



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

Q1

Business model alleviating the effects of Covid-19

Net sales SEK 92.3m (99.8), EBITDA SEK 26.6m (38.4)

PROFIT SUMMARY

SEK m	3 months Jan–Mar		Full-year
	2020	2019	2019
Net sales	92.3	99.8	405.6
Operating expenses	-77.9	-70.4	-297.2
Operating profit	14.4	29.4	108.4
Result from financial investments	-0.1	-0.2	-1.4
Profit before tax	14.3	29.2	107.0
Tax	-3.2	-6.3	-25.8
Profit for the period	11.1	22.9	81.2

JANUARY-MARCH 2020

- › EBITDA of SEK 26.6m (38.4), corresponding to an EBITDA margin of 28.8% (38.5)
- › Operating profit of SEK 14.4m (29.4), corresponding to an operating margin of 15.6% (29.5)
- › Profit before tax of SEK 14.3m (29.2)
- › Basic earnings per share of SEK 0.81 (1.68) and diluted earnings per share of SEK 0.81 (1.68)
- › Cash flow from operating activities of SEK 15.0m (19.1)
- › Net cash of SEK -24.4m (-18.4) at the end of the period

KEY RATIOS

	3 months Jan–Mar		Full-year
	2020	2019	2019
Gross margin, %	95.7	97.9	97.3
EBITDA margin, %	28.8	38.5	35.9
Operating margin, %	15.6	29.5	26.7
Cash flow, %	16.3	19.1	26.1
Net cash, SEK m	-24.4	73.2	-18.4
No. of employees at end of period	224	206	219

EVENTS AFTER THE END OF THE PERIOD

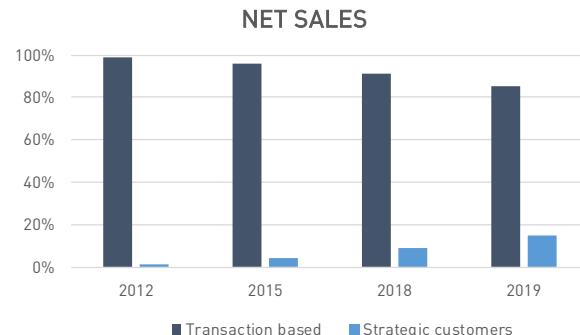
- › The Board proposed to the AGM that no decision regarding dividends be made at the meeting in April. The Board intends to convene an Extraordinary General Meeting to be held no later than November 2020 to discuss the issue.

2020 - a challenging, though not limiting, year

Stability of our business model alleviating the effect of Covid-19

The strength of our business model became clear during the first-quarter turbulence resulting from the global pandemic. Our business model largely consists of transaction-based sales, with a large number of smaller transactions for ongoing support and expansion of existing use. As our customers have relocated their work place from office to home, the global pandemic has affected all our markets to a different extent. A transaction-based business is not greatly affected by customers moving their workplaces from offices to homes. We see an increased demand for licenses suited to remote virtual development. Customer development projects are continuing, but the transition means that projects, purchasing and decisions take longer, which affected our net sales during the quarter. We also noticed increased uncertainty regarding needs extending more than a few quarters in the future.

Our business model is still in a form tailored to more reactive purchasing patterns as support agreements are renewed during the year. Our ambition to support our customers during this transition has led to increased loyalty among our customers, something we expect to have a positive impact in the short and long term. In contrast to our transaction-based business model, we also have strategic transactions. These are fewer in number, larger and are based on longer negotiations over customer's more long-term needs. The strategic transactions carried out during the first quarter have also been delayed due to longer decision-making processes, though they have not changed in scope. Despite the turbulence with Covid-19, the quarter trended positively for sales of new products as well as licenses and transactions with higher average values. The share of new customers was stable during the quarter,



with equal distribution across our traditional markets of industry, medical technology and IoT. The automotive industry is the market with the greatest long-term uncertainty.

Another security product launched to reach a new market

During the quarter we completed our security offering for secure processor programming, SDP (Secure Desktop Provisioner). This supplements our offering in security which is primarily focused on the development process. In other words, our security offering now includes protected production in addition to protected IP. Protected production limits the threats our customers face from overproduction while guaranteeing that the code in the programmed processor does not run the risk of being stolen, copied or altered.

During late autumn 2019, our focus for the security offering was to develop a more complete applied solution that includes software and services and we can see that demand for our total secure offering increased during the first quarter. Our new security product, SDP, started to generate sales the same month it was launched.

Like our security products, we are seeing increased demand for our development tools for RISC-V. Asia, particularly China, has the greatest new markets potential for RISC-V, but it is also where we see the greatest business advantages from Covid-19.

As a part of our service offering, we launched IAR Academy On Demand, which expands the company's existing technical training program with online courses. This expansion makes the training course more easily accessible and offers today's developers a flexible learning process.

A challenging, though not limiting, year

Covid-19 has affected all of our markets, with seven of our twelve offices closed during the quarter and essentially all external marketing activities canceled. We are nonetheless only minimally affected thanks to the strength of our business model, our loyal customer base and our employees' ability to work from home. Our ambition for 2020 of beginning work on I.A.R. Systems Group 4.0 has supported us through more thorough analysis, increased customer presence and a clarified market position. We will remain a support for our customers, grow our number of new customers with transactions of higher average values and refine our product offering. Even if the year started out challenging due to the new global situation, we remain strong and focused on increasing sales activities.



With ambition as our driving force, the next phase of I.A.R. Systems Group 4.0 is now started

What preconditions do we have 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 technology and expertise. The world has changed and consolidated quickly during the last few years and we have met this challenge by creating new opportunities in the offering, market and more strategic relationships with our largest customers. Changes take time and changes on several fronts require focus, stability and resilience. In the last few years we have completed and refined our offering so we can take the next step in our long-term ambition. The essential question for our goal with I.A.R Systems 4.0 is about how we can increase our growth without losing focus and how we can retain the strength of our current business model with expanded target groups and new markets.

I.A.R. Systems Group 4.0

I.A.R. Systems Group 4.0 is a plan with strategic parts: the portfolio, the market and go-to market. The three parts for 2020 have different levels of ambition but with a shared focus to clarify our direction, ambition and potential. This is to create a long-term model through an increased collective participation with customers, partners and employees. In brief, the ambition for these three parts is as follows:

Product portfolio

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

Market

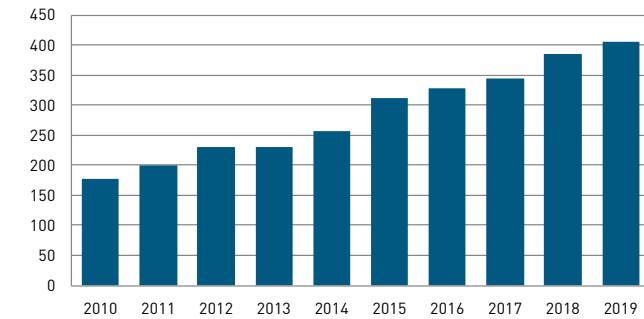
We are increasing our ambition to focus on new markets for 2020. This is with a geographic focus on Asia, specifically China, Taiwan and India and also through complementing the geographic markets with new technological areas for security and RISC-V. These new technological areas function partially in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

Go-To-Market

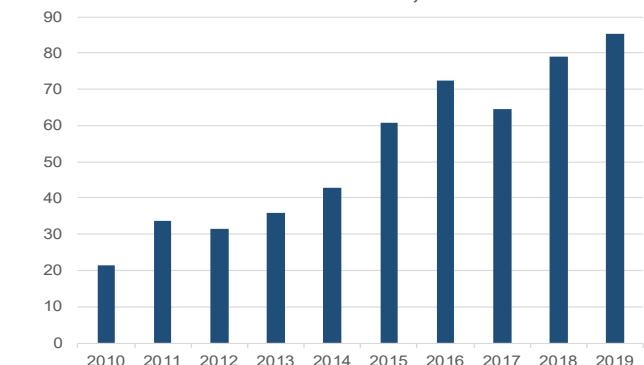
Our go-to-market strategic ambition for 2020 is a combination of new areas and refining existing areas. This includes building a lean and efficient sales organization for our security offering and approaching existing customers with expanded "self service" and new offices in new markets. We also intend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

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

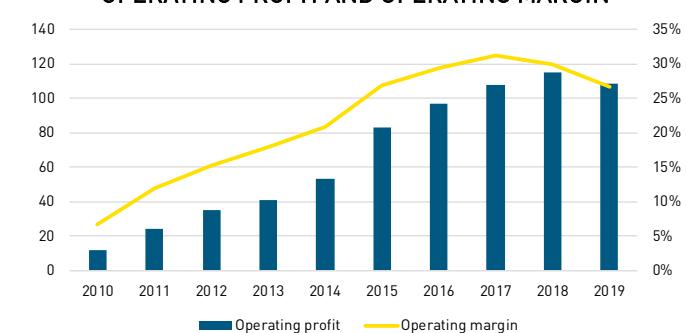
NET SALES



DEFERRED INCOME, SEK m



OPERATING PROFIT AND OPERATING MARGIN



Financial information

NET SALES

Sales during the first quarter of 2020 were affected by Covid-19 and the widespread pandemic. The immediate effects we saw were that customers' purchasing processes now take longer, since many users are working from home. For the present, we see no signs of losing business due to Covid-19. The effects on us follow the spread of the virus, where Asia was affected first, followed by Europe and America. By the end of the quarter we could discern some positive signs in Asia, but there is still concern over a second wave of the virus. Most of our employees have been working from home for some of the quarter.

Q1 2020 Net sales

Net sales for the year amounted to SEK 92.3m (99.8) and were distributed as follows: SEK 91.4m (99.4) from development tools and SEK 0.9m (0.4) from security solutions. In a year-on-year comparison, currency translation had a positive impact of SEK 3.6m on net sales for the period.

Deferred income March 31, 2020

Deferred income in the form of accrued support agreements increased during the quarter by SEK 3.8m and amounted to SEK 89.0m (85.2) at March 31, 2020. Of these accrued support agreements, 88% were taken up as income during the current financial year.

EARNINGS

Profit for the quarter was also negatively affected by Covid-19 and the lower income recognized. At the same time, costs increased in a year-on-year comparison, though they are largely unchanged from the fourth quarter of 2019. There are slight shifts between quarters related to different activities.

The majority of the Group's costs consist of personnel costs. The Group had 20 more employees than in the first quarter of 2019, resulting in higher total personnel costs. The level of cost is expected to decline somewhat during the second quarter, primarily due to other external costs in the form of canceled marketing activities and reduced travel.

EBITDA for the quarter totaled SEK 26.6m (38.4), corresponding to an EBITDA margin of 28.8% (38.5). Operating profit for the quarter amounted to SEK 14.4m (29.4).

Gross margin for the quarter amounted to 95.7% (97.9). The decline in margin is connected to a major transaction in Asia where third-party products were included as a component.

Operating expenses were reduced by SEK 23.1m (19.8) during the quarter through the capitalization of development costs for security products and software. Of the internally generated costs that were capitalized, SEK 19.3m (16.0) pertained to personnel costs.

In a year-on-year comparison, currency translation had a positive impact of SEK 2.0m on operating profit for the quarter.

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

INVESTMENTS AND FINANCING

During the first quarter of 2010 we focused on investments in our major product areas. These investments were in line with the fourth quarter 2019. Investments in software totaled SEK 23.1m (19.8) for the first quarter of 2020.

Investments in property, plant and equipment for the quarter totaled SEK 0.3m (0.7).

During the quarter, the bank overdraft facility was utilized, which is recognized in the consolidated balance sheet as liabilities to credit institutions and amounted to SEK 30.2m (24.9) on March 31, 2020. The bank overdraft facility is issued in SEK. The unutilized credit margin at March 31, 2020 amounted to SEK 194.8m (200.1).

Other interest-bearing liabilities in balance sheet pertain to current and non-current lease liabilities and amounted to SEK 51.6m (54.2) at March 31, 2020. Lease liabilities recognized in the balance sheet pertain to commitments for leases and the largest portion, SEK 47.6m (50.5), is connected to leases for our offices.

The equity/assets ratio at March 31, 2020 was 72% (72).

CASH FLOW AND LIQUIDITY

Cash flow from operating activities for the quarter amounted to SEK 15.0m [19.1]. The weaker operating profit during the quarter had some impact on cash flow from operating activities during the quarter.

Covid-19 did not have any material impact on our customers' ability to pay, and thus we did not see negative effects from this on cash flow during the quarter. However, the cash flow for the quarter was charged SEK 2.7m in higher preliminary tax payments for 2020 than in the year-earlier quarter.

Cash flow from investing activities for the quarter totaled SEK -23.1m [-20.4]. Most of these investments pertain to the capitalization of development costs for software.

Cash flow from financing activities for the quarter totaled SEK 1.1m [-2.2]. 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

As of March 31, 2020, the Group had net cash of SEK -24.4m [-18.4]. Cash and cash equivalents at the end of the quarter totaled SEK 57.4m [60.7]. In addition, the Group had unutilized bank overdraft facilities of SEK 194.8m [200.1]. The Group's total available cash and cash equivalents thus amounted to SEK 252.2m [260.8].

EMPLOYEES

The number of employees in IAR Systems at the end of the quarter was 224 [219]. The average number of employees during the quarter was 213 [193].

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 3.0m [3.0]. The Parent Company posted a loss after financial items of SEK -0.2m [-1.4].

Net investments in property, plant and equipment amounted to SEK 0.0m [0.0]. Cash and cash equivalents at March 31, 2020 totaled SEK 1.3m [1.3]. The number of employees in the Parent Company at the end of the quarter was four (four).

SIGNIFICANT RISKS AND UNCERTAINTIES

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

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

FUTURE OUTLOOK

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

FINANCIAL CALENDAR 2020

2020 Annual General Meeting, April 29, 2020
Interim report Jan-Jun 2020, August 19, 2020
Interim report Jan-Sep 2020, November 5, 2020

REVIEW

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

This information is inside information that I.A.R. Systems Group AB [publ] is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, by the contact person set out below, at 13.00 CET on April 29, 2020. Contact person: Josefin Skarin, IR-Contact, I.A.R. Systems Group AB, Email: josefin.skarin@iar.com

Income statement

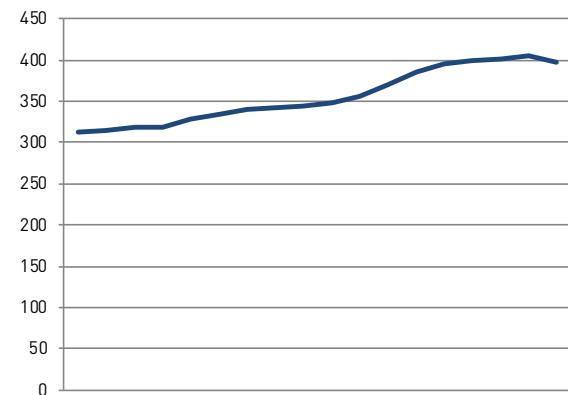
CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	3 months Jan-Mar		Full-year
		2020	2019	2019
Net sales	1, 2	92.3	99.8	405.6
Goods for resale		-4.0	-2.1	-10.8
Other external expenses		-13.8	-13.6	-63.7
Personnel costs		-47.9	-45.7	-185.3
Depreciation of property, plant and equipment		-0.7	-0.5	-3.1
Depreciation of right-of-use assets		-4.2	-2.2	-9.8
Amortization of intangible assets		-7.3	-6.3	-24.5
Operating profit		14.4	29.4	108.4
Financial income		0.4	0.3	1.2
Financial expenses		-0.5	-0.5	-2.6
Profit before tax		14.3	29.2	107.0
Tax		-3.2	-6.3	-25.8
Profit for the period		11.1	22.9	81.2
Earnings per share for the period, basic, SEK		0.81	1.68	5.96
Earnings per share for the period, diluted, SEK		0.81	1.68	5.95

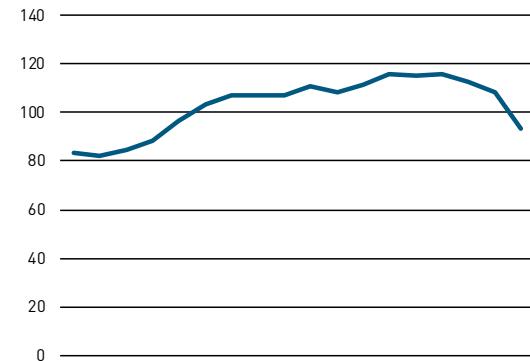
STATEMENT OF COMPREHENSIVE INCOME

SEK m	3 months Jan-Mar		Full-year
	2020	2019	2019
Profit for the period	11.1	22.9	81.2
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences	11.7	19.7	24.7
Total other comprehensive income	11.7	19.7	24.7
Comprehensive income for the period	22.8	42.1	105.9
Comprehensive income for the period attributable to owners of the Parent Company	22.8	42.1	105.9

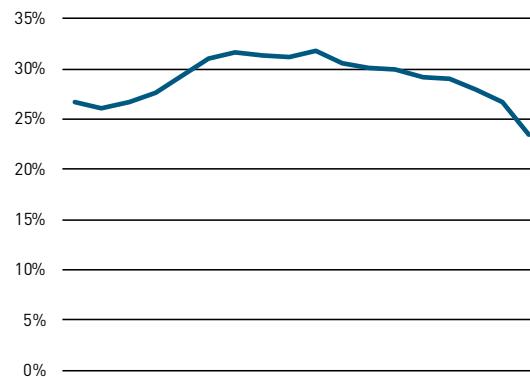
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS



Balance sheet

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
ASSETS				
Non-current assets				
Goodwill	3	362.1	354.5	357.2
Other intangible assets	4	229.6	164.3	210.5
Property, plant and equipment		7.4	6.3	7.3
Right-of-use assets		53.8	29.9	56.3
Financial assets	7	2.5	1.8	2.4
Deferred tax assets	5	7.7	15.1	5.3
Total non-current assets		663.1	571.9	638.9
Current assets				
Inventories		7.8	6.4	6.6
Other current assets	7	56.3	44.0	52.1
Trade receivables	7	64.5	69.7	66.6
Cash and cash equivalents	7	57.4	104.4	60.7
Total current assets		186.0	224.5	186.0
TOTAL ASSETS		849.1	796.4	824.9
EQUITY AND LIABILITIES				
Total equity		615.2	593.8	592.0
Non-current liabilities				
Lease liabilities	7	38.6	23.1	41.1
Other non-current liabilities		1.1	1.8	1.1
Deferred tax liabilities		27.5	33.8	26.5
Total non-current liabilities		67.2	58.7	68.7
Current liabilities				
Trade payables	7	6.8	9.4	9.2
Liabilities to credit institutions	7	30.2	—	24.9
Lease liabilities	7	13.0	8.1	13.1
Deferred income		89.0	82.3	85.2
Other current liabilities	7	27.7	44.1	31.7
Total current liabilities		166.7	143.9	164.2
TOTAL EQUITY AND LIABILITIES		849.1	796.4	824.9

CHANGES IN EQUITY, GROUP

SEK m	3 months Jan-Mar		Full- year
	2020	2019	2019
Equity at beginning of period	592.0	550.0	550.0
Share buybacks	—	—	0.0
Share warrants, after deductions for transaction costs and tax	—	—	0.4
Value of share-based remuneration	0.4	1.2	3.8
Dividend	—	—	-68.1
Comprehensive income for the period	22.8	42.6	105.9
Equity at end of period	615.2	593.8	592.0
Of which, attributable to owners of the Parent Company	615.2	593.8	592.0

Cash flows

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	3 months Jan-Mar		Full-year
	2020	2019	2019
Incoming payments from customers	93.5	92.3	401.2
Outgoing payments to suppliers and employees	-70.7	-68.1	-277.7
Interest received	0.0	0.0	0.0
Interest paid	-0.5	-0.5	-2.6
Income taxes paid	-7.3	-4.6	-15.2
Cash flow from operating activities	15.0	19.1	105.7
Investments in property, plant and equipment	-0.3	-0.7	-2.5
Investments in intangible assets	-22.8	-19.7	-81.1
Investments in subsidiaries	-	-	-18.6
Cash flow from investing activities	-23.1	-20.4	-102.2
Share warrants, after deductions for transaction costs	-	-	0.2
Amortization of financial liabilities	-4.2	-2.2	-14.5
Borrowings	5.3	-	30.4
Dividend	-	-	-68.1
Cash flow from financing activities	1.1	-2.2	-52.0
Cash flow for the period	-7.0	-3.5	-48.5
Cash and cash equivalents at beginning of period	60.7	106.1	106.1
Exchange difference in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of period	3.7	1.7	2.1
- attributable to cash flow for the period	0.0	0.1	1.0
Cash and cash equivalents at end of period	57.4	104.4	60.7

CASH AND CASH EQUIVALENTS, GROUP

SEK m	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
	2020	2019	2019
Cash and cash equivalents at end of period	57.4	104.4	60.7
Unutilized overdraft facilities	194.8	225.0	200.1
Total available cash and cash equivalents	252.2	329.4	260.8

Key ratios

GROUP

	3 months Jan–Mar	Full-year	
	2020	2019	2019
Gross margin, %	95.7	97.9	97.3
EBITDA, %	28.8	38.5	35.9
Operating margin, %	15.6	29.5	26.7
Profit margin, %	15.5	29.3	26.4
Cash flow, %	16.3	19.1	26.1
Equity/assets ratio, %	72.5	74.6	71.8
Return on equity, %	1.8	4.0	14.2
Return on capital employed, %	2.2	5.0	18.4
Capital employed, SEK m	697.0	626.3	671.1
Net cash, SEK m	-24.4	73.2	-18.4
Net debt/equity ratio, multiple	0.0	-0.1	0.0
No. of employees at end of period	224	206	219
Average no. of employees	213	193	201
Sales per employee, SEK m	0.4	0.5	2.0

SHARE DATA

	3 months Jan–Mar	Full-year	
	2020	2019	2019
Equity per share, SEK	45.14	43.58	43.43
No. of shares at end of period, million	13.63	13.62	13.63
Average no. of shares, million	13.63	13.62	13.63
Average no. of shares, diluted, million	13.66	13.66	13.66
Cash flow from operating activities per share, SEK	1.10	1.40	7.75
Earnings per share, SEK*	0.81	1.68	5.96
Earnings per share, diluted, SEK*	0.81	1.68	5.95

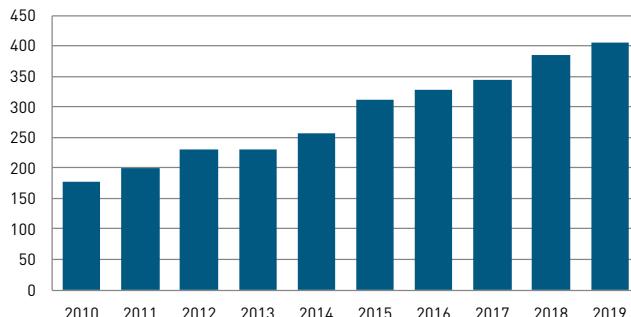
*Definition in accordance with IFRS. Refer also to definitions on page 16.

Multi-year overview

	Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	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, capitalization, SEK	Market
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



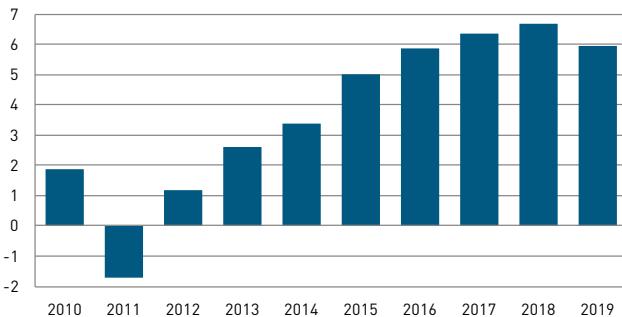
EBITDA AND EBITDA MARGIN



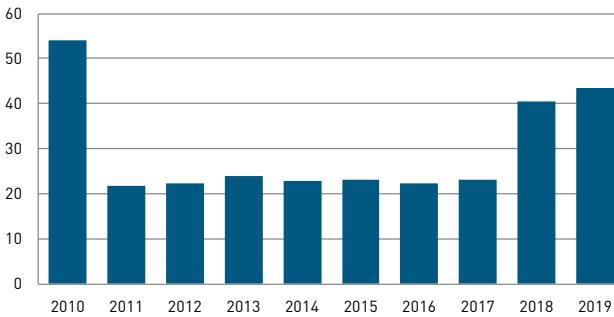
OPERATING PROFIT AND OPERATING MARGIN



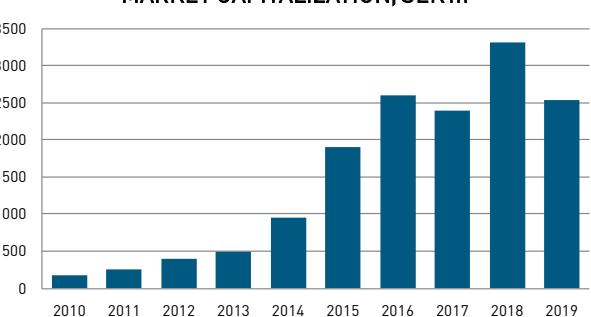
EARNINGS PER SHARE, SEK



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, capitalization, SEK	Market
2020	Q1	92.3	26.6	28.8	14.4	15.6	0.81	1.8	1.10	45.14	116.40	1,587
2019	Q4	106.8	37.0	34.6	27.1	25.4	1.47	3.4	2.27	43.43	186.00	2,535
	Q3	100.0	37.5	37.5	28.1	28.1	1.58	3.9	2.00	42.11	234.50	3,196
	Q2	99.0	32.9	33.2	23.8	24.0	1.23	2.9	2.11	39.63	269.50	3,673
	Q1	99.8	38.4	38.5	29.4	29.5	1.68	4.0	1.40	43.58	260.00	3,542
2018	Q4	102.8	37.6	36.6	31.1	30.3	1.60	3.9	2.45	40.38	243.00	3,310
	Q3	97.9	37.8	38.6	31.3	32.0	1.97	5.0	1.09	40.88	258.50	3,518
	Q2	95.6	30.0	31.4	23.7	24.8	1.20	3.2	1.86	37.29	277.00	3,770
	Q1	88.9	34.7	39.0	29.5	33.2	1.81	5.7	1.51	32.76	230.00	2,905
2017	Q4	87.6	31.9	36.4	26.8	30.6	1.56	7.0	2.64	22.99	189.00	2,387
	Q3	84.2	33.8	40.1	28.6	34.0	1.61	7.7	2.52	21.56	180.50	2,280
	Q2	86.8	30.9	35.6	25.8	29.7	1.68	7.7	2.56	20.09	175.00	2,211
	Q1	86.4	30.6	35.4	26.2	30.3	1.49	6.5	2.10	23.58	200.00	2,526
2016	Q4	85.0	31.2	36.7	26.7	31.4	1.59	7.5	3.13	22.13	206.00	2,602
	Q3	81.1	32.9	40.6	28.5	35.1	1.73	8.8	2.54	20.44	190.00	2,400
	Q2	81.8	26.0	31.8	22.1	27.0	1.34	6.2	1.63	18.64	157.00	1,983
	Q1	80.5	23.1	28.7	19.2	23.9	1.20	5.1	1.74	24.20	172.50	2,179
2015	Q4	75.9	22.2	29.2	18.4	24.2	1.09	4.9	2.22	23.03	150.00	1,895
	Q3	79.8	28.9	36.2	25.0	31.3	1.49	7.0	1.63	21.96	103.25	1,304
	Q2	79.1	23.5	29.7	19.7	24.9	1.21	5.4	2.51	20.43	99.75	1,260
	Q1	76.9	23.7	30.8	20.3	26.4	1.23	5.2	1.45	24.36	104.00	1,314
2014	Q4	66.1	16.3	24.7	13.5	20.4	0.84	3.8	1.27	22.85	74.75	944
	Q3	64.9	18.4	28.4	15.6	24.0	1.06	5.0	1.89	21.83	68.25	862
	Q2	62.7	15.2	24.2	12.7	20.3	0.78	3.4	1.33	20.72	68.50	861
	Q1	62.0	13.7	22.1	11.4	18.4	0.68	2.8	1.12	24.68	57.57	780
2013	Q4	61.5	12.6	20.5	10.1	16.4	0.58	2.5	0.84	23.90	39.77	491
	Q3	54.9	17.9	32.6	15.4	28.1	0.96	4.3	1.56	22.77	38.93	453
	Q2	56.1	9.7	17.3	7.7	13.7	0.53	2.4	0.97	21.42	34.40	388
	Q1	57.7	10.4	18.0	8.1	14.0	0.53	2.3	0.17	22.87	36.07	407
2012	Q4	59.5	11.7	19.7	9.8	16.5	-0.48	-2.1	1.34	22.34	35.24	397
	Q3	56.2	12.0	21.4	10.1	18.0	0.75	3.3	0.68	22.84	37.82	426
	Q2	56.4	8.8	15.6	7.3	12.9	0.42	1.9	1.27	22.15	39.77	448
	Q1	58.0	9.3	16.0	8.0	13.8	0.48	2.2	0.12	22.22	32.37	355
2011	Q4	57.5	9.4	16.3	7.7	13.4	0.96	4.5	1.20	21.82	22.66	248
	Q3	48.2	8.3	17.2	7.1	14.7	0.67	3.3	1.07	20.92	20.25	222
	Q2	48.9	6.7	13.7	5.4	11.0	0.49	1.4	1.19	20.09	21.83	239
	Q1	45.8	5.0	10.9	3.8	8.3	0.33	0.6	-0.37	50.35	17.76	195
2010	Q4	48.0	3.5	7.3	2.2	4.6	0.19	-0.6	0.47	54.16	16.41	180
	Q3	44.2	5.5	12.4	4.4	10.0	0.39	1.4	0.23	55.50	12.58	138
	Q2	42.1	3.2	7.6	2.4	5.7	0.24	1.1	0.33	53.81	13.65	150
	Q1	43.6	3.9	8.9	2.9	6.7	0.26	1.6	0.22	54.42	13.89	152

* Definition in accordance with IFRS.

Parent Company

CONDENSED INCOME STATEMENT

SEK m	3 months Jan-Mar		Full-year
	2020	2019	2019
Net sales	3.0	3.0	12.2
Operating expenses	-4.5	-4.4	-16.3
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-1.5	-1.4	-4.1
Result from financial investments	1.3	-0.0	97.8
Loss before tax	-0.2	-1.4	93.7
Tax	0.0	0.3	-20.1
Profit/loss for the period	-0.2	-1.1	73.6

STATEMENT OF COMPREHENSIVE INCOME

SEK m	3 months Jan-Mar		Full-year
	2020	2019	2019
Profit/loss for the period	-0.2	-1.1	73.6
Other comprehensive income for the period Items that may be reclassified subsequently to profit or loss:			
Change in value of non-current securities	-	-	-
Total other comprehensive income	-	-	-
Comprehensive income for the period	-0.2	-1.1	73.6

CONDENSED BALANCE SHEET

SEK m	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	0.1	0.1	0.1
Shares in subsidiaries	480.1	476.3	480.1
Other financial assets	0.1	0.1	0.1
Deferred tax assets	0.0	0.3	0.0
Total non-current assets	480.3	476.8	480.3
Current assets			
Receivables from subsidiaries	104.5	48.4	84.8
Other current assets	7.3	8.9	1.8
Cash and cash equivalents	1.3	10.4	1.3
Total current assets	113.1	67.7	87.9
TOTAL ASSETS	593.4	544.5	568.2
EQUITY AND LIABILITIES			
Total equity	511.9	501.1	512.1
Current liabilities			
Trade payables	0.3	0.5	0.4
Liabilities to credit institutions	30.2	-	24.9
Liabilities to subsidiaries	48.8	21.0	26.1
Other current liabilities	2.2	21.9	4.7
Total current liabilities	81.5	43.4	56.1
TOTAL EQUITY AND LIABILITIES	593.4	544.5	568.2

Notes

1. ACCOUNTING POLICIES

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

The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report. New or revised standards and new interpretations from the International Accounting Standards Board (IASB) and the IFRS Interpretation Committee (IFRIC) and amendments to RFR 2 effective as of January 1, 2020 have not had any material impact on the financial statements of the Group or the Parent Company.

Disclosures in accordance with IAS 34 Interim Financial Reporting are included in both the notes and in other parts of the interim report. With consideration given to the connection between accounting and taxation, IFRS 16 does not need to be applied in legal entities. The Parent Company has chosen to apply this exemption.

2. NET SALES

Net sales are distributed as follows:

	3 months Jan-Mar		Full-year
SEK m	2020	2019	2019
Development tools	91.4	99.4	403.9
Security solutions	0.9	0.4	1.7
Net sales	92.3	99.8	405.6

	3 months Jan-Mar		Full-year
SEK m	2020	2019	2019
License-based revenue	50.5	59.7	236.3
Support and software updates	37.5	32.6	146.3
Royalty-based revenue	–	1.4	5.9
Other	4.3	6.1	17.1
Net sales	92.3	99.8	405.6

At a certain point in time	54.8	65.8	253.4
Over time	37.5	34.0	152.2
Net sales	92.3	99.8	405.6

SEK m	3 months Jan-Mar		Full-year
	2020	2019	2019
Americas	30.0	32.2	141.2
Asia	27.3	28.4	111.3
Europe	34.6	37.2	144.5
Not allocated by region	0.4	2.0	8.6
Net sales	92.3	99.8	405.6

3. GOODWILL

Goodwill increased by SEK 4.9m during the quarter as a result of currency translation. Goodwill is tested annually or when a requirement for impairment is indicated. Goodwill is recognized at cost less accumulated impairment. The impairment test performed at year-end did not indicate any requirement for impairment. No indications of impairment arose during the period. Goodwill at March 31, 2020 amounted to SEK 362.1m (357.2).

4. OTHER INTANGIBLE ASSETS

During the quarter, other intangible assets increased by SEK 19.1m. Operating expenses were reduced by SEK 23.1m (19.8) during the quarter through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 19.3m (16.0) pertained to personnel costs.

5. DEFERRED TAX ASSETS

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. As of March 31, 2020, the Group had accumulated loss carryforwards outside Sweden of SEK 233m, of which SEK 135m (122) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 7.7m (5.3), of which SEK 22.9m (19.9) pertains to loss carryforwards. The item deferred tax asset also includes deferred tax liabilities that will be recognized in a net amount since they are connected to the same tax subject.

Notes, cont.

6. PLEDGED ASSETS

SEK m	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	4.0	3.0	3.7
Total pledged assets	5.8	4.8	5.5

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

7. INFORMATION ABOUT MEASUREMENT AT FAIR VALUE

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

Definitions

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

Key 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.

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Net sales	92.3	99.8
Goods for resale	-4.0	-2.1
Gross profit	88.3	97.7
Gross margin	95.7%	97.9%
	97.3%	

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

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Operating profit	14.4	29.4
Depreciation of property, plant and equipment	0.7	0.5
Depreciation of right-of-use assets	4.2	2.2
Amortization of intangible assets	7.3	6.3
EBITDA	26.6	38.4
	145.8	

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

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Net sales	92.3	99.8
EBITDA	26.6	38.4
EBITDA margin	28.8%	38.5%
	35.9%	

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

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Net sales	92.3	99.8
Operating profit	14.4	29.4
Operating margin	15.6%	29.5%
	26.7%	

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

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Net sales	92.3	99.8
Profit before tax	14.3	29.2
Profit margin	15.5%	29.3%
	26.4%	

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

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Profit after tax	11.1	22.9
Average equity	603.6	571.9
Return on equity	1.8%	4.0%
	14.2%	

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

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Net sales	92.3	99.8
Cash flow from operating activities	15.0	19.1
Cash flow	16.3%	19.1%
	26.1%	

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

	Mar 31, 2020	Dec 31, 2019	Mar 31, 2019	Dec 31, 2018
SEK m				
Interest-bearing liabilities	81.8	79.1	31.2	2.8
Cash and cash equivalents	-57.4	-60.7	-104.4	-106.1
Net interest-bearing liabilities	24.4	18.4	-73.2	-103.3
Net debt/equity ratio	0.0	0.0	-0.1	-0.2

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

	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
SEK m			
Equity	615.2	593.8	592.0
Total assets	849.1	796.4	824.9
Equity/assets ratio	72.5%	74.6%	71.8%

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

	Mar 31, 2020	Dec 31, 2019	Mar 31, 2019	Dec 31, 2018
SEK m				
Equity	615.2	592.0	593.8	507.6
	3 months Jan-Mar	Full-year		
SEK m				
Average equity	603.6	571.9	571.0	

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

	3 months Jan-Mar	Full-year
SEK m	2020	2019
Profit before tax	14.3	29.2
Financial expenses	0.5	0.5
Profit before tax plus financial expenses	14.8	29.7
Return on capital employed	2.2%	5.0%
	18.4%	

Reconciliations, cont.

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

SEK m	Mar 31, 2020	Dec 31, 2019	Mar 31, 2019	Dec 31, 2018
Cash and cash equivalents	57.4	60.7	104.4	106.1
Interest-bearing liabilities	-81.8	-79.1	-31.2	-2.8
Net cash	-24.4	-18.4	73.2	103.3

CAPITAL EMPLOYED is calculated as total assets less non-interest-bearing liabilities. Average capital employed is calculated as capital employed at the beginning of the period plus capital employed at the end of the period divided by two.

SEK m	Mar 31, 2020	Dec 31, 2019	Mar 31, 2019	Dec 31, 2018
Total assets	849.1	824.9	796.4	722.2
Non-interest-bearing liabilities	-152.1	-153.8	-171.4	-169.4
Capital employed	697.0	671.1	625.0	522.8

SEK m	3 months 2020	Jan-Mar 2019	Full-year 2019
Average capital employed	684.0	588.9	597.0

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

SEK m	Mar 31, 2020	Dec 31, 2019	Mar 31, 2019	Dec 31, 2018
Equity	615.2	592.0	593.8	550.0
No. of shares at end of period, million	13.63	13.63	13.62	13.62
Equity per share	45.14	43.43	43.58	40.38

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 Jan-Mar		Full-year
	2020	2019	2019
Cash flow from operating activities	15.0	19.1	105.7
Average no. of shares, million	13.63	13.62	13.63
Cash flow from operating activities per share	1.10	1.40	7.75

The IAR Systems share

I.A.R. Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. During the quarter, the share price varied from a low of SEK 95.80 (236.50) to a high of SEK 193.40 (278.00). The share price at March 31, 2020 was SEK 116.40 (260.00). I.A.R. Systems Group's market capitalization on the same date was SEK 1,587m (3,542).

The number of shareholders in I.A.R. Systems Group at March 31, 2020 was 7,258 (7,331). Of these shareholders, 422 (421) held more than 1,000 shares each. Foreign shareholders held approximately 34% (32) of the share capital and 32% (30) of the votes.

I.A.R. Systems Group's share capital at March 31, 2020 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,533,475 are class B shares and 334,858 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, 3,000 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 24,830 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 warrant program for employees in Secure Thingz. Stock option holders exchange their stock options in Secure Thingz for new stock options in I.A.R. Systems Group AB. The economic value of the new warrants is to correspond to the value of the existing warrants. A total of 575,000 warrants in Secure Thingz have been exchanged for 73,413 warrants in I.A.R. Systems Group AB in accordance with the approval from the Extraordinary General Meeting held on June 15, 2018. Of the 73,413 warrants, 27,450 have an exercise price of SEK 6.50 and 45,963 have an exercise price of SEK 26.00. The vesting of the warrants in the warrant program will continue until October 2022 and the program extends until 2027. Vested warrants can be exercised on an ongoing basis until 2027 at the latest. A total of 24,830 warrants were exercised in and 16,894 options were forfeited.

INCENTIVE PROGRAMS

	Total	Subscribed /Allotted	Qualifying year				Past due/forfeited
			2018	2019	2020	2021	
LTIP2018							
Share warrants	315,000	243,500	80,813	4,850	80,862	n/a	76,975
Stock options	285,000	254,000	58,648	3,520	58,699	n/a	133,133
LTIP 2019							
Share warrants	151,500	63,000	n/a	1,160	19,323	19,355	23,162
Stock options	381,000	355,000	n/a	6,110	101,150	101,877	145,198
EXCHANGE ALLOTMENT 2018							
	Total	Subscribed/Allocated	Exercised Mar 31, 2020	Forfeited Mar 31, 2020	Qualified Mar 31, 2020	Qualified after Mar 31, 2020	
Stock options	73,413	73,413	24,830	16,894	16,900	14,789	

2020 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of I.A.R. Systems Group AB will be held on April 29, 2020, at Spårvagnshallarna, Birger Jarlsgatan 57 A, in Stockholm. 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, and at the company's offices at Kungsgatan 33 in Stockholm and Strandbodgatan 1 in Uppsala.

NOMINATING COMMITTEE

In accordance with the decision of the AGM in April 2019, the nominating committee has been appointed and consists of Jonas Eixmann (Andra AP-fonden), Malin Björkmo Handelsbanken Fonder) and Jonas Wikström (representing Stefan Skarin). Jonas Eixmann was appointed Chairman of the nominating committee. The nominating committee's motions for the 2020 AGM are available on the company's website, www.iar.com.

PROPOSED DIVIDEND

The Board proposes that no decision regarding dividends be made at the AGM. The Board intends to convene an Extraordinary General Meeting to be held no later than November 2020 to discuss the issue.

BREAKDOWN OF SHAREHOLDINGS

	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1–100	5,030	69	1	1
101–1,000	1,806	25	5	4
1,001–10,000	335	5	7	7
10,001–	87	1	87	88
Total *	7,258	100	100	100

* excluding 334,858 class C shares held in treasury

GEOGRAPHICAL DISTRIBUTION

	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	7,051	97	66	68
Europe excl. Sweden	170	2	27	26
Other countries	37	1	7	6
Total *	7,258	100	100	100

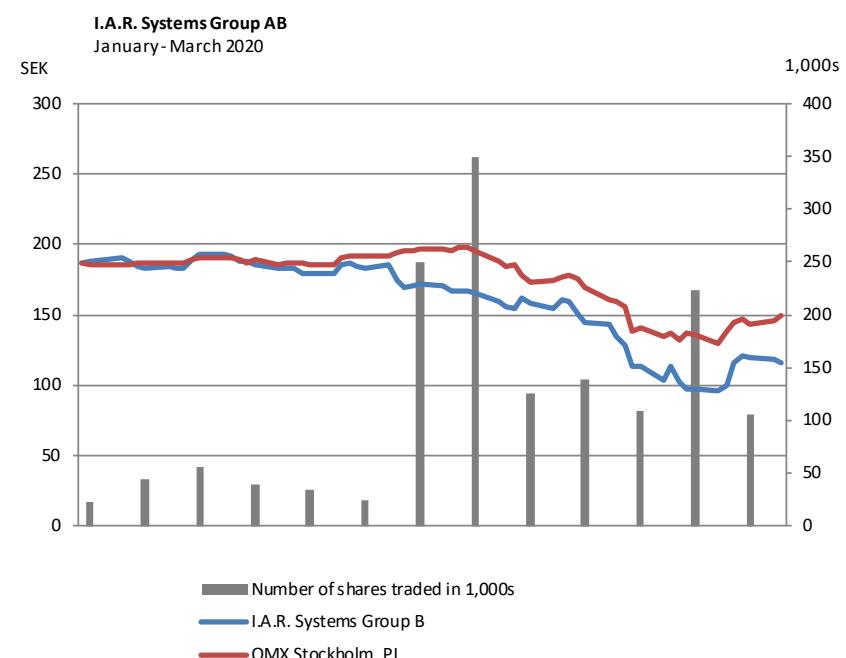
* excluding 334,858 class C shares held in treasury

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 **	225,215	2	8
SEB S.A.	862,885	6	6
Swedbank Robur Fonder	839,806	6	6
Other	9,233,648	68	63
Total *	13,633,475	100	100

* excluding 334,858 class C shares held in treasury

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



Investment case

IAR Systems is a world-leading supplier of programming tools and services for embedded systems. These tools and services enable the development of digital products for over 46,000 corporate clients and 150,000 developers, supported by growing demand for digital technology, primarily within industrial automation, medical technology, telecommunication, consumer electronics and the automotive 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 36 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 tailorabile business model includes selling flexible user licenses for access to the IAR Embedded Workbench software, which enables close customer relations, a high level of customer loyalty – 95% of customers return – and even revenue streams. For 36 years, this core business has been a springboard to larger and growing markets. One such example is the company's shared vision and collaboration with Secure Thingz, which began in 2018 and has significantly expanded the com-

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

SUPERIOR TECHNOLOGY WITH NEW PATENTED ADDITIONS

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

1. IAR Systems offers a unique product range consisting of a complete tool chain for product developers.
2. IAR Systems is independent and thereby supports a variety of different processor architectures, which means that customers can choose the exact programming environment that fits their needs, regardless of processor and project. This way,

customers do not need to lock themselves into a particular technical platform, which provides a number of advantages, such as being able to reuse 70–80% of previously written code.

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

4. Through the acquisition of Secure Thingz, both companies have together developed a unique, patented technology that aims to fulfill the customer's need to protect its intellectual property. This can also be a crucial determining factor when it comes to maximizing the market potential for security for embedded systems.

THE SPREAD OF DIGITAL TECHNOLOGY AND IOT IS DRIVING MARKET GROWTH

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

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

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

5. Unexploited potential within security solutions for embedded systems. Secure Thingz operates as its own company, but takes advantage of IAR Systems' worldwide sales and support organization, and thereby its large and loyal customer base. To illustrate the market potential, ABI Research predicts that the security market for embedded systems will grow quickly as the number of secure IoT products grows from today's 4% to close to 20% by 2022.

6. The processor architecture RISC-V will challenge the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area. In 2019, IAR Systems released a new version of IAR Embedded Workbench for RISC-V supporting custom extensions and further optimizing code speed.

ENGAGED TEAM WHO KNOWS HOW TO TAKE ADVANTAGE OF GROWTH POTENTIAL

IAR Systems' global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all countries where it operates.

Our employees' diverse cultural backgrounds, unique perspectives and local knowledge are important contributing factors to IAR Systems' strong presence worldwide, and enable the company to meet customers in their own markets. By sharing knowledge and experience among highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.





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