

MODELON AB (publ) – YEAR-END REPORT

January – December 2020

March 15, 2021

Summary Financials

MSEK	Q4, Oct - Dec			YTD, Jan - Dec		
	2020	2019	Change	2020	2019	Change
Annual recurring revenue, ARR*	28,7	27,5	5%	28,7	27,5	5%
Revenues	33,1	27,5	20%	117,1	104,8	12%
Software revenues	9,0	9,3	-3%	36,5	37,3	-2%
recurring revenue	7,2	6,9	5%	30,0	n.a.	
Service revenues	19,7	17,4	13%	75,9	64,4	18%
Other operating income	4,3	0,8		4,6	3,1	
Operating EBIT	3,2	-2,8	-	4,5	-12,1	-
EBIT margin	9,7%	-10,2%		3,8%	-11,5%	
Net result after tax	2,2	-0,1	-	3,3	-9,0	-
Net result per share (SEK)	0,29	-0,02		0,43	-1,18	
Cash balance	50,3	33,3	51%	50,3	33,3	51%

* See section "Pro-forma KPIs" on page 3 for definition of ARR.

Significant events during the quarter	Significant events after the period
<ul style="list-style-type: none">• Key Modelon Impact delivery milestone reached in co-development partnership with a US enterprise customer• New board member Eric Bantegnie• US Covid-19 support, PPP loan, included as Other operating income with 3,1 MSEK	<ul style="list-style-type: none">• Co-development partnership with a US enterprise customer ramps down after Q4 delivery• Extra general meeting on February 26 decided to introduce series A and series B shares in Modelon• Erik Hedlund resigned from Modelon board

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IDEON Science Park, SE-223 70 Lund

www.modelon.com

Org. nr. 556672-3010

Contact: Magnus Gäfvert, CEO of Modelon AB (publ), +46 733 245904, magnus.gafvert@modelon.com

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 fourth quarter concludes the extraordinary year of 2020 with a strong result and growth compared to 2019, demonstrating the attractiveness of our software portfolio combined with our successful mitigations and replanning to meet the pandemic challenge. Even if the total 2020 software growth is flat and reflects the overall temporary pandemic effect on the simulation & analysis market, we still see positive development in the ARR compared to 2019. This is an effect of our recurring software business ramping up as our novel cloud-based systems modeling and simulation solution Modelon Impact is gaining traction on the market. The market as such continues to improve towards normal during the period with growing pipelines and customer spending. Looking forward, we expect the effects of the pandemic conditions will continue to decrease throughout 2021.

With Modelon Impact released in July 2020 we are pioneering our segment with a strongly differentiated cloud native solution and the transition towards a SaaS business model. The company is very favorably positioned to capture the ongoing and ubiquitous digitalization of engineering and transition to cloud, which we expect will be yet significantly accelerated by the pandemic experience. We continue to receive very positive response from our digital marketing activities and business development engagements from our first wave of customers. Our commercial teams are managing a growing list of customers and leads in all our main regions North America, Europe, and Asia. As a result of this very encouraging activity level, we have the positive challenge to manage growing demand for product capabilities, motivating our continued high investment pace in product development.

Modelon has been very successful in the period 2018-2020 with attracting significant financing of strategic product development from our customers. The co-development partnership with an undisclosed US enterprise customer has been instrumental for the high development pace of Modelon Impact during this period and the successful first commercial release in Q3 2020. This co-development partnership reached a key delivery milestone with Modelon Impact in December. Modelon Impact is with this milestone established and deployed as a foundation for model-based engineering workflows in the first of several global business units in plan. As this co-development program reached a key delivery milestone in Q4, the engagement is now stepping down to a substantially lower rate starting from 2021 Q1 and is expected to continue at that lower volume throughout the year. Such ramp down of the engagement was in original plans meant to happen already during 2020. Looking forward we aim to carry a larger share of our development costs with our own funds including proceeds from financing activities.

Our confidence in our market opportunity and strategic position and direction is captured in our financial goal to grow our ARR to 100 MSEK by 2024, which translates to a CAGR of 35% from 2020 (albeit expected lower in the near term until market restores from pandemic). While this period will be characterized by high investment rates, we are aiming for positive cashflow in 2024 and longer-term EBIT levels exceeding 20%.

Momentum is building up and we are on the move with Modelon Impact !



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 33,1 (27,5) MSEK in the quarter, corresponding to 20% growth during the period compared to 2019, including one-time effects of COVID-19 related government support in our US subsidiary amounting to 3,1 MSEK. This brings total revenues YTD to 117,1 (104,8) MSEK and a 12% growth compared to 2019 including the one-time effects.

Total software revenues remain mostly flat in the period at -3% with 9,0 (9,3) MSEK and YTD at -2% with 36,5 (37,3) MSEK. Notably, recurring revenues increase in the period by 5% with 7,2 (6,9) MSEK and represented 80% (74%) of the software revenues. The 2020 total recurring software revenues amounted to 30 MSEK (no comparison available for 2019), representing 82% of total software revenues. Service revenues continue to show strength at 19,7 (17,4) MSEK in the period and 75,9 (64,4) 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.

The 2020 FY services revenues includes a total of 53,5 MSEK from the co-development partnership with an undisclosed US customer, out of which about half is co-funding of Modelon Impact product development. It is estimated that the total services volume from this partnership will decrease by up to 30 MSEK during 2021.

Profit & Loss

The EBIT in Q4 of 3,2 (-2,8) MSEK is lifted both by continued pandemic measures and the one-time effect of US COVID-related support mentioned previously, with the continued high investment rate in our new Modelon Impact platform showing in the pro-forma adjusted EBIT of 7,1 (2,3) MSEK. The YTD EBIT of 4,5 (-12,1) MSEK and adjusted EBIT margin 16,8% (2,6%) are correspondingly strong and well above pre-pandemic plans and reflecting our spending and investment caution in 2020. Our liquidity is strong at end of 2020 with 50,3 (33,3) MSEK.

Research and development costs

Modelon accounts for all research and development costs as direct operating expense. An adjusted EBIT is reported as a pro-forma KPI, which illustrates the effect of capitalizing a subset of Modelon Impact development. Development costs used for the adjustment amounted to 3,9 (5,1) MSEK during the fourth quarter. For the quarter, adjusted EBIT is calculated as accounted EBIT + Modelon Impact development cost = 3,2 + 3,9 = 7,1 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	Q4, Oct - Dec			YTD, Jan - Dec		
	2020	2019	Change	2020	2019	Change
Annual recurring revenue, ARR	28,7	27,5	5%	28,7	27,5	5%
Accelerated development	5,1	4,7	9%	21,1	20,3	4%
Development costs	7,8	8,3	-6%	31,9	31,9	0%
EBIT (adjusted)	7,1	2,3	206%	19,7	2,7	618%
Adj. EBIT margin	21,5%	8,4%		16,8%	2,6%	

Definitions

Annual Recurring Revenue (ARR) is defined as the accounted recurring software revenue from the last reported quarter times four. **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 fourth quarter amounted to -0,6 MSEK, there were no significant effects to report during the period.

Net result after tax

Net results after tax in the quarter amounted to +2,2 MSEK, corresponding to 0,29 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 December 31, Modelon's total available funds amounted to 60,3 (35,3) MSEK, out of which cash balance amounted to 50,3 (33,3) MSEK and unutilized credit facilities amounted to 10,0 (2,0) MSEK. During the period, the US COVID-19 support loan in the amount 3,1 MSEK has been included as other revenue. The application for loan forgiveness under the program rules was submitted in December, and formal approval of the application is expected during Q1 2021.

Significant risks and uncertainties

Deferred tax assets consist of 5,1 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 December 31, 2020, the total number of shares in Modelon is 7 607 381. The Company's registered share capital is 637 134 SEK.

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 122 500 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 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 Q4 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 impact future orders and cancelled orders. The Board of Directors assesses that going concern assumptions are present.

Financial targets

ARR 2020 – 2024 CAGR	~35%
Targeted ARR 2024	100 MSEK
Long-term EBIT-margin	>20%
Cashflow positive 2024	>0 MSEK

Financial statement

Consolidated Income Statement MSEK	Q4, Oct - Dec		YTD, Jan - Dec	
	2020	2019	2020	2019
Net revenue	28,8	26,7	112,4	101,7
Other operating income	4,3	0,8	4,6	3,1
Total revenue	33,1	27,5	117,1	104,8
Operating expenses				
License costs	0,0	-0,2	0,0	-2,7
Other external expenses	-10,8	-8,3	-38,9	-37,7
Personnel costs	-18,4	-21,1	-68,8	-73,0
Depreciation and amortization	-0,1	-0,1	-1,4	-1,5
Other operating expenses	-0,7	-0,6	-3,4	-2,0
Total operating expenses	-29,9	-30,3	-112,6	-116,9
Operating result	3,2	-2,8	4,5	-12,1
Financial items				
Other interest income and similar items	0,0	-0,3	0,0	0,4
Interest expenses and similar items	-0,6	-0,5	-1,0	-0,5
Net result from financial items	-0,6	-0,7	-1,0	-0,1
Profit/loss before tax	2,6	-3,5	3,5	-12,2
Tax	-0,3	3,4	-0,2	3,2
Net profit/loss	2,2	-0,1	3,3	-9,0

Consolidated Balance Sheet MSEK	2020-12-31	2019-12-31
Fixed assets		
Patents, licenses, trademarks and similar	0,7	1,1
Equipment, tools and installations	1,6	2,0
Receivables from group companies		
Deferred tax assets	5,1	4,8
Total fixed assets	7,3	7,9
Current assets		
Accounts receivable	29,4	27,7
Current tax receivables		
Other receivables	11,3	7,4
Generated not yet invoiced income		
Pre-paid expenses and accrued income		
Cash and bank	50,3	33,3
Total current assets	91,0	68,4
TOTAL ASSETS	98,3	76,3

Consolidated Balance Sheet, cont.	2020-12-31	2019-12-31
MSEK		
Shareholders' equity		
Share capital	0,6	0,6
Other equity incl. net profit/loss	62,3	34,0
Total shareholders' equity	62,9	34,6
Liabilities		
Deferred tax liability	0,0	0,1
Long-term liabilities to parent company	0,0	9,0
Accounts payable	4,8	2,9
Current tax liabilities		
Other liabilities	30,6	29,7
Invoiced not yet generated income		
Accrued expenses and pre-paid income		
Total liabilities	35,4	41,7
TOTAL EQUITY AND LIABILITIES	98,3	76,3

Consolidated Cash Flow Statement	Q4, Oct - Dec		YTD, Jan - Dec	
	2020	2019	2020	2019
MSEK				
Operating income	3,2	-2,8	4,5	-12,1
Adjustment for non-cash items	0,0	0,9	2,1	2,3
Interests and paid taxes	0,5	-0,3	-0,5	-2,1
Changes in working capital	-13,7	-8,0	-6,8	-3,8
Cash flow from operating activities	-10,0	-10,2	-0,6	-15,7
Cash flow from investing activities	0,1	-0,4	-0,9	-1,4
New share issue	0,0	0,0	27,8	40,0
Transaction costs, new share issue	-0,3	-0,3	-1,9	-3,1
New borrowings/amortization	0,1	0,0	-5,9	0,0
Other financing				
Cash flow from financing activities	-0,3	-0,3	20,0	36,9
Net increase/decrease in cash and equiv.	-10,2	-10,9	18,4	19,8
Cash and liquid assets at start of period	62,0	43,9	33,3	12,7
Exchange rate differences	-1,5	0,4	-1,5	0,8
Cash and liquid assets at end of period	50,3	33,3	50,3	33,3

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.