

ESG insight



IAR SYSTEMS

Headwinds into Q4

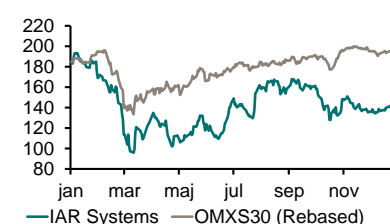
IAR Systems is not yet out of the woods as we expect pandemic-related uncertainty to continue to dampen new business wins in Q4. We forecast a 2020–2022e EPS CAGR of 30%+ with IAR Systems ready to reap the fruit of its rapid investment pace. We reiterate our SEK180–250 fair value. The stock is trading 20% below its historical valuation on 2021e.

Q4 report due February 9. We still believe delays in purchasing processes driven by lockdowns will affect its transaction-based perpetual license model (~80% of sales), which should translate into -8% organic sales growth in Q4 with sales of SEK91m, we estimate. We forecast EBIT of SEK22m, down 17% YOY (corresponding to an EBIT margin of 25%), although we expect FCF generation to gradually improve as IAR is past the peak of its 2-year SEK350m+ investment phase.

2020–2022e EBIT lowered by ~3% owing to continued FX headwinds. Going into 2021, we believe IAR has the building blocks in place to take the story to the next level with management indicating that an encouraging order backlog is building up on new product launches from strategic customers in security, RISC-V and as of late also its development tools supporting Linux

Our SEK180–250 fair value corresponds to a 2022e EV/EBIT of 19x and P/E of 26x (10% below its historical average). We still estimate the legacy workbench licence business should be valued at ~SEK160/share.

IARB versus OMXS30 (12m)



Source: Factset

SUMMARY

Share price (SEK)	141
Tickers	IARB SS

CAPITAL STRUCTURE

No. of shares (m)	13.6
No. of shares fully dil. (m)	13.7
Market cap. (SEKm)	1,919
NIBD adj end-2020e (SEKm)	-33
Enterprise value adj (SEKm)	1,886
Net debt/EBITDA adj (x)	-0.24
Free float (%)	100

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q4 2020	09/02/2021
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ESTIMATE CHANGES (SEK)

Year-end Dec	2020e	2021e	2022e
Sales (old)	379.1	436.8	508.5
Sales (new)	372.6	422.5	500.3
Change (%)	-1.7	-3.3	-1.6
EPS (old)	4.96	6.41	8.63
EPS (new)	4.71	6.28	8.36
Change (%)	-5.0	-2.1	-3.2

Source: DNB Markets,

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ANALYSTS

Joachim Gunell

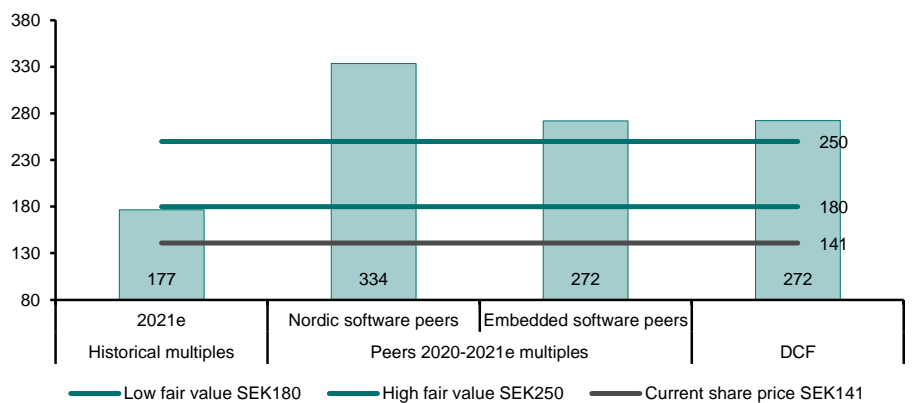
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Year-end Dec	2017	2018	2019	2020e	2021e	2022e	2023e
Revenue (SEKm)	345	385	406	373	422	500	559
EBITDA adj (SEKm)	127	140	146	135	167	216	252
EBIT adj (SEKm)	107	119	108	87	116	154	181
PTP (SEKm)	106	117	107	85	113	151	177
EPS rep (SEK)	6.33	6.67	5.96	4.71	6.28	8.36	9.78
EPS adj (SEK)	6.33	6.67	5.96	4.71	6.28	8.36	9.78
DPS (SEK)	5.00	5.00	3.00	0.00	2.36	3.14	4.18
Revenue growth (%)	5.1	11.7	5.3	-8.1	13.4	18.4	11.8
EPS growth adj (%)	2.6	5.3	-10.6	-20.9	33.1	33.1	17.1
EBITDA margin adj (%)	36.9	36.4	35.9	36.1	39.6	43.2	45.0
EV/Sales adj (x)	6.58	8.32	6.30	5.03	4.45	3.69	3.22
EV/EBITDA adj (x)	17.8	22.9	17.5	13.9	11.3	8.5	7.2
EV/EBIT adj (x)	21.1	27.0	23.6	21.5	16.3	12.0	10.0
P/E adj (x)	29.8	36.4	31.2	29.7	22.4	16.9	14.4
P/Book (x)	8.22	6.02	4.28	3.00	2.78	2.52	2.29
ROE (%)	28.1	21.6	14.2	10.5	12.9	15.7	16.7
ROCE (%)	33.6	26.1	17.7	12.1	14.5	17.9	19.3
Dividend yield (%)	2.6	2.1	1.6	0.0	1.7	2.2	3.0
FCF yield (%)	3.6	1.4	0.9	2.3	1.9	4.1	5.3

Source: Company (historical figures), DNB Markets (estimates)

Overview

Valuation (SEK)



Source: DNB Markets

Downside risks to our fair value

- Failure to resurrect the growth story. If investors lose trust in IAR Systems' ability to resume growth, it could trigger a share devaluation, as in 2019.
- Disappointing disclosures regarding key strategic partnerships, in terms of when they will materialise and the fee structure. For instance, the Renesas Synergy agreement has yet to appear in IAR Systems' sales. Thus, it would be negative if the Secure Thingz collaboration were to fall short of management's expectations.
- IAR Systems is highly sensitive to a strengthening of the SEK (particularly against the USD, EUR and JPY).

Source: DNB Markets

DNB Markets estimates

- We believe IAR 4.0 will mark the point when the market starts to view it as the go-to tools partner for global names as they position their embedded systems ahead of the IoT. We would highlight the market opportunity within secure embedded systems and RISC-V.
- We expect the sales growth acceleration in late 2020/early 2021 to cement IAR Systems' central position in the embedded industry's key growth themes.
- We estimate that IAR Systems should generate a 2020–2022 EPS CAGR of 30%+, with significant potential expected beyond our forecast period.

Source: DNB Markets

Valuation methodology

- Blending our peer group of Nordic software and embedded software peers with IAR Systems' historical multiples and a DCF suggests a SEK180–250 fair value (methodology unchanged).
- Applying its historical valuation (P/E 28x, EV/EBIT 21x) to our 2021 estimates suggests SEK180–200.
- Our estimates correspond to a 2022e P/E of 17x, an EV/EBIT of 12x, and an EV/sales of 4x.

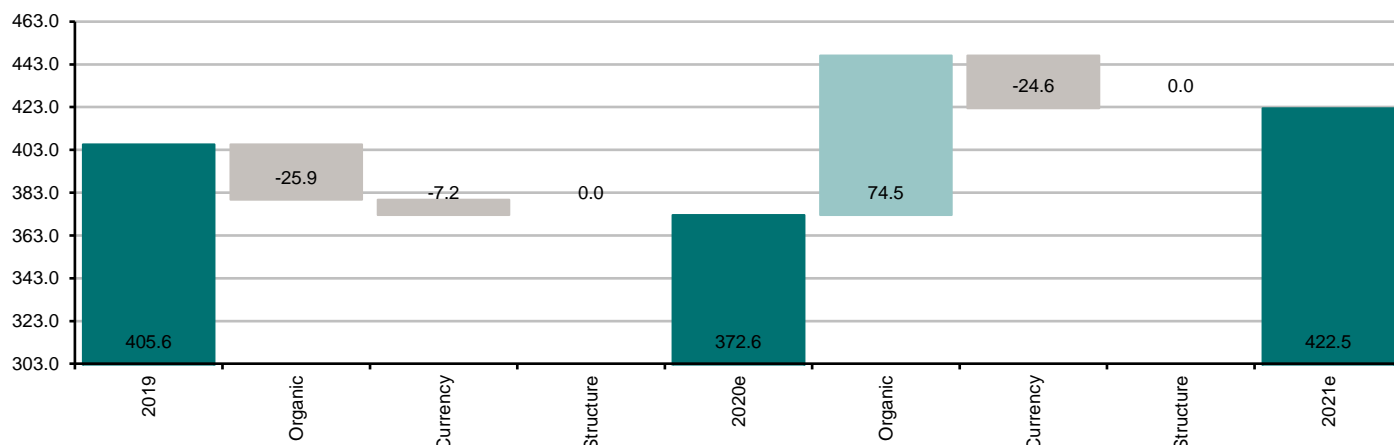
Source: DNB Markets

Upside risks to our fair value

- The company over-delivering on its financial targets (particularly 10–15% organic growth).
- If IAR Systems' new security offering gains faster penetration than we assume by leveraging on its head-start, we believe there is potential for shareholder value creation beyond our fair value.
- Value-enhancing acquisitions to be integrated in its product offering or new strategic partnerships.
- Better cost control (as it has a reputation for tight cost control), implying higher margins.

Source: DNB Markets

Sales bridge 2019–2021e (SEKm)



Source: DNB Markets (forecasts), company (historical data)

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> ■ IAR Systems’ software development tools are market-leading in terms of code quality, analysis, functional safety and security. Its software ensures that the code is in line with industry standards, thereby guaranteeing its reliability when applied. ■ Increased IoT security legislation drives demand for its products, as its OEM customers must comply with new security design requirements. 	<ul style="list-style-type: none"> ■ Data loss or security bugs in the software code could trigger regulatory scrutiny as well as legal costs and reputational damage, hampering its growth prospects. ■ IAR Systems’ competitiveness relies greatly on its ability to continuously innovate. For this, its highly skilled workforce is a key resource. Failure to attract and retain such professionals could lead to delays in innovation and a loss of market share.
Actions being taken by company	<ul style="list-style-type: none"> ■ Embedded programmers clearly need to protect their code from IP theft and illegal copying, as IoT security issues are becoming increasingly prevalent. Following the acquisition of Secure Thingz, IAR Systems’ tools are increasingly linked to sustainability as they help developers take control of security from inception in the IP throughout the lifecycle of a digital product. 	<ul style="list-style-type: none"> ■ IAR Systems’ development tools are the most used in the embedded industry, owing to its leading optimisation technology, comprehensive debugger quality and renowned technical support. This is confirmed by its loyal customer base. It has 46,000 OEM customers and 150,000 technology users, 95% of which are recurring customers, we believe.

Key ESG drivers

Short-term

- Today, fewer than 5% of new IoT devices have embedded security. ABI research forecasts that penetration will increase to 20% by 2022.
- IAR Systems’ security offering (C-Trust and Embedded Trust) ensures that its customers’ intellectual property is protected against IP theft, overproduction, piracy, and that software updates can be managed in a secure fashion. In other words, it creates a secure infrastructure and protects its customers’ digital products from sabotage programmes and data intrusion. Examples of customer use cases have included:
 - A leading vending machine provider, whose IP was stolen (stolen credit card and transaction details); a global white goods company, whose stolen IP led to twice as many products being manufactured; a leading door sensor provider, whose IP was stolen internally, which led to direct revenue loss, etc.
- To stay ahead of the competition, IAR Systems relies heavily on its employees in the development and innovation of new technologies.
- Following the integration of Secure Thingz, IAR Systems’ addressable market has expanded from application development into manufacturing and update management (the entire lifecycle of embedded systems). To keep pace with competition in a larger market, it needs to retain highly skilled software engineers, which could come at a higher cost than its traditional business.
- As an increasingly larger part of IAR Systems should revolve around Cambridge-based Secure Thingz, this could create some corporate cultural challenges versus the Uppsala-based legacy business.

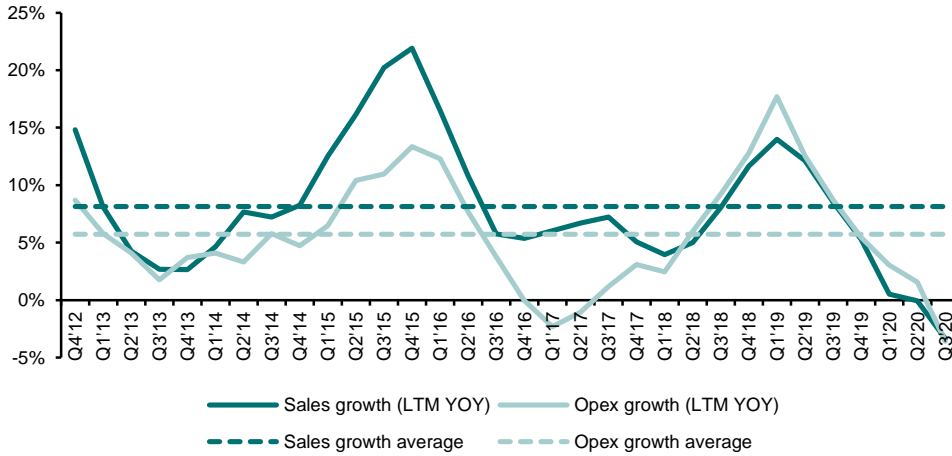
Long-term

- Regulators will also play an active role in the long-term uptake of secure development tools. This is having an increasing impact on programmers’ designs, as applications need to remain secure across the entire lifecycle to comply with new legislation. We note legislation initiatives in Europe (UK government, ETSI, ENISA), the US (California IoT Security law, NIST evolving cyber security act), and government initiatives across Singapore, Japan, South Korea and China, etc.
- Considering its offering of software development tools to over 46,000 clients, as well as the sensitive nature of the data it handles, IAR Systems is exposed to possible hacking attempts and misappropriation of technological data.

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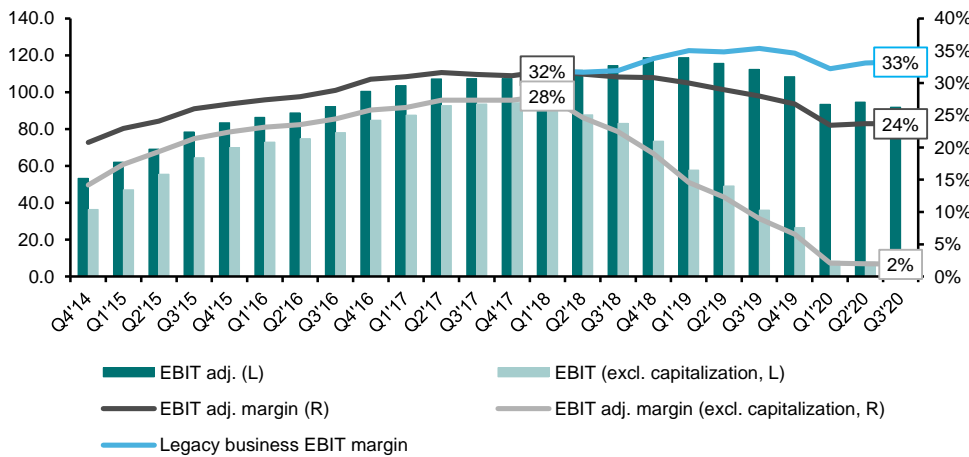
Q4 preview

Figure 1: Sales growth surpassed by opex growth in recent years (LTM)



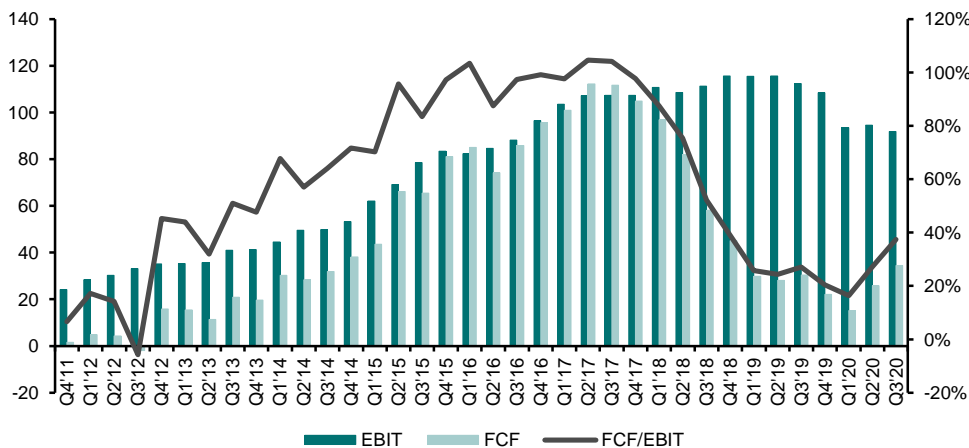
Source: DNB Markets (forecasts), company (historical data)

Figure 2: EBIT and margin trajectory (excl. capitalisation of development costs) (LTM, Q4 2014–Q3 2020)



Source: DNB Markets (estimates), company (historical data)

Figure 3: Unimpressive cash conversion since the Secure Thingz acquisition in 2018 could be at a turning point



Source: DNB Markets (forecasts), company (historical data)

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Estimate revisions

Figure 4: Estimate changes

(SEKm, except per share data)	Old			New			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Sales									
Legacy IAR Systems	373.5	414.5	448.2	368.2	402.0	438.9	-1%	-3%	-2%
Royalty-based revenue	0.0	0.0	0.0	0.0	0.0	0.0			
Secure Thingz	5.5	22.3	60.3	4.4	20.5	61.4	-20%	-8%	2%
Group Total	379.1	436.8	508.5	372.6	422.5	500.3	-2%	-3%	-2%
EBIT adjusted									
Legacy IAR Systems + Secure Thingz	91.8	118.3	159.1	87.3	115.7	154.0	-5%	-2%	-3%
Royalty-based revenue	0.0	0.0	0.0	0.0	0.0	0.0			
Group Total	91.8	118.3	159.1	87.3	115.7	154.0	-5%	-2%	-3%
EBIT adjusted margin									
Legacy IAR Systems + Secure Thingz	24.2%	27.1%	31.3%	23.4%	27.4%	30.8%	-79bp	29bp	-52bp
Royalty-based revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0bp	0bp	0bp
Group Total	24.2%	27.1%	31.3%	23.4%	27.4%	30.8%	-79bp	29bp	-52bp
Organic growth components									
Legacy IAR Systems	-4.6%	14.0%	7.4%	-5.6%	15.3%	8.2%	-104bp	127bp	76bp
Royalty-based revenue	-1.5%	0.0%	0.0%	-1.5%	0.0%	0.0%	0bp	0bp	0bp
Secure Thingz	1.0%	4.7%	9.0%	0.7%	4.7%	10.2%	-27bp	6bp	126bp
Group Total	-5.1%	18.7%	16.4%	-6.4%	20.0%	18.4%	-131bp	132bp	201bp
Group									
Sales	379.1	436.8	508.5	372.6	422.5	500.3	-2%	-3%	-2%
Sales growth	-6.5%	15.2%	16.4%	-8.1%	13.4%	18.4%	-160bp	-183bp	201bp
Organic	-5.1%	18.7%	16.4%	-6.4%	20.0%	18.4%	-131bp	132bp	201bp
Structure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
Currency	-1.5%	-3.4%	0.0%	-1.8%	-6.6%	0.0%	-29bp	-315bp	0bp
Gross profit	365.0	423.0	492.5	358.8	409.1	485.6	-2%	-3%	-1%
Margin	96.3%	96.8%	96.9%	96.3%	96.8%	97.1%	1bp	0bp	21bp
EBIT adjusted	91.8	118.3	159.1	87.3	115.7	154.0	-5%	-2%	-3%
Margin	24.2%	27.1%	31.3%	23.4%	27.4%	30.8%	-79bp	29bp	-52bp
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0			
EBIT	91.8	118.3	159.1	87.3	115.7	154.0	-5%	-2%	-3%
Margin	24.2%	27.1%	31.3%	23.4%	27.4%	30.8%	-79bp	29bp	-52bp
Net financial items	-2.5	-2.5	-3.2	-2.5	-2.4	-3.1			
Pretax profit	89.2	115.8	155.9	84.8	113.3	150.8	-5%	-2%	-3%
Tax	-21.5	-28.4	-38.2	-20.4	-27.8	-37.0	-5%	-2%	-3%
Tax rate	24.1%	24.5%	24.5%	24.1%	24.5%	24.5%	-2bp	0bp	0bp
Net profit	67.7	87.4	117.7	64.4	85.5	113.9	-5%	-2%	-3%
EPS adjusted	4.96	6.41	8.63	4.71	6.28	8.36	-5%	-2%	-3%
EPS	4.96	6.41	8.63	4.71	6.28	8.36	-5%	-2%	-3%
DPS	0.00	2.48	3.21	0.00	2.36	3.14		-5%	-2%

Source: DNB Markets

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Figure 5: Quarterly estimates by division

(SEKm, except per share data)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20e	Q1'21e	Q2'21e	Q3'21e	Q4'21e
Sales												
Legacy IAR Systems	98.0	96.8	98.1	105.1	91.4	97.6	88.5	90.6	91.9	99.9	104.4	105.7
Royalty-based revenue	1.4	1.5	1.6	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secure Thingz	0.4	0.7	0.3	0.3	0.9	2.5	0.4	0.6	1.0	1.9	5.1	12.6
Group Total	99.8	99.0	100.0	106.8	92.3	100.1	88.9	91.3	92.8	101.8	109.5	118.4
EBIT												
Legacy IAR Systems + Secure Thingz	28.0	22.3	26.5	25.7	14.4	25.0	25.4	22.5	23.1	27.4	30.9	34.3
Royalty-based revenue	1.4	1.5	1.6	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Total	29.4	23.8	28.1	27.1	14.4	25.0	25.4	22.5	23.1	27.4	30.9	34.3
EBIT adjusted margin												
Legacy IAR Systems + Secure Thingz	28.6%	23.0%	27.0%	24.5%	15.8%	25.6%	28.7%	24.8%	25.1%	27.5%	29.6%	32.4%
Royalty-based revenue	100.0%	100.0%	100.0%	100.0%								
Group Total	29.5%	24.0%	28.1%	25.4%	15.6%	25.0%	28.6%	24.6%	24.9%	27.0%	28.3%	28.9%
Organic growth												
Legacy IAR Systems	3.4%	-2.3%	-2.7%	-1.2%	-11.0%	-0.8%	-5.6%	-6.9%	9.9%	11.7%	21.9%	18.2%
Royalty-based revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-1.3%	0.0%	0.0%	0.0%	0.0%
Secure Thingz	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.4%	0.2%	-0.4%	5.5%	14.2%
Group Total	3.5%	-2.3%	-2.8%	-1.3%	-11.1%	-0.8%	-5.6%	-7.8%	10.1%	11.3%	27.4%	32.4%
Group												
Sales	99.8	99.0	100.0	106.8	92.3	100.1	88.9	91.3	92.8	101.8	109.5	118.4
Sales growth	12.3%	3.6%	2.1%	3.9%	-7.5%	1.1%	-11.1%	-14.5%	0.6%	1.7%	23.1%	29.7%
Organic	3.5%	-2.3%	-2.8%	-1.3%	-11.1%	-0.8%	-5.6%	-7.8%	10.1%	11.3%	27.4%	32.4%
Structure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Currency	8.8%	5.9%	4.9%	5.2%	3.6%	1.9%	-5.5%	-6.7%	-9.5%	-9.6%	-4.2%	-2.7%
Gross profit	97.7	96.5	97.5	103.1	88.3	96.7	86.2	87.6	90.2	98.6	106.4	113.9
Margin	97.9%	97.5%	97.5%	96.5%	95.7%	96.6%	97.0%	96.0%	97.2%	96.9%	97.2%	96.2%
EBIT adjusted	29.4	23.8	28.1	27.1	14.4	25.0	25.4	22.5	23.1	27.4	30.9	34.3
Margin	29.5%	24.0%	28.1%	25.4%	15.6%	25.0%	28.6%	24.6%	24.9%	27.0%	28.3%	28.9%
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	29.4	23.8	28.1	27.1	14.4	25.0	25.4	22.5	23.1	27.4	30.9	34.3
Margin	29.5%	24.0%	28.1%	25.4%	15.6%	25.0%	28.6%	24.6%	24.9%	27.0%	28.3%	28.9%
Net financial items	-0.2	-2.0	0.7	0.1	-0.1	-1.9	-0.5	0.0	-0.3	-2.0	-0.2	0.1
Pretax profit	29.2	21.8	28.8	27.2	14.3	23.1	24.9	22.5	22.7	25.4	30.8	34.4
Tax	-6.3	-5.1	-7.2	-7.2	-3.2	-5.5	-6.2	-5.5	-5.6	-6.2	-7.5	-8.4
Tax rate	21.6%	23.4%	25.0%	26.5%	22.4%	23.8%	24.9%	24.5%	24.5%	24.5%	24.5%	24.5%
Net profit	22.9	16.7	21.6	20.0	11.1	17.6	18.7	17.0	17.2	19.2	23.2	26.0
EPS adjusted	1.64	1.20	1.58	1.46	0.81	1.29	1.37	1.24	1.26	1.41	1.70	1.91
EPS	1.68	1.23	1.58	1.47	0.81	1.29	1.37	1.24	1.26	1.41	1.70	1.91
DPS	0.00	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.36	0.00	0.00

Source: DNB Markets (forecasts), company (historical data)

Figure 6: IAR Systems valuation versus listed peers

	Mkt. cap.		P/E (x)			EV/EBIT (x)			EV/Sales (x)			Div. yield (%)		ROE (%)		EBIT margin		CAGR 2019–2021e (%)		
	(SEKbn)	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2019e	2020e	2019e	2020e	Sales	EBIT	EPS	
IAR Systems (DNBe)	1.9	29.8	22.4	16.9	21.9	16.5	12.4	5.1	4.5	3.8	0.0	1.7	10	12	23.4	27.4	2	3	3	
Premium/discount		-60%	-62%	-65%	-62%	-66%	-68%	-70%	-69%	-69%										
IAR Systems (Cons.)	1.9	28.4	22.7	18.9	20.8	16.9	14.1	5.0	4.5	4.0	2.1	2.3	11	12	24.2	26.3	3	2	3	
Premium/discount		-62%	-62%	-61%	-63%	-65%	-64%	-70%	-69%	-68%										
Nordic software peers																				
QT Group	14.5		88.4	58.1		73.9	47.7	18.9	15.2	12.3	0.0	0.2	47	44	18.0	20.2	29			
Admicom	6.5	130.0	57.0	45.5	64.6	44.6		28.9	23.7	19.2	0.8	1.1	35	40	44.5	52.3	31	47	47	
Fortnox	24.9	126.2	95.8	77.7	95.2	72.2	58.0	35.5	28.5	22.5	0.1	0.2	54	45	37.0	38.9	28	41	39	
HMS Networks	13.5	66.9	57.7	51.7	52.1	42.0	37.6	9.6	8.0	7.4	0.5	0.6	18	18	18.6	19.0	5	10	10	
INVISIO Communications	9.2	102.9	54.8	41.4	70.8	40.8	30.3	16.2	12.3	10.0	0.6	0.8	23	36	22.7	29.7	21	41	30	
Lime Technologies	5.0	71.5	61.5	50.8	64.4	54.3	43.3	14.9	12.8	11.1	0.6	0.7	71	57	23.0	23.2	16	34	33	
SimCorp	46.6	50.4	41.9	36.8	38.5	32.6	28.0	10.1	9.2	8.4	0.9	1.0	36	37	26.0	27.8	6	5	4	
Vitec Software	10.7	53.5	47.5	41.9	57.1	50.4	43.1	8.7	7.9	7.2	0.5	0.5	17	17	15.3	15.8	9	17	16	
Embedded software peers																				
Cadence Design Systems	307.8	49.4	46.4	41.3	39.7	35.7	31.6	13.8	12.9	12.0		0.4	33	28	34.5	35.3	10	16	15	
ANSYS	264.9	59.6	52.8	47.2	50.6	42.1	34.7	19.4	17.4	15.8	0.0	0.0	15	15	38.2	40.5	10	5	6	
Xilinx	300.5	44.1	51.2	41.2	44.1	44.3	35.8	11.2	11.5	10.3	1.0	1.0	30	30	26.0	26.1	0	-9	-12	
Altium	25.3	69.6	57.8	51.1	50.2	43.1	38.6	15.7	14.8	13.0	1.3	1.6	23	26	31.4	33.5	7	7	-1	
Average	85.8	74.9	59.4	48.7	57.0	48.0	39.0	16.9	14.5	12.4	0.6	0.7	33	33	27.9	30.2	14	19	17	
Median	19.7	66.9	55.9	46.3	52.1	43.7	37.6	15.3	12.8	11.6	0.6	0.7	31	33	26.0	28.8	10	16	15	

Source: Bloomberg (underlying data), DNB Markets (further calculations)

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenues	373	422	500	379	437	508	-6	-14	-8
Cost of sales	-14	-13	-15	-14	-14	-16	0	0	1
Gross profit	359	409	486	365	423	492	-6	-14	-7
Operating expenses	-224	-242	-269	-226	-256	-276	2	14	6
EBITDA	135	167	216	139	167	217	-4	0	0
EBITDA adj	135	167	216	139	167	217	-4	0	0
EBITDA margin (%)	36.1	39.6	43.2	36.6	38.3	42.6	-0.5	1.2	0.6
Depreciation	-3	-4	-5	-3	-4	-5	0	0	0
Amortisation	-44	-48	-58	-44	-45	-53	0	-3	-5
EBIT	87	116	154	92	118	159	-4	-3	-5
EBIT adj	87	116	154	92	118	159	-4	-3	-5
Net financial items	-3	-2	-3	-3	-3	-3	0	0	0
PBT	85	113	151	89	116	156	-4	-2	-5
Taxes	-20	-28	-37	-22	-28	-38	1	1	1
Minorities	0	0	0			0			0
Net profit	64	86	114	68	87	118	-3	-2	-4
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	64	86	114	68	87	118	-3	-2	-4
<i>Per share data (SEK)</i>									
EPS	4.71	6.28	8.36	4.96	6.41	8.63	-0.25	-0.14	-0.28
EPS adj	4.71	6.28	8.36	4.96	6.41	8.63	-0.25	-0.14	-0.28
DPS ordinary	0.00	2.36	3.14	0.00	2.48	3.21	0.00	-0.12	-0.07
DPS	0.00	2.36	3.14	0.00	2.48	3.21	0.00	-0.12	-0.07
<i>Other key metrics (%)</i>									
Revenue growth	-8.1	13.4	18.4	-6.5	15.2	16.4	-1.6	-1.8	2.0
EBIT adj growth	-19.5	32.6	33.1	-15.3	28.9	34.4	-4.1	3.6	-1.4
EPS adj growth	-20.9	33.1	33.1	-16.7	29.2	34.6	-4.2	3.9	-1.5
Avg. number of shares (m)	14	14	14	14	14	14	0	0	0
Capex	-79	-88	-91	-84	-89	-103	5	1	12
OpFCF	55	79	126	55	78	114	1	1	12
Working capital	58	75	118	56	70	98	2	5	19
NIBD adj	-33	-37	-73	-27	-30	-52	-5	-7	-21

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Assumptions									
Revenue org. % YOY	-6.38	19.99	18.43	-5.07	18.67	16.42	-1.31	1.32	2.01
Structure impact % YOY	0.00	0.00	0.00			0.00			0.00
Currency impact % YOY	-1.77	-6.60	0.00	-1.48	-3.44	0.00	-0.29	-3.15	0.00

Source: DNB Markets

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Quarterly numbers

(SEKm)	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e
Revenues	99	100	107	92	100	89	91	93	102	109	118
Cost of sales	-3	-3	-4	-4	-3	-3	-4	-3	-3	-3	-4
Gross profit	97	98	103	88	97	86	88	90	99	106	114
Operating expenses	-64	-60	-66	-62	-60	-49	-53	-56	-59	-62	-64
EBITDA	33	38	37	27	37	37	34	34	39	44	50
Depreciation	-1	-1	-1	-1	-1	0	-1	-1	-1	-1	-1
Amortisation	-8	-9	-9	-12	-11	-11	-11	-10	-11	-12	-14
EBIT	24	28	27	14	25	25	22	23	27	31	34
Net financial items	-2	1	0	0	-2	-1	0	0	-2	0	0
PBT	22	29	27	14	23	25	22	23	25	31	34
Taxes	-5	-7	-7	-3	-6	-6	-6	-6	-6	-8	-8
Minorities	0	0	0	0	0	0	0	0	0	0	0
Net profit	17	22	20	11	18	19	17	17	19	23	26
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	17	22	20	11	18	19	17	17	19	23	26
Dividend paid	-68	0	0	0	0	0	0	0	-32	0	0
Avg. number of shares (m)	14	14	14	14	14	14	14	14	14	14	14
<i>Per share data (SEK)</i>											
EPS	1.23	1.58	1.47	0.81	1.29	1.37	1.24	1.26	1.41	1.70	1.91
EPS adj	1.20	1.58	1.46	0.81	1.29	1.37	1.24	1.26	1.41	1.70	1.91
DPS ordinary	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.36	0.00	0.00
DPS	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.36	0.00	0.00
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	-0.8	1.0	6.8	-13.6	8.5	-11.2	2.7	1.7	9.6	7.5	8.1
Revenues, YOY growth	3.6	2.1	3.9	-7.5	1.1	-11.1	-14.5	0.6	1.7	23.1	29.7
EPS adj, YOY growth	-16.1	-19.8	-8.5	-50.4	7.8	-13.4	-15.0	55.1	9.1	24.4	53.2
Gross margin	97.5	97.5	96.5	95.7	96.6	97.0	96.0	97.2	96.9	97.2	96.2
EBITDA adj margin	33.2	37.5	34.6	28.8	36.8	41.4	37.7	36.6	38.8	40.1	42.1
Depreciation/revenues	-1.0	-0.7	-0.8	-0.8	-1.2	-0.4	-0.9	-0.8	-1.3	-0.5	-1.0
EBIT adj margin	24.0	28.1	25.4	15.6	25.0	28.6	24.6	24.9	27.0	28.3	28.9
Net profit margin	16.9	21.6	18.7	12.0	17.6	21.0	18.6	18.5	18.8	21.2	21.9

Source: Company (historical figures), DNB Markets (estimates)

Adjustments to quarterly numbers

(SEKm)	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e
EBITDA	33	38	37	27	37	37	34	34	39	44	50
EBITDA adj	33	38	37	27	37	37	34	34	39	44	50
EBIT	24	28	27	14	25	25	22	23	27	31	34
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0	0
EBIT adj	24	28	27	14	25	25	22	23	27	31	34
Net profit	17	22	20	11	18	19	17	17	19	23	26
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0	0
Tax adjustments	0	0	0	0	0	0	0	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	17	22	20	11	18	19	17	17	19	23	26

Source: Company (historical figures), DNB Markets (estimates)

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Quarterly numbers by segment and assumptions

(SEKm)	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e
Assumptions											
Revenue org. % YOY	-2.30	-2.76	-1.26	-11.12	-0.81	-5.60	-7.82	10.07	11.30	27.36	32.39
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Currency impact % YOY	5.86	4.90	5.16	3.61	1.92	-5.50	-6.72	-9.48	-9.61	-4.22	-2.70

Source: Company (historical figures), DNB Markets (estimates)

Annual P&L

(SEKm)	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	
Revenues	256	312	328	345	385	406	373	422	500	559	
Cost of sales	-13	-10	-12	-9	-9	-11	-14	-13	-15	-15	
Gross profit	243	301	316	337	376	395	359	409	486	544	
Operating expenses	-179	-203	-203	-209	-236	-249	-224	-242	-269	-292	
EBITDA	64	98	113	127	140	146	135	167	216	252	
Depreciation	-2	-3	-3	-2	-3	-3	-3	-4	-5	-6	
Amortisation	-8	-12	-14	-17	-22	-34	-44	-48	-58	-65	
EBIT	53	83	97	107	116	108	87	116	154	181	
Net financial items	0	0	0	-2	-2	-1	-3	-2	-3	-4	
PBT	54	83	100	106	117	107	85	113	151	177	
Taxes	-11	-20	-22	-26	-26	-26	-20	-28	-37	-43	
Effective tax rate (%)	21	24	22	24	22	24	24	25	25	25	
Minorities	0	0	0	0	0	0	0	0	0	0	
Net profit	42	63	78	80	91	81	64	86	114	133	
Adjustments to net profit	0	0	-3	0	-2	0	0	0	0	0	
Net profit adj	42	63	75	80	88	81	64	86	114	133	
Dividend paid	0	-63	-88	-63	-68	-68	0	-32	-43	-57	
Avg. number of shares	13	13	13	13	14	14	14	14	14	14	
<i>Per share data (SEK)</i>											
EPS	3.34	5.02	6.18	6.33	6.67	5.96	4.71	6.28	8.36	9.78	
EPS adj	3.34	5.02	6.18	6.33	6.67	5.96	4.71	6.28	8.36	9.78	
DPS ordinary	0.00	5.00	7.00	5.00	5.00	3.00	0.00	2.36	3.14	4.18	
DPS	0.00	5.00	7.00	5.00	5.00	3.00	0.00	2.36	3.14	4.18	
<i>Growth and margins (%)</i>											
Revenue growth	8.3	21.9	5.4	5.1	11.7	5.3	-8.1	13.4	18.4	11.8	
EPS adj growth	59.2	50.2	23.0	2.6	5.3	-10.6	-20.9	33.1	33.1	17.1	
Gross margin	95.0	96.7	96.3	97.5	97.7	97.3	96.3	96.8	97.1	97.3	
EBITDA margin	24.9	31.5	34.5	36.9	36.4	35.9	36.1	39.6	43.2	45.0	
EBITDA adj margin	24.9	31.5	34.5	36.9	36.4	35.9	36.1	39.6	43.2	45.0	
Depreciation/revenues	-0.9	-0.8	-0.8	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0	
EBIT margin	20.8	26.8	29.4	31.1	30.0	26.7	23.4	27.4	30.8	32.3	
EBIT adj margin	20.8	26.8	30.6	31.1	30.8	26.7	23.4	27.4	30.8	32.3	
PBT margin	21.0	26.7	30.5	30.6	30.4	26.4	22.7	26.8	30.1	31.6	
Net profit margin	16.5	20.3	23.8	23.2	23.6	20.0	17.3	20.2	22.8	23.8	

Source: Company (historical figures), DNB Markets (estimates)

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Adjustments to annual P&L

(SEKm)	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
EBITDA	64	98	113	127	140	146	135	167	216	252
EBITDA adj	64	98	113	127	140	146	135	167	216	252
EBIT	53	83	97	107	116	108	87	116	154	181
Other EBIT adjustments	0	0	-4	0	-3	0	0	0	0	0
EBIT adj	53	83	101	107	119	108	87	116	154	181
Net profit	42	63	78	80	91	81	64	86	114	133
Other EBIT adjustments	0	0	-4	0	-3	0	0	0	0	0
Tax adjustments	0	0	0	0	0	0	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	0	0	0
Net profit adj	42	63	75	80	88	81	64	86	114	133
<i>Per share data (SEK)</i>										
EPS	3.34	5.02	6.18	6.33	6.67	5.96	4.71	6.28	8.36	9.78
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS adj	3.34	5.02	6.18	6.33	6.67	5.96	4.71	6.28	8.36	9.78

Source: Company (historical figures), DNB Markets (estimates)

Cash flow

(SEKm)	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Net profit	42	63	78	80	91	81	64	86	114	133
Depreciation and amortisation	10	15	17	20	25	37	47	52	62	71
Cash flow from operations (CFO)	70	99	114	124	93	106	123	124	169	197
Capital expenditure	-32	-19	-19	-19	-47	-84	-79	-88	-91	-96
Acquisitions/Investments	0	0	0	0	-171	-19	0	0	0	0
Divestments	0	1	0	0	0	0	0	0	0	0
Cash flow from investing (CFI)	-32	-18	-19	-38	-218	-102	-79	-88	-91	-96
Free cash flow (FCF)	39	80	95	86	-125	4	44	37	79	101
Net change in debt	0	0	0	0	0	30	5	0	0	0
Dividends paid	0	-63	-88	-63	-68	-68	0	-32	-43	-57
Share issue (repurchase)	-53	0	0	0	172	0	0	0	0	0
Other	0	0	0	0	4	-14	-27	0	0	0
Cash flow from financing (CFF)	-53	-64	-88	-63	108	-52	-21	-32	-43	-57
Total cash flow (CFO+CFI+CFF)	-15	17	7	23	-17	-49	23	4	36	44
<i>FCFF calculation</i>										
Free cash flow	39	80	95	86	-125	4	44	37	79	101
Less: tax shields/other	0	0	0	0	0	0	0	0	0	0
Less: acquisitions	0	0	0	0	171	19	0	0	0	0
Less: divestments	0	-1	0	0	0	0	0	0	0	0
Growth (%)										
CFO	72.7	40.4	15.7	8.5	-25.3	14.1	16.5	1.0	36.0	16.2
CFI	-66.0	42.3	-3.3	-98.9	-478.5	53.0	22.5	-11.0	-3.1	-5.6
FCF	78.7	108.3	18.5	-9.4	-244.7	102.8	1154.8	-16.9	115.4	28.3
CFF	-550.8	-19.5	-39.0	28.5	270.4	-148.3	58.8	-50.1	-33.1	-33.1
FCFF	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

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Balance sheet

(SEKm)	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Assets	375	399	396	410	722	825	860	915	987	1,064
Inventories	4	5	6	5	7	7	6	7	8	9
Trade receivables	39	44	48	51	63	67	54	67	74	81
Other receivables	11	20	19	12	38	52	70	70	70	70
Current financial assets	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	71	89	99	120	106	61	82	87	122	166
Current assets	124	158	172	187	214	186	212	231	275	327
Property, plant and equipment	8	7	6	6	9	64	8	10	11	11
Other intangible assets	186	192	197	194	484	568	636	670	698	722
Deffered tax assets	51	37	16	3	13	5	2	2	2	2
Non-current financial assets	6	5	5	20	2	2	2	2	2	2
Non-current assets	251	241	224	223	508	639	648	684	712	737
Total assets	375	399	396	410	722	825	860	915	987	1,064
Equity and liabilities	375	399	396	410	722	825	860	915	987	1,064
Total equity	289	291	280	290	550	592	636	690	761	837
Trade payables	5	5	5	6	7	9	11	12	13	14
Other payables and accruals	65	84	92	31	131	117	40	40	40	40
Short-term debt	1	1	1	1	2	38	17	17	17	17
Total current liabilities	71	90	99	102	140	164	154	156	157	157
Long-term debt	2	1	2	2	1	41	32	32	32	32
Deferred tax liabilities	15	17	15	14	30	27	36	36	36	36
Other non-current liabilities	0	1	1	2	2	1	1	1	1	1
Total non-current liabilities	16	18	18	17	32	69	70	70	70	70
Total liabilities	87	108	116	120	172	233	224	225	227	227
Total equity and liabilities	375	399	396	410	722	825	860	915	987	1,064
<i>Key metrics</i>										
Net interest bearing debt	-68	-88	-97	-117	-103	18	-33	-37	-73	-117

Source: Company (historical figures), DNB Markets (estimates)

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Valuation ratios

(SEKm)	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
<i>Enterprise value</i>										
Share price (SEK)	74.75	150.00	206.00	189.00	243.00	186.00	139.80	140.80	140.80	140.80
Number of shares (m)	12.63	12.63	12.63	12.63	13.62	13.63	13.63	13.63	13.63	13.63
Market capitalisation	944	1,895	2,602	2,387	3,310	2,535	1,905	1,919	1,919	1,919
Net interest bearing debt	-68	-88	-97	-117	-103	18	-33	-37	-73	-117
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	-68	-88	-97	-117	-103	18	-33	-37	-73	-117
EV	876	1,807	2,505	2,270	3,206	2,554	1,873	1,882	1,846	1,802
EV adj	876	1,807	2,505	2,270	3,206	2,554	1,873	1,882	1,846	1,802
<i>Valuation</i>										
EPS	3.34	5.02	6.18	6.33	6.67	5.96	4.71	6.28	8.36	9.78
EPS adj	3.34	5.02	6.18	6.33	6.67	5.96	4.71	6.28	8.36	9.78
DPS ordinary	0.00	5.00	7.00	5.00	5.00	3.00	0.00	2.36	3.14	4.18
DPS	0.00	5.00	7.00	5.00	5.00	3.00	0.00	2.36	3.14	4.18
P/E	22.4	29.9	33.4	29.8	36.4	31.2	29.7	22.4	16.9	14.4
P/E adj	22.4	29.9	33.4	29.8	36.4	31.2	29.7	22.4	16.9	14.4
P/B	3.27	6.51	9.31	8.22	6.02	4.28	3.00	2.78	2.52	2.29
Average ROE	14.5%	21.9%	27.3%	28.1%	21.6%	14.2%	10.5%	12.9%	15.7%	16.7%
Earnings yield adj	4.5%	3.3%	3.0%	3.4%	2.7%	3.2%	3.4%	4.5%	5.9%	6.9%
Dividend yield	0.0%	3.3%	3.4%	2.6%	2.1%	1.6%	0.0%	1.7%	2.2%	3.0%
Free cash flow yield	4.1%	4.2%	3.7%	3.6%	-3.8%	0.1%	2.3%	1.9%	4.1%	5.3%
EV/SALES	3.42	5.80	7.63	6.58	8.32	6.30	5.03	4.45	3.69	3.22
EV/SALES adj	3.42	5.80	7.63	6.58	8.32	6.30	5.03	4.45	3.69	3.22
EV/EBITDA	13.8	18.4	22.1	17.8	22.9	17.5	13.9	11.3	8.5	7.2
EV/EBITDA adj	13.8	18.4	22.1	17.8	22.9	17.5	13.9	11.3	8.5	7.2
EV/EBIT	16.5	21.7	26.0	21.1	27.7	23.6	21.5	16.3	12.0	10.0
EV/EBIT adj	16.5	21.7	24.9	21.1	27.0	23.6	21.5	16.3	12.0	10.0
EV/capital employed	3.0	6.2	8.9	6.4	5.8	3.8	2.4	2.3	2.1	1.9
EV/NOPLAT	22.2	29.3	35.1	28.6	37.5	31.8	29.0	22.0	16.2	13.5
EV/OpFCF (taxed)	50.1	31.6	36.6	28.3	51.4	75.1	57.3	38.2	21.6	16.5

Source: Company (historical figures), DNB Markets (estimates)

12 January 2021

Key accounting ratios

	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
<i>Profitability (%)</i>										
ROA	11.3	16.4	19.6	19.9	16.0	10.5	7.6	9.6	12.0	13.0
ROCE	18.1	28.5	34.9	33.6	26.1	17.7	12.1	14.5	17.9	19.3
ROCE after tax	13.4	21.1	25.8	24.8	19.3	13.1	8.9	10.7	13.2	14.3
<i>Return on invested capital (%)</i>										
Net PPE/revenues	3.1	2.1	1.9	1.8	2.3	15.7	2.1	2.3	2.1	2.0
Working capital/revenues	20.9	22.0	22.4	24.6	19.3	5.4	15.6	17.8	23.6	30.3
<i>Cash flow ratios (%)</i>										
FCF/revenues	15.1	25.8	29.0	25.0	-32.4	0.9	11.8	8.6	15.7	18.0
FCF yield (%)	4.1	4.2	3.7	3.6	1.4	0.9	2.3	1.9	4.1	5.3
CFO/revenues	27.5	31.7	34.8	35.9	24.0	26.1	33.0	29.4	33.8	35.2
CFO/market capitalisation	7.4	5.2	4.4	5.2	2.8	4.2	6.5	6.5	8.8	10.2
CFO/capex	217.6	508.8	614.0	652.1	197.9	126.4	155.5	141.5	186.8	205.4
CFO/current liabilities	99.4	110.2	115.8	121.1	66.2	64.4	79.7	79.9	107.8	124.8
Cash conversion ratio	91.5	126.8	122.2	107.9	-137.6	4.3	68.2	42.7	69.0	75.7
Capex/revenues	12.6	6.2	5.7	5.5	12.1	20.6	21.3	20.8	18.1	17.1
Capex/depreciation	1404.3	776.0	744.0	791.7	1800.0	2696.8	2552.4	2367.4	1913.1	1719.3
OpFCF margin	12.2	25.3	28.8	31.4	24.2	15.3	14.9	18.8	25.1	27.9
Total payout ratio	0.0	99.6	113.3	78.9	75.0	50.4	0.0	37.6	37.6	42.7
<i>Leverage and solvency (x)</i>										
Net debt/EBITDA	-1.08	-0.89	-0.85	-0.92	-0.74	0.13	-0.24	-0.22	-0.34	-0.46
Total debt/total capital (BV)	0.01	0.00	0.01	0.01	0.00	0.10	0.06	0.05	0.05	0.05
LTD / (LTD + equity (MV))	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.02	0.02	0.02
<i>Cash conversion cycle</i>										
Inventory turnover days	104.7	180.7	167.5	223.3	267.7	223.1	149.7	202.9	203.5	220.0
Receivables turnover days	70.9	74.5	74.7	66.2	96.1	106.8	122.0	118.2	105.1	98.8
Credit period	147.1	170.1	158.6	244.8	296.1	310.9	281.3	327.7	326.0	325.9
Cash conversion cycle	28.5	85.1	83.7	44.8	67.7	18.9	-9.6	-6.6	-17.3	-7.1

Source: Company (historical figures), DNB Markets (estimates)

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Important Information

Company: IAR Systems
 Coverage by Analyst: Joachim Gunell
 Date: 12-1-2021

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DNB Markets client	24%	7%	4%	4%	109

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