

MODELON AB (publ) – INTERIM REPORT

July – September 2020

November 27, 2020

Modelon is publishing this interim quarterly report to selected audience only.

Summary Financials

| MSEK | Q3, Jul - Sep | | | YTD, Jan - Sep | | |
|----------------------------|---------------|-------|--------|----------------|--------|--------|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Revenues | 24,8 | 25,3 | -2% | 84,0 | 77,3 | 9% |
| Software revenues | 8,9 | 10,0 | -11% | 27,5 | 28,0 | -2% |
| recurring revenue | 7,5 | n.a. | | 22,7 | n.a. | |
| Service revenues | 15,9 | 15,3 | 4% | 56,5 | 49,3 | 14% |
| Operating EBIT | 1,4 | -1,2 | - | 1,3 | -9,3 | - |
| EBIT margin | 5,7% | -4,8% | | 1,5% | -12,0% | |
| Net result after tax | 1,4 | -0,8 | - | 1,1 | -8,9 | - |
| Net result per share (SEK) | 0,18 | -0,11 | | 0,14 | -1,17 | |
| Cash balance | 62,0 | 43,9 | 41% | 62,0 | 43,9 | 41% |

| | |
|---|--|
| Significant events during the quarter | Significant events after the period |
| <ul style="list-style-type: none">• Modelon Impact's first release on market• New financing 27,8 MSEK• Loan re-payment 9 MSEK | <ul style="list-style-type: none">• None |

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About Modelon

Modelon provides software solutions and expert services to organizations that use model-based simulation tools to innovate, design and operate technical systems. Our customers are global technology and engineering companies in automotive, aerospace, energy, and industrial equipment industries. Modelon has around 100 employees with headquarters in Lund, Sweden, and offices in Sweden, USA, Germany, Japan, India, and Czech Republic.

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Comments from the CEO

The third quarter continues to be reflective of the overall status of the global Simulation & Analysis market with its flat pandemic 2020 being an exception to the normal high single-digit growth. Our response measures to the pandemic uncertainties implemented mostly during the second quarter continue to have a significant positive effect on our bottom line. The additional financing round closed in Q3 with a single US minority investor with strong affiliation to the CAE market further adds to our robustness looking forward.

With our novel web-based simulation platform Modelon Impact released early in this quarter we are now very well positioned as the market resumes to normal strength. This strongly differentiating SaaS offering is natively designed to meet the demands of accelerating digitalization of engineering and industry trends towards cloud, collaboration, and democratization of simulation. The sales and marketing focus during the present quarter is on digital and remote format activities in our key markets to grow awareness and pipeline for Modelon Impact to feed into upcoming 2021 business with the normal CAE market sales cycles of 6-12 months. We are also keeping a high momentum in further strengthening and positioning the platform based on our development roadmaps and customer feedback. We are very satisfied with the positive market reception that well acknowledges our direction and positioning with Modelon Impact and manifests in a growing lead count.

We remain fully confident in our long-term growth ambitions at substantially larger than market pace, even if pandemic-induced uncertainties continue to be substantial and influence the current period as we continue to experience effects of spending caution in e.g., automotive and aerospace. With Modelon Impact now becoming solidly established on the market we are looking at 2021 and beyond the pandemic period with great confidence and enthusiasm!



A handwritten signature in blue ink, which appears to read "Magnus Gäfvert". The signature is fluid and cursive.

Magnus Gäfvert, CEO

Financial development

Revenues

Revenues amounted to 24,8 (25,3) MSEK in the quarter, which is a slight contraction by -2% compared to last year, and still exhibiting an under circumstances solid YTD growth of 9% with 84,0 (77,3) MSEK. Software revenues at 8,9 (10,0) MSEK shows a contraction of -11% which is partly caused by strong one-off deals in Q3 2019, while YTD software revenues remain mostly flat at 27,5 (28,0) MSEK, with recurring revenues at 7,5 MSEK representing healthy 84% in the period and 22,7 MSEK or 83% YTD. Service revenues continue to show strength at 15,9 (15,3) MSEK in the period and 56,5 (49,3) MSEK YTD, with strong contribution from the co-development engagement with a major US enterprise customer which substantially contributes to acceleration of Modelon Impact development.

Profit & Loss

The EBIT in Q3 of 1,4 (-1,2) MSEK is lifted by our cautionary pandemic measures, with the continued high investment rate in our new Modelon Impact platform showing in the pro-forma adjusted EBIT of 3,9 (3,3) MSEK. The YTD EBIT of 1,3 (-9,3) MSEK and adjusted EBIT margin 14,8% (0,6%) are correspondingly strong and well above pre-pandemic plans. Our liquidity is strong at end of Q3 with 62,0 (43,1) MSEK including funds from the financing round closed in July.

Research and development costs

Modelon is not capitalizing any development costs, all research and development are accounted for as operating expense. Instead adjusted EBIT is reported as a comparable KPI, taking into account a subset of development costs for the new Modelon Impact product. Development costs used for the adjustment amounted to 2,5 (4,5) MSEK during the third quarter. For the quarter, adjusted EBIT is calculated as accounted EBIT + Modelon Impact development cost = 1,4 + 2,5 = 3,9 MSEK.

Pro-forma KPIs

Modelon presents selected financial KPIs which are not defined according to Swedish GAAP, and which are considered to provide valuable complementary information to investors in assessing company performance. Since companies may define such metrics differently, we suggest caution in using these for comparison between companies. These metrics should not be considered as replacing any metrics defined in Swedish GAAP.

| MSEK | Q3, Jul - Sep | | | YTD, Jan - Sep | | |
|-------------------------------|---------------|-------|--------|----------------|------|--------|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Annual recurring revenue, ARR | 30,0 | n.a. | | 30,0 | n.a. | |
| Accelerated development | 4,2 | 4,5 | -7% | 16,1 | 15,7 | 3% |
| Development costs | 6,9 | 8,1 | -15% | 24,2 | 23,6 | 3% |
| EBIT (adjusted) | 3,9 | 3,3 | 20% | 12,5 | 0,4 | - |
| Adj. EBIT margin | 15,9% | 12,9% | | 14,8% | 0,6% | |

Definitions

Annual Recurring Revenue (ARR) is defined as the accounted recurring software revenue from the last reported quarter times four and is included to demonstrate SaaS business performance. **Accelerated development** includes revenue from services business that is directly funding development of Modelon Impact and is included to illustrate how this share of the services revenue generates value to the software business.

Development costs include the operating costs and investments in our complete software product portfolio, excluding costs for Accelerated development activities. **Adjusted EBIT** is defined as the accounted EBIT + major Modelon Impact development costs and is included to illustrate the effect of these product development investments on the EBIT as no such costs are capitalized.

Net financial income

Net financial income for the third quarter amounted to -0,1 MSEK, there were no significant effects to report during the period.

Net result after tax

Net results after tax in the quarter amounted to +1,4 MSEK, corresponding to 0,18 SEK per share. Tax revenues refer to deferred tax assets for the Swedish entity and does not affect cash flow.

Financing and cash flow

By September 30, Modelon's total available funds amounted to 64,0 (45,9) MSEK, out of which cash balance amounted to 62,0 (43,9) MSEK and unutilized credit facilities amounted to 2,0 (2,0) MSEK. During the period a long-term external loan in the amount of 9,0 MSEK has been repaid in full. Funds added from share issue financing activities amounted to 27,8 MSEK.

Significant risks and uncertainties

Deferred tax assets consist of 4,9 MSEK carry-forward of losses for Modelon AB. The assessment that these losses can be used towards future profits is based on current strategy and business plan for the Modelon Impact web-based simulation platform.

Shares

As of September 30, 2020, the total number of shares in Modelon is 7 607 381. The Company's registered share capital is 637 134 SEK. This is after the new share issue of 645 000 shares.

Ongoing incentive programs

The general meeting held on June 12, 2020, decided on a 2020 incentive program for Modelon employees globally. The incentive program, 2020/2024, consists of (1) warrants for Swedish employees and (2) personnel options for employees outside Sweden. In total under 2019 and 2020 warrant programs, 174 000 warrants and 124 000 personnel options in the respective category have been issued. The warrants are offered at market price based on the Black & Scholes valuation model. The subscriptions during 2020 were made at a price of 1,89 SEK per warrant. Modelon has the right to repurchase the warrants in case the employment ceases.

Other significant events after the reporting period

Current development with the Coronavirus (COVID-19) pandemic is creating a lot of uncertainty in the market. It is difficult to quantify the impact on future business, and Modelon is day-by-day assessing the situation and taking appropriate action as well as planning for different scenarios. Routines are put in place for securing work-place safety and business continuity in the current situation, based on recommendations and directives from authorities.

From end of Q3 2020 until making this financial report public the Coronavirus (COVID-19) pandemic has had moderate effect on Modelon's bottom line business and financial outcome, to some extent compensated by government support packages such as partial tax relief made available in our regions. The overall uncertainty in the market could have impact on the level of future orders and cancelled orders. The Board of Directors assesses that going concern assumptions are present.

Financial statement

| Consolidated Income Statement MSEK | Q3, Jul - Sep | | YTD, Jan - Sep | |
|---|---------------|--------------|----------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net revenue | 24,7 | 24,5 | 83,7 | 75,0 |
| Other operating income | 0,1 | 0,9 | 0,3 | 2,3 |
| Total revenue | 24,8 | 25,3 | 84,0 | 77,3 |
| Operating expenses | | | | |
| License costs | 0,0 | -0,6 | 0,0 | -2,5 |
| Other external expenses | -7,4 | -8,5 | -28,1 | -29,4 |
| Personnel costs | -15,2 | -16,4 | -50,4 | -51,9 |
| Depreciation and amortization | -0,5 | -0,4 | -1,4 | -1,4 |
| Other operating expenses | -0,4 | -0,7 | -2,8 | -1,4 |
| Total operating expenses | -23,4 | -26,6 | -82,7 | -86,6 |
| Operating result | 1,4 | -1,2 | 1,3 | -9,3 |
| Financial items | | | | |
| Other interest income and similar items | 0,0 | 0,2 | 0,0 | 0,6 |
| Interest expenses and similar items | -0,1 | 0,0 | -0,3 | 0,0 |
| Net result from financial items | -0,1 | 0,2 | -0,3 | 0,6 |
| Profit/loss before tax | 1,3 | -1,1 | 0,9 | -8,7 |
| Tax | 0,0 | 0,3 | 0,1 | -0,2 |
| Net profit/loss | 1,4 | -0,8 | 1,1 | -8,9 |

| Consolidated Balance Sheet MSEK | 2020-09-30 | 2019-12-31 | 2019-09-30 |
|---|-------------|-------------|-------------|
| Fixed assets | | | |
| Patents, licenses, trademarks and similar | 0,7 | 1,1 | 0,7 |
| Equipment, tools and installations | 2,0 | 2,0 | 2,0 |
| Receivables from group companies | | | |
| Deferred tax assets | 4,9 | 4,8 | 1,3 |
| Total fixed assets | 7,6 | 7,9 | 4,1 |
| Current assets | | | |
| Accounts receivable | 19,5 | 27,7 | 24,6 |
| Current tax receivables | | | |
| Other receivables | 5,9 | 7,4 | 7,6 |
| Generated not yet invoiced income | | | |
| Pre-paid expenses and accrued income | | | |
| Cash and bank | 62,0 | 33,3 | 43,9 |
| Total current assets | 87,4 | 68,4 | 76,1 |
| TOTAL ASSETS | 95,0 | 76,3 | 80,2 |

| Consolidated Balance Sheet, cont. | 2020-09-30 | 2019-12-31 | 2019-09-30 |
|--|-------------------|-------------------|-------------------|
| MSEK | | | |
| Shareholders' equity | | | |
| Share capital | 0,6 | 0,6 | 0,6 |
| Other equity incl. net profit/loss | 61,1 | 34,0 | 34,7 |
| Total shareholders' equity | 61,7 | 34,6 | 35,3 |
| Liabilities | | | |
| Deferred tax liability | 0,0 | 0,1 | |
| Long-term liabilities to parent company | 0,0 | 9,0 | 9,0 |
| Accounts payable | 3,0 | 2,9 | 6,6 |
| Current tax liabilities | | | |
| Other liabilities | 30,3 | 29,7 | 29,3 |
| Invoiced not yet generated income | | | |
| Accrued expenses and pre-paid income | | | |
| Total liabilities | 33,3 | 41,7 | 44,9 |
| TOTAL EQUITY AND LIABILITIES | 95,0 | 76,3 | 80,2 |

| Consolidated Cash Flow Statement | Q3, Jul - Sep | | YTD, Jan - Sep | |
|---|----------------------|-------------|-----------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| MSEK | | | | |
| Operating income | 1,4 | -1,2 | 1,3 | -9,3 |
| Adjustment for non-cash items | -0,6 | 0,1 | 2,2 | 1,4 |
| Interests and paid taxes | -0,2 | -0,3 | -1,0 | -1,8 |
| Changes in working capital | -1,6 | 0,4 | 6,9 | 4,2 |
| Cash flow from operating activities | -1,0 | -1,0 | 9,4 | -5,5 |
| Cash flow from investing activities | -0,5 | -0,1 | -1,1 | -0,9 |
| Cash flow from financing activities | 17,2 | 37,6 | 20,3 | 37,2 |
| Net increase/decrease in cash and equiv. | 15,7 | 36,5 | 28,6 | 30,8 |
| Cash and liquid assets at start of period | 46,1 | 7,2 | 33,3 | 12,7 |
| Exchange rate differences | 0,2 | 0,3 | 0,0 | 0,5 |
| Cash and liquid assets at end of period | 62,0 | 43,9 | 62,0 | 43,9 |

Accounting principles

Consolidated interim quarterly report for the Group is prepared in accordance with Swedish GAAP, Annual accounting act, according to the same principles as the Annual report. There has been no change in principles since the 2019 annual report was published.

Software license renewals and subscription revenue is accrued over the license validity period, and service revenue is generated as the services are completed (POC).

The financial statements are presented in SEK, the functional currency of Modelon AB. Sales are largely generated in foreign currency, mainly EUR and USD and, in addition, foreign subsidiaries are included in the consolidation. The income statement is translated at the period-average exchange rate while balance sheet items are translated at the closing rate.