-2.0	-2.5	-0.3	-0.5	-7.0
Profit before tax	48.5	62.3	20.6	24.9	76.8
Tax	-10.5	-14.9	-4.7	-6.2	-17.4
Profit for the period	38.0	47.4	15.9	18.7	59.4

JANUARY–SEPTEMBER 2021

- › EBITDA of SEK 90.7m (100.2), corresponding to an EBITDA margin of 34.3% (35.6)
- › Operating profit of SEK 50.5m (64.8), corresponding to an operating margin of 19.1% (23.0)
- › Profit before tax of SEK 48.5m (62.3)
- › Basic earnings per share of SEK 2.79 (3.48) and diluted earnings per share of SEK 2.78 (3.47)
- › In a year-on-year comparison, currency translation had a negative impact of SEK -19.6m on net sales for the period and a negative impact of SEK -9.7 on operating profit.
- › Cash flow from operating activities of SEK 91.1m (90.6)
- › Net cash of SEK 36.4m (-0.4) at the end of the period

JULY–SEPTEMBER 2021

- › EBITDA of SEK 35.0m (36.8), corresponding to an EBITDA margin of 39.8% (41.4)
- › Operating profit of SEK 20.9m (25.4), corresponding to an operating margin of 23.8% (28.6)
- › Profit before tax of SEK 20.6m (24.9)
- › Basic earnings per share of SEK 1.17 (1.37) and diluted earnings per share of SEK 1.17 (1.37)
- › In a year-on-year comparison, currency translation had a negative impact of SEK -0.4m on net sales for the quarter and a positive impact of SEK 1.2m on operating profit.
- › Cash flow from operating activities of SEK 41.4m (32.7)

KEY PERFORMANCE MEASURES

	9 months Jul-Sep		3 months Jul-Sep		Full-year
	2021	2020	2021	2020	2020
Gross margin, %	96.6	96.4	96.8	97.0	96.2
EBITDA margin, %	34.3	35.6	39.8	41.4	35.7
Operating margin, %	19.1	23.0	23.8	28.6	22.5
Cash flow, %	34.5	32.2	47.1	36.8	31.8
Net cash, SEK m	36.4	-0.4	36.4	-0.4	1.5
No. of employees at end of period	210	216	210	216	215

KEY EVENTS DURING THE QUARTER

- › Ann Zetterberg assumed the role of CFO on August 16, 2021.
- › Nadim Shehayed, the former CEO of IAR Systems' US subsidiary IAR Systems Software Inc., pleaded guilty in the embezzlement case that led to his dismissal in 2012. He has been sentenced to prison and probation and ordered to pay USD 550,000 in damages, of which USD 250,000 was paid immediately and recognized as other income in the third quarter. The ruling was issued in October 2021, while damages were paid in September 2021.

KEY EVENTS AFTER THE END OF THE QUARTER

- › On October 18, 2021, the Board resolved to relieve Stefan Skarin of his CEO duties and appointed Richard Lind as Acting CEO.

Q3 2021 Comments from the CEO

Product strategy

For several years, we have focused our product strategy on two markets: software development tools and our new Secure Thingz offering. Both are intended to supplement our customers' processes when creating innovative digital products. We will continue to invest in developing our offering, in terms of both depth and breadth, to help our customers in the ongoing global digital journey of change. The connected world is growing at an incredible speed and we have every opportunity to take advantage of this growth.

Collaboration with Microsoft

Our security product segment is intended to help customers protect their IP from various threats. Our focus during the year has been on meeting customer needs to protect their products from theft and overproduction. During the quarter, our work to launch products for secure wireless product updates ramped up. Together with Microsoft, at the end of the quarter we presented a development-to-deployment solution for Microsoft Azure's cloud solution.

"To really deliver the secure IoT solutions that the world needs, it's critical to have new solutions ready and for suppliers to work together for the customer's best. Microsoft provides leading cloud services, and IAR Systems delivers leading development tools for the next generation of embedded systems."

Asia: an increasingly important market

An important market in Asia is China, where demand is increasing from customers as well as our partners. Interest in RISC-V is growing significantly in China and we already have products that can take advantage of this interest. We currently have offices in Tokyo, Seoul, Shanghai, Shenzhen, Taipei and Bangalore to meet this growing demand. Asia is a world leader when it comes to implementing 64-bit technology, but there is a shortage of semiconductors right now that is affecting the market for processor suppliers.

Strategic customers and agreements

During the quarter, more customers signed new strategic agreements. We signed 14 new major contracts with annual renewals. During the third quarter of 2020, we signed three multi-year strategic agreements.

Looking ahead

Historically speaking, our license models have supported customers with a range of user needs between individuals and development teams. The pandemic has led to more people working from home, and customers have needed our flexibility to handle this shift. The combination of IAR Embedded Workbench and analysis tools for a global user base is our fastest-growing product and accounts for the largest share of our growth. Security has become a business-critical issue for our customers and their customers, and we will escalate our marketing and our sales initiatives in this area. We will review all of our license models and see how we can offer more customers flexibility in the future when it comes to delivering and using our products, for example through the cloud, and thereby reach new kinds of customers in more markets.

Summary

As the new Acting CEO, but with deep insight into the company as a Board member since 2019, I would like to conclude by confirming that our product strategy has not changed and that we intend to invest in both software development tools and our new Secure Thingz offering. IAR Systems AB is well positioned at the core of the digital transformation and connected devices, where it can deliver much-needed secure software and services. We will focus on organic growth within software development tools and on taking the leading position within security and copy protection for electronic products. Our established positions and the in-depth technical expertise of our employees within software development provide us with a unique platform for taking advantage of the growth in connected products. I look forward to working with IAR's extremely skilled team to renew the company, with increased growth as our goal.

Richard Lind, Acting CEO, IAR Systems

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.

IAR SYSTEMS' AND SECURE THINGZ' EXPERTISE COVERS MANY DIFFERENT CUSTOMER NEEDS

Together, we help the customer to secure their products for their entire useful life.



EXECUTIVE MANAGEMENT

Definition of security structure using policies and best practices



SECURITY EXPERT

Implementing structure in hardware and software



DEVELOPMENT TEAM

Application development Testing of applications



PRODUCT MANAGEMENT

Secure distribution to manufacturing



PRODUCTION FACILITIES

Secure manufacturing of programmed processors



DEVELOPMENT TEAM

Secure software updates and control of products

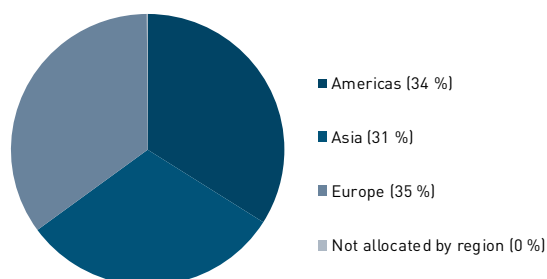
Financial information

Sales

Sales in SEK amounted to SEK 264.2m [281.3] and were weaker than in the previous year largely due to a foreign exchange effect of SEK -19.6, which also had an impact of SEK -9.7m on earnings. In addition to the foreign exchange effect, sales were also affected by a restructuring of strategic transactions that resulted in the income from these contracts instead being recognized as income annually. Most of the transactions that we deem to be strategic have extended for several years. This means that when we sign a strategic agreement in one year, we do not recognize a significant recurring revenue until the next agreement period (usually within three to five years). The effect from these previously recognized multi-year strategic agreements during the year was SEK -8.8m. This structure for strategic transactions makes it difficult to compare financial figures between periods and the restructuring means that the overview given for the sales trend for 2021 is unduly negative. We experienced sales growth in local currency in Asia during the year. EMEA would also have experienced growth in local currency if the invoicing for strategic transactions had been recognized in income for the year.

In addition to generating a higher average value per transaction by selling add-on products, focusing on new customers is important since the sales cycle is often shorter for new customers and is often driven by time-to-market. One of our major strengths is that 95% of our existing customers become returning customers over the years. We have noted increased demand for support and update agreements (SUAs) during the pandemic, which account for approximately 62% of licenses sold.

BREAKDOWN OF REVENUE Q1-Q3 2021

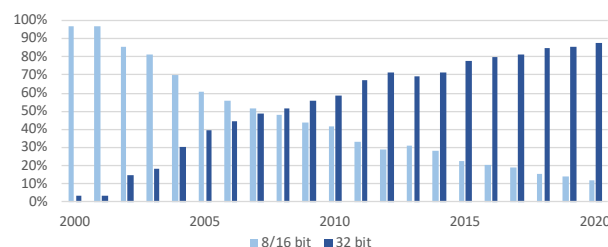


Markets and Products

APAC contributed 30.7% of net sales, or SEK 80.9m [75.8]. Foreign exchange effects had an impact of SEK -6.4m on sales. APAC posted excellent growth of 15% in local currency during the year. All markets in APAC are growing: 192% growth in China, 112% in Taiwan and 13% in Korea. Japan, which accounts for the largest portion of sales in APAC, posted growth of 9%. EMEA contributed 35.1% of sales, or SEK 92.3m [103.8]. Sales in EMEA decreased to SEK -7.3m as a result of strategic transactions, with a foreign exchange effect of SEK -3.5m. The USA contributed 34.2% of income, or SEK 89.9m [99.7]. Foreign exchange effects had an impact of SEK -9.6m on sales.

Our products in EW Arm account for approximately 80% of sales. The new 64-bit offering has been well received, and we see great potential there and in RISC-V. These, like Security, are areas for future growth. We are not satisfied with the sales performance in Security and intend to make further investments to develop the sales organization specifically within Security.

NET SALES 8/16 AND 32 BIT



Net Sales based on 8/16 bit has decreased with 35% the last 10 years. In 2011 8/16 bit accounted for 35% of the Net Sales. In 2020 this was 12%. At the same time Net Sales based on 32 bit more than doubled and accounted for 88 % in 2020.

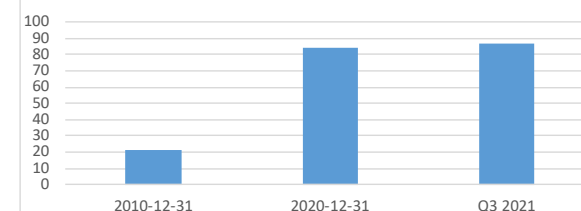
Effects of the pandemic on the operations

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 have also seen 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. During the second and third quarters, the effects of the pandemic changed in two ways. In countries with a high vaccination rate, we saw a clear trend toward an increased willingness to invest. In some countries, the positive turnaround was immediate, while in others the effects of the pandemic are lingering.

We expect the effects of the pandemic to continue during the year, primarily in Asia.

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 due to the pandemic.

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.

NET SALES

Q3 2021 Net sales

Net sales for the quarter decreased year-on-year and amounted to SEK 87.9m [88.9]. Currency translation had a negative effect of SEK -0.4m on net sales for the quarter.

The previous quarter's trend continued, and Asia continued to grow during the third quarter. Europe and the Americas posted growth in transaction-based business and a decrease in strategic business, and both regions reported negative total growth for the quarter.

We see a clear trend of increased demand for our offering of development tools, particularly in countries with higher vaccination rates. The Americas and Europe also posted growth in the transaction-based areas of our business. Reduced strategic business had a negative impact on sales in these regions compared with the previous year.

Other income

During the third quarter, we received a payment of SEK 2.1m in connection with a judgment against the previous CEO of IAR Systems' US subsidiary IAR Systems Software Inc., which was recognized as other income. Nadim Shehayed pleaded guilty in the embezzlement case that led to his dismissal in 2012. He has been sentenced to prison and probation and ordered to pay USD 550,000 in damages, of which USD 250,000 was paid immediately and recognized as other income in the third quarter. The ruling was issued in October 2021, while damages were paid in September 2021.

Net sales January–September 2021

Net sales for the period amounted to SEK 264.2m [281.3]. Currency translation had a negative effect of SEK -19.6m on net sales for the period.

Deferred income September 30, 2021

Deferred income in the form of accrued support agree-

ments increased during the period by SEK 2.3m and amounted to SEK 86.6m [84.3] at September 30, 2021. Of these accrued support agreements, 41% is expected to be recognized as income during the current financial year, which amounts to SEK 36.0m.

EARNINGS

Q3 2021 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 35.0m [36.8], corresponding to an EBITDA margin of 39.8% [41.4]. Operating profit for the quarter amounted to SEK 20.9m [25.4].

The gross margin for the period amounted to 96.8% [97.0].

Operating expenses were reduced by SEK 13.7m [18.0] during the quarter through the capitalization of development costs for software. The new 64-bit product area was launched during the first quarter of 2021. After the launch, the size of capitalization decreased and operating expenses increased compared with the earlier quarters. Of the internally generated costs that were capitalized, SEK 11.7m [15.4] pertained to personnel costs.

In a year-on-year comparison, currency translation had a positive impact of SEK 1.2m on operating profit.

Earnings January–September 2021

EBITDA for the period totaled SEK 90.7m [100.2], corresponding to an EBITDA margin of 34.3% [35.6]. Operating profit for the period amounted to SEK 50.5m [64.8].

The gross margin for the period amounted to 96.6% [96.4].

Operating expenses were reduced by SEK 50.3m [61.5] during the period through the capitalization of development costs for software. Of the internally generated costs that

were capitalized, SEK 42.4m [51.6] pertained to personnel costs. In a year-on-year comparison, currency translation had a negative impact of SEK -9.7m on operating profit for the period.

INVESTMENTS AND FINANCING

During the period, we focused on investments in our major product areas. Software investments for the period totaled SEK 50.3m [61.5], of which SEK 13.7m [18.0] was attributable to the third quarter. 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 period totaled SEK 6.9m [2.4], of which SEK 6.1m [0.3] was attributable to the third quarter. During the third quarter, the Group made an investment of SEK 5.3m in new servers.

The bank overdraft facility is recognized in the consolidated balance sheet as liabilities to credit institutions and amounted to SEK 18.0m [17.5] on September 30, 2021. The bank overdraft facility is issued in SEK. The unutilized credit margin at September 30, 2021 amounted to SEK 207.0m [207.5].

Other interest-bearing liabilities in the balance sheet pertain to current and non-current lease liabilities and amounted to SEK 36.9m [48.8] at September 30, 2021. Lease liabilities recognized in the balance sheet pertain to commitments for leases and the largest portion, SEK 35.0m [45.8], is connected to leases for our offices.

The equity/assets ratio at September 30, 2021 was 76% [74].

CASH FLOW AND LIQUIDITY

Cash flow from operating activities for the period amounted to SEK 91.1m (90.6), of which SEK 41.4m (32.7) pertained to the third quarter. During the third quarter, the Group received SEK 11.8m in tax relief related to research and development costs in the UK, which affected the cash flow from operating activities but not profit or loss. The corresponding item for the previous year supplied the Group with SEK 18.8m during the second quarter. Our customers' ability to pay remained adequate during the first nine months 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 period totaled SEK -57.0m (-63.2), of which SEK -19.7m (-17.9) was attributable to the third quarter. Most of these investments pertain to the capitalization of development costs for software. We also made an investment of SEK 5.3m in new servers during the third quarter.

Cash flow from financing activities for the period amounted to SEK -12.4m (-21.4), of which SEK -3.9m (-4.6) 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.

Cash and cash equivalents

Cash and cash equivalents at the end of the quarter totaled SEK 91.3m (67.8). In addition, the Group had unutilized bank overdraft facilities of SEK 207.0m (207.5). The Group's total available cash and cash equivalents thus amounted to SEK 298.3m (275.3). 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, 2021, the Group had net cash of SEK 36.4m (1.5).

EMPLOYEES

The number of employees at IAR Systems at the end of the period was 210 (215). The average number of employees during the period was 192 (209).

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 9.8m (9.6). The Parent Company posted a loss after financial items of SEK -0.6m (-9.0).

Net investments in property, plant and equipment amounted to SEK 0.0m (0.1). Cash and cash equivalents at September 30, 2021 totaled SEK 0.8m (0.6). 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 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 REPORT

Introduction

We have reviewed the interim report for IAR Systems Group AB (publ) for the period from January 1, 2021 to September 30, 2021. 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, October 27, 2021

Deloitte AB

Andreas Frountzos

FINANCIAL CALENDAR 2022

Year-end report 2021, February 10, 2022

Annual Report 2021, March 2022

Interim report Jan–Mar 2022, April 26, 2022

2022 Annual General Meeting, April 26, 2022

Interim report Jan–Jun 2022, August 17, 2022

Interim report Jan–Sep 2022, October 27, 2022

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 October 27, 2021, at 11:05 a.m. CEST.

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

Income statement

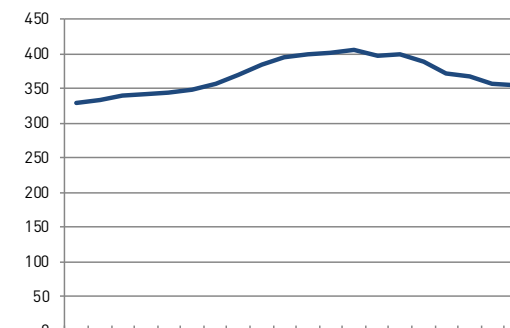
CONDENSED CONSOLIDATED INCOME STATEMENT

		9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	Note	2021	2020	2021	2020	2020
Net sales	1, 2	264.2	281.3	87.9	88.9	372.0
Other income		2.1	-	2.1	-	-
Goods for resale		-8.9	-10.1	-2.8	-2.7	-14.1
Other external expenses		-26.3	-30.5	-8.5	-8.5	-37.7
Personnel costs		-140.4	-140.5	-43.9	-40.9	-187.5
Depreciation of property, plant and equipment		-2.6	-2.3	-1.0	-0.4	-3.1
Depreciation of right-of-use assets		-12.6	-12.6	-4.1	-4.4	-17.2
Amortization of intangible assets		-25.0	-20.5	-9.0	-6.6	-28.6
Operating profit		50.5	64.8	20.9	25.4	83.8
Financial income		0.0	0.5	0.0	0.0	0.5
Financial expenses		-2.0	-3.0	-0.3	-0.5	-7.5
Profit before tax		48.5	62.3	20.6	24.9	76.8
Tax		-10.5	-14.9	-4.7	-6.2	-17.4
Profit for the period		38.0	47.4	15.9	18.7	59.4
Comprehensive income for the period attributable to owners of the Parent Company		38.0	47.4	15.9	18.7	59.4
Earnings per share for the period, basic, SEK		2.79	3.48	1.17	1.37	4.35
Earnings per share for the period, diluted, SEK		2.78	3.47	1.17	1.37	4.35

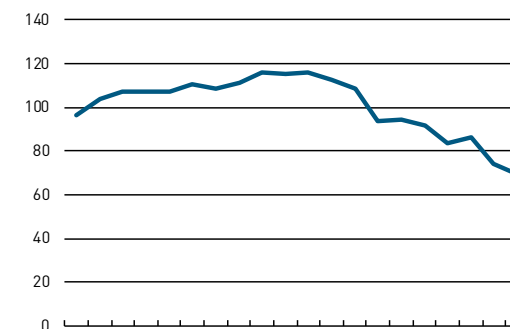
STATEMENT OF COMPREHENSIVE INCOME

		9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m		2021	2020	2021	2020	2020
Profit for the period		38.0	47.4	15.9	18.7	59.4
Other comprehensive income for the period						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences		29.9	-21.7	4.3	-1.2	-41.4
Tax effect, items reported in comprehensive income		-1.6	-	-0.2	-	2.2
Total other comprehensive income		28.2	-21.7	4.1	-1.2	-39.2
Comprehensive income for the period		66.3	25.7	20.0	17.5	20.2
Comprehensive income for the period attributable to owners of the Parent Company		66.3	25.7	20.0	17.5	20.2

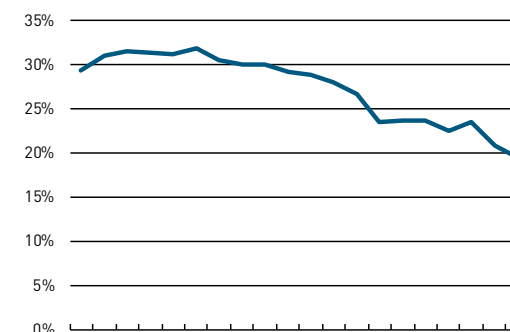
NET SALES ROLLING 12 MONTHS
Q4 2016 - Q3 2021



OPERATING PROFIT ROLLING 12 MONTHS
Q4 2016 - Q3 2021



OPERATING MARGIN ROLLING 12 MONTHS
Q4 2016 - Q3 2021



Balance sheet

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
ASSETS				
Non-current assets				
Goodwill	3	348.1	342.8	332.7
Other intangible assets	4	283.2	242.2	244.0
Property, plant and equipment		14.3	7.7	7.5
Right-of-use assets		34.7	46.9	46.9
Financial assets	7	2.9	2.4	2.9
Deferred tax assets	5	3.5	1.6	3.5
Total non-current assets		686.8	643.6	637.5
Current assets				
Inventories		8.7	7.3	5.7
Other current assets	7	59.0	70.1	63.8
Trade receivables	7	55.6	51.9	58.7
Cash and cash equivalents	7	91.3	65.7	67.8
Total current assets		214.6	195.0	196.0
TOTAL ASSETS		901.4	838.6	833.5
EQUITY AND LIABILITIES				
Total equity		680.5	619.2	613.4
Non-current liabilities				
Lease liabilities	7	19.4	32.2	31.7
Other non-current liabilities		1.0	1.0	1.1
Deferred tax liabilities		42.9	36.4	37.2
Total non-current liabilities		63.3	69.6	70.0
Current liabilities				
Trade payables	7	7.2	6.0	5.0
Liabilities to credit institutions	7	18.0	17.4	17.5
Lease liabilities	7	17.5	16.5	17.1
Deferred income		86.6	86.8	84.3
Other current liabilities	7	28.2	23.1	26.2
Total current liabilities		157.5	149.8	150.1
TOTAL EQUITY AND LIABILITIES		901.4	838.6	833.5

CHANGES IN EQUITY, GROUP

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2021	2020	2021	2020	2020
Equity at beginning of period	613.4	592.0	660.0	601.1	592.0
Share buybacks	-	-	-	-	-
Warrants, after deductions for transaction costs and tax	0.1	0.1	-	-	0.1
Value of share-based remuneration	0.7	1.4	0.5	0.6	1.1
Dividend	-	-	-	-	-
Comprehensive income for the period	66.3	25.7	20.0	17.5	20.2
Equity at end of period	680.5	619.2	680.5	619.2	613.4
Of which, attributable to owners of the Parent Company	680.5	619.2	680.5	619.2	613.4

Cash flows

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2021	2020	2021	2020	2020
Incoming payments from customers and other incoming	270.1	296.2	97.4	106.1	378.4
Outgoing payments to suppliers and employees	-170.3	-202.6	-61.7	-66.5	-250.4
Interest received	0.0	0.1	0.0	-	0.1
Interest paid	-1.2	-1.4	-0.4	-0.5	-1.8
Tax relief received	11.8	18.8	11.8	-	18.8
Income taxes paid	-19.3	-20.5	-5.7	-6.4	-26.7
Cash flow from operating activities	91.1	90.6	41.4	32.7	118.4
Investments in property, plant and equipment	-6.9	-2.4	-6.1	-0.3	-3.2
Investments in intangible assets	-50.1	-60.8	-13.6	-17.6	-78.2
Cash flow from investing activities	-57.0	-63.2	-19.7	-17.9	-81.4
Warrants, after deductions for transaction costs	0.2	0.1	-	-	0.1
Amortization of financial liabilities	-13.5	-26.9	-4.0	-4.7	-30.2
Borrowings	0.9	5.4	0.1	0.1	5.5
Cash flow from financing activities	-12.4	-21.4	-3.9	-4.6	-24.6
Cash flow for the period	21.6	6.0	17.7	10.2	12.4
Cash and cash equivalents at beginning of period	67.8	60.7	72.2	56.7	60.7
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of	1.8	-0.9	1.2	-1.1	-4.3
- attributable to cash flow for the period	0.1	-0.1	0.2	-0.1	-1.0
Cash and cash equivalents at end of period	91.3	65.7	91.3	65.7	67.8

CASH AND CASH EQUIVALENTS, GROUP

SEK m	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
Cash and cash equivalents at end of period	91.3	65.7	67.8
Unutilized overdraft facilities	207.0	207.6	207.5
Total available cash and cash equivalents	298.3	273.3	275.3

Key performance measures

GROUP

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2021	2020	2021	2020	2020
Gross margin, %	96.6	96.4	96.8	97.0	96.2
EBITDA, %	34.3	35.6	39.8	41.4	35.7
Operating margin, %	19.1	23.0	23.8	28.6	22.5
Profit margin, %	18.4	22.1	23.4	28.0	20.6
Cash flow, %	34.5	32.2	47.1	36.8	31.8
Equity/assets ratio, %	75.5	73.8			73.6
Return on equity, %	5.9	7.8	2.4	3.1	9.9
Return on capital employed, %	7.1	9.6	2.9	3.8	12.5
Capital employed, SEK m	735.5	685.3			679.7
Net cash, SEK m	36.4	0.4			1.5
Net debt/equity ratio, multiple	-0.1	0.0			-0.0
No. of employees at end of period	210	216			215
Average no. of employees	192	209	197	205	208
Sales per employee, SEK m	1.4	1.3	0.4	0.4	1.8

SHARE DATA

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2021	2020	2021	2020	2020
Equity per share, SEK	49.89	45.43			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	13.64	13.63	13.63
Average no. of shares, diluted, million	13.65	13.66	13.66	13.66	13.65
Cash flow from operating activities per share, SEK	6.68	6.65	3.04	2.40	8.69
Earnings per share, SEK*	2.79	3.48	1.17	1.37	4.35
Earnings per share, diluted, SEK*	2.78	3.47	1.17	1.37	4.35

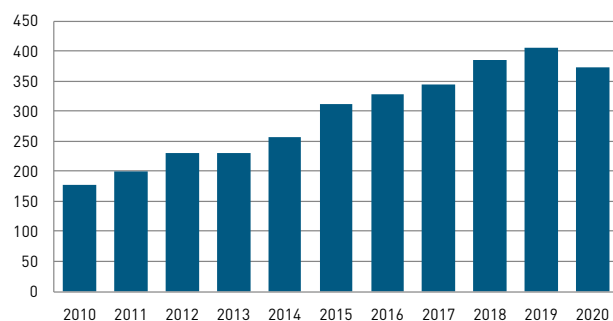
*Definition in accordance with IFRS. Refer also to definitions on page 20.

Multi-year overview

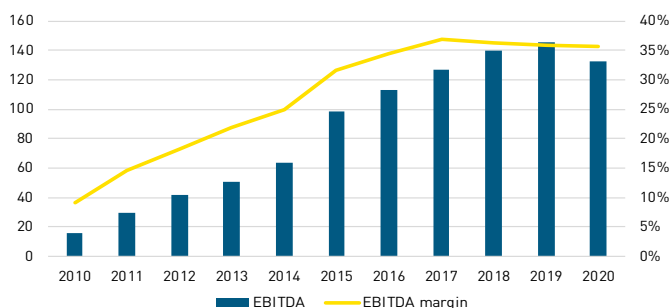
	Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2020	372.0	132.7	35.7	83.8	22.5	4.35	9.9	8.69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

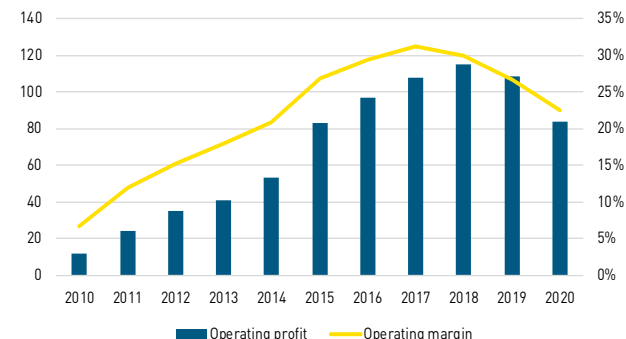
NET SALES



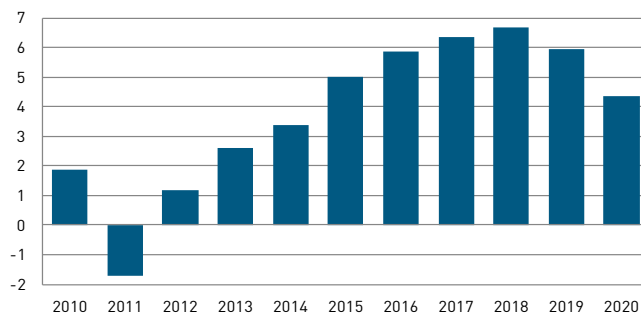
EBITDA AND EBITDA MARGIN



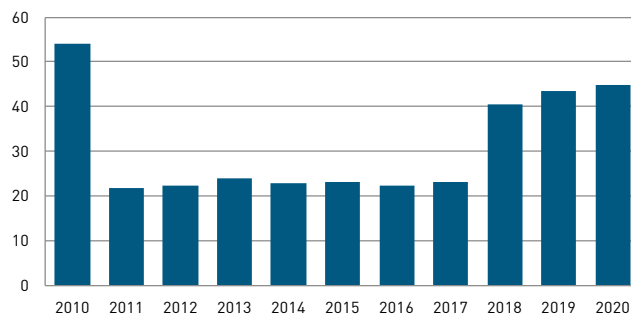
OPERATING PROFIT AND OPERATING MARGIN



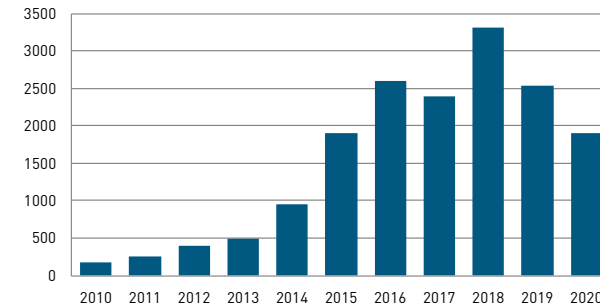
EARNINGS PER SHARE, SEK



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	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2021	Q3	87.9	35.0	39.8	20.9	23.8	1.17	2.4	3.04	49.89	100.00	1,364
	Q2	87.4	25.9	29.6	12.6	14.4	0.68	1.4	2.02	48.39	140.20	1,913
	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

Parent Company

CONDENSED INCOME STATEMENT

	9 months Jan-Sep		Full-year
SEK m	2021	2020	2020
Net sales	9.8	9.6	13.0
Operating expenses	-17.6	-12.5	-19.1
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-7.8	-2.9	-6.1
Profit/loss from financial items	7.2	-6.1	61.8
Profit/loss before tax	-0.6	-9.0	55.7
Tax	-0.4	1.9	-11.9
Profit/loss for the period	-1.0	-7.1	43.8

STATEMENT OF COMPREHENSIVE INCOME

	9 months Jan-Sep		Full-year
SEK m	2021	2020	2020
Profit/loss for the period	-1.0	-7.1	43.8
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or			
Change in value of non-current securities	-	-	-
Total other comprehensive income	-	-	-
Comprehensive income for the period	-1.0	-7.1	43.8

CONDENSED BALANCE SHEET

SEK m	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
ASSETS			
Non-current assets			
Property, plant and equipment	0.2	0.2	0.2
Shares in subsidiaries	481.2	481.5	481.2
Other financial assets	0.1	0.1	0.1
Deferred tax assets	0.0	1.9	0.0
Total non-current assets	481.5	483.7	481.5
Current assets			
Receivables from subsidiaries	153.2	107.1	116.6
Other current assets	28.3	17.8	8.9
Cash and cash equivalents	0.8	0.8	0.6
Total current assets	182.3	125.7	126.1
TOTAL ASSETS	663.8	609.4	607.6
EQUITY AND LIABILITIES			
Total equity	556.1	506.4	557.0
Current liabilities			
Trade payables	0.7	0.2	0.3
Liabilities to credit institutions	18.0	17.4	17.5
Liabilities to subsidiaries	82.1	83.0	27.0
Other current liabilities	6.9	2.4	5.8
Total current liabilities	107.7	103.0	50.6
TOTAL EQUITY AND LIABILITIES	663.8	609.4	607.6

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:

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2021	2020	2021	2020	2020
Development tools	263.6	277.5	87.8	88.5	367.0
Security solutions	0.6	3.8	0.1	0.4	5.0
Net sales	264.2	281.3	87.9	88.9	372.0

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2021	2020	2021	2020	2020
License-based revenue	146.7	160.4	46.2	50.8	212.4
Support and software updates	105.5	109.9	36.9	35.5	145.2
Other	12.0	11.0	4.8	2.6	14.4
Net sales	264.2	281.3	87.9	88.9	372.0

At a certain point in time	158.7	171.4	51.0	53.4	226.8
Over time	105.5	109.9	36.9	35.5	145.2
Net sales	264.2	281.3	87.9	88.9	372.0

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2021	2020	2021	2020	2020
Americas	89.9	99.7	29.6	30.4	132.0
Asia	80.9	75.9	27.3	25.8	101.9
Europe	92.3	103.8	30.6	32.2	135.5
Not allocated by region	1.1	1.9	0.4	0.5	2.6
Net sales	264.2	281.3	87.9	88.9	372.0

3. GOODWILL

Goodwill increased by SEK 15.4m 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. Goodwill at September 30, 2021 amounted to SEK 348.1m (332.7).

4. OTHER INTANGIBLE ASSETS

Other intangible assets increased by SEK 39.2m during the year and amounted to SEK 283.2m (244.0) on September 30, 2021. Operating expenses were reduced by SEK 50.3m (61.5) during the period through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 42.4m (51.6) 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, 2021, the Group had accumulated loss carryforwards outside Sweden of SEK 151m, of which SEK 66 (91) are recognized in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 3.5m (3.5), and the deferred tax liability is recognized in an amount of SEK 43.0m (37.2), of which SEK 12.6m (15.4) pertains to loss carryforwards. The items deferred tax assets and deferred tax liabilities 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 was made during the quarter and amounted to approximately SEK 11.8m (18.8). The payment reduced aggregate loss carryforwards by an equivalent amount.

Notes, cont.

6. PLEDGED ASSETS

SEK m	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
To secure pensions	16.8	8.4	9.1
To secure liabilities to credit institutions	1.9	3.2	2.9
Total pledged assets	18.7	11.6	12.0

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	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2021	2020	2021	2020	2020
Net sales	264.2	281.3	87.9	88.9	372.0
Goods for resale	-8.9	-10.1	-2.8	-2.7	-14.1
Gross profit	255.3	271.2	85.1	86.2	357.9
Gross margin	96.6%	96.4%	96.8%	97.0%	96.2%

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
	2021	2020	2021	2020	2020
Operating profit	50.5	64.8	20.9	25.4	83.8
Depreciation of property, plant and equipment	2.6	2.3	1.0	0.4	3.1
Depreciation of right-of-use assets	12.6	12.6	4.1	4.4	17.2
Amortization of intangible assets	25.0	20.5	9.0	6.6	28.6
EBITDA	90.7	100.2	35.0	36.8	132.7

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

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2021	2020	2021	2020	2020
Net sales	264.2	281.3	87.9	88.9	372.0
EBITDA	90.7	100.2	35.0	36.8	132.7
EBITDA margin	34.3%	35.6%	39.8%	41.4%	35.7%

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
	2021	2020	2021	2020	2020
Net sales	264.2	281.3	87.9	88.9	372.0
Operating profit	50.5	64.6	20.9	25.4	83.8
Operating margin	19.1%	23.0%	23.8%	28.6%	22.5%

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
	2021	2020	2021	2020	2020
Net sales	264.2	281.3	87.9	88.9	372.0
Profit before tax	48.5	62.3	20.6	24.9	76.8
Profit margin	18.4%	22.1%	23.4%	28.0%	20.6%

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
	2021	2020	2021	2020	2020
Net sales	264.2	281.3	87.9	88.9	372.0
Cash flow from operating activities	91.1	90.6	41.4	32.7	118.4
Cash flow	34.5%	32.2%	47.1%	36.8%	31.8%

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

SEK m	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
	2021	2020	2020
Equity	680.5	619.2	613.4
Total assets	901.4	838.6	833.5

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, 2021	Jun 30, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Dec 31, 2019
	2021	2021	2020	2020	2020	2019
Equity	680.5	660.0	613.4	619.2	601.1	592.0

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2021	2020	2021	2020	2020
Average equity	647.0	605.6	670.3	610.2	602.7

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
	2021	2020	2021	2020	2020
Profit after tax	38.0	47.4	15.9	18.7	59.4
Average equity	647.0	605.6	670.3	610.2	602.7
Return on equity	5.9%	7.8%	2.4%	3.1%	9.9%

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

SEK m	Sep 30, 2021	Jun 30, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Dec 31, 2019
	2021	2021	2020	2020	2020	2019
Interest-bearing liabilities	54.9	58.4	66.3	66.1	66.8	79.1
Cash and cash equivalents	-91.3	-72.2	-67.8	-65.7	-56.7	-60.7
Net interest-bearing liabilities	-36.4	-13.8	-1.5	0.4	10.1	18.4

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
	2021	2020	2021	2020	2020
Profit before tax	48.5	62.3	20.6	24.9	76.8
Financial expenses	2.0	3.0	0.3	0.5	7.5
Profit before tax plus financial expenses	50.5	65.3	20.9	25.4	84.3
Return on capital employed	7.1%	9.6%	2.9%	3.8%	12.5%

Reconciliations, cont.

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

SEK m	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
Cash and cash equivalents	91.3	65.7	67.8
Interest-bearing liabilities	-54.9	-66.1	-66.3
Net cash	36.4	-0.4	1.5

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, 2021	Jun 30, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Dec 31, 2019
Total assets	901.4	879.2	833.5	838.6	834.8	824.9
Non-interest-bearing liabilities	-165.9	-160.8	-153.8	-153.3	-167.0	-153.8
Capital employed	735.5	718.4	679.7	685.3	667.8	671.1

SEK m	9 months Jan-Sep 2021	2020	3 months Jul-Sep 2021	2020	Full-year 2020
Average capital employed	707.6	678.2	727.0	676.6	675.4

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

SEK m	Sep 30, 2021	Sep 30, 2020	Dec 31, 2020
Equity	680.5	619.2	613.4
No. of shares at end of period, million	13.64	13.63	13.64
Equity per share	49.89	45.43	44.97

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 2021	2020	3 months Jul-Sep 2021	2020	Full-year 2020
Cash flow from operating activities	91.1	90.6	41.4	32.7	118.4
Average no. of shares, million	13.64	13.63	13.64	13.63	13.63
Cash flow from operating activities per share	6.68	6.65	3.04	2.40	8.69

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 100.00 (95.80) to a high of SEK 166.0 (193.40). The share price at September 30, 2021 was SEK 100.00 (161.00). I.A.R. Systems Group's market capitalization on the same date was SEK 1,364m (2,195).

The number of shareholders in I.A.R. Systems Group at September 30, 2021 was 7,431 (7,591). Of these shareholders, 465 (442) held more than 1,000 shares each. Foreign shareholders held approximately 27% (36) of the share capital and 27% (34) of the votes.

I.A.R. Systems Group's share capital at September 30, 2021 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 13,643,274 are class B shares and 325,059 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, 7,115 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 34,629 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 entitled the participants to subscribe for or acquire one class B share in the company during the period August 20 until September 17, 2021, had a subscription price of SEK 323.90 and an acquisition price of SEK 330.00. All warrants in the program have expired. No participants subscribed for or acquired shares during the aforementioned period.

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 con-

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	0	n/a	243,500
Stock options	285,000	254,000	55,648	3,380	0	n/a	254,000
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 Sep 30, 2021	Forfeited Sep 30, 2021	Qualified Sep 30, 2021	Qualified after Sep 30, 2021	
Stock options	73,413	73,413	34,629	20,621	15,947	2,216	

2021 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of I.A.R. Systems Group AB was held on April 27, 2021.

For information about the AGM and the resolutions passed, refer to the company's web-site: www.iar.com

BREAKDOWN OF SHAREHOLDINGS

	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1–500	6,572	88	4	4
501–1,000	394	5	2	2
1,001–10,000	383	6	7	7
10,001–	81	1	87	87
Total *	7,430	100	100	100

GEOGRAPHICAL DISTRIBUTION

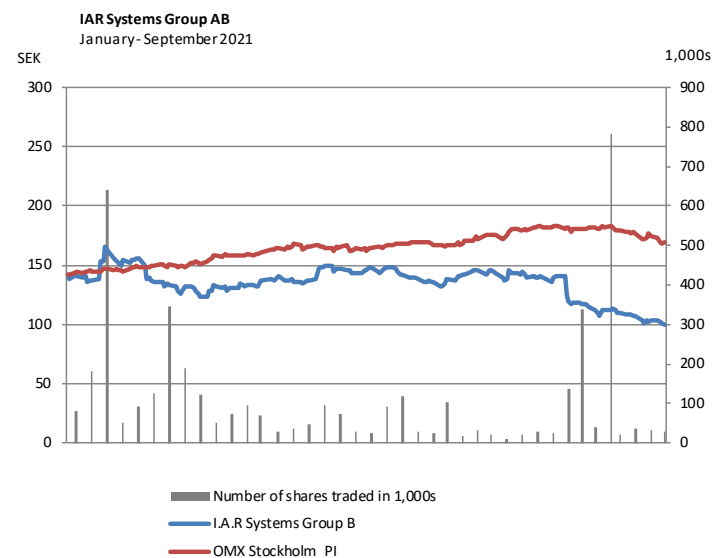
	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	7,183	97	73	73
Europe excl. Sweden	213	3	25	25
Other countries	34	0	2	2
Total *	7,430	100	100	100

* excluding 325,059 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	9
Swedbank Robur Fonder	1,070,000	8	8
Tredje AP-fonden	728,930	5	5
Aktia Nordic Mid	631,500	5	5
Fjärde AP-fonden	591,620	4	4
Aktia Nordic Small	551,050	4	4
Other	7,598,253	56	56
Total *	13,643,274	100	100

* excluding 325,059 class C shares held in treasury



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 with 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.





I.A.R. SYSTEMS GROUP AB (PUBL)

Corporate identification number 556400-7200

Kungsgatan 33, SE-111 56 Stockholm Tel +46 8 410 920 00

www.iar.com

Richard Lind, Acting CEO, richard.lind@iar.com

Ann Zetterberg, CFO, ann.zetterberg@iar.com