

# IAR SYSTEMS

## Minor model adjustments

As we approach the inflection point for new product launches (H2 2019e), we believe that the building blocks are in place to take the IAR case to the next level. Ahead of the Q2 results (due at 13:00 CET on 21 August), we have lowered our 2019–2021e EPS by 2%. We do not consider these changes to be material. We have lowered our fair value to SEK270–370/share (300–375), owing to peer multiples.

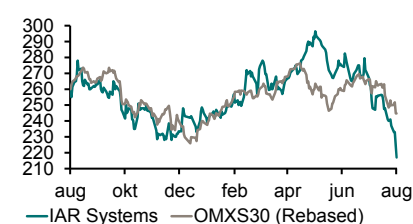
**Q2 estimates.** We forecast sales of SEK106m (11% growth of which 5% organic, 6% FX) driven by a continuous focus on larger strategic customer contracts. Once again, we do not expect new growth initiatives (Secure Thingz and RISC-V) to be visible in the Q2 numbers, given IAR's sales cycles of new product launches. Following increased opex spend owing to new recruitments in Cambridge (Secure Thingz-related), we forecast EBIT of SEK29m, up 24% YOY (corresponding to an EBIT margin of 28%). The capitalisation of development costs has been a drag on FCF since the integration of Secure Thingz in Q2 2018 and signs of cash flow recovery would improve investor sentiment, we believe.

**Following the recent share price fall (down 27% since May 2019),** we believe the market is ascribing too little value to IAR Systems' new growth initiatives, especially Secure Thingz and RISC-V. Initial signs of increased investor confidence in its security products (we forecast tangible sales in H2 2019), should bring a change in sentiment, we believe. Our estimates correspond to a 2020e P/E of 21x, and an EV/EBIT of 15x, which is a 40% discount to our Nordic software peers.

Year-end Dec	2015	2016	2017	2018	2019e	2020e	2021e
Revenue (SEKm)	312	328	345	385	460	567	657
EBITDA adj (SEKm)	98	113	127	140	181	245	300
EBIT adj (SEKm)	83	101	107	119	143	193	230
PTP (SEKm)	83	100	106	117	141	189	226
EPS rep (SEK)	5.02	6.18	6.33	6.67	7.85	10.43	12.44
EPS adj (SEK)	5.02	6.18	6.33	6.67	7.81	10.43	12.44
DPS (SEK)	5.00	7.00	5.00	4.99	5.00	5.50	5.50
Revenue growth (%)	21.9	5.4	5.1	11.7	19.4	23.2	16.0
EBITDA growth adj (%)	54.6	15.2	12.4	10.1	28.9	35.6	22.4
EPS growth adj (%)	50.2	23.0	2.6	5.3	17.1	33.6	19.3
EBITDA margin adj (%)	31.5	34.5	36.9	36.4	39.3	43.2	45.6
EV/Sales adj (x)	5.80	7.63	6.58	8.32	6.33	5.10	4.34
EV/EBITDA adj (x)	18.4	22.1	17.8	22.9	16.1	11.8	9.5
EV/EBIT adj (x)	21.7	24.9	21.1	27.0	20.4	15.0	12.4
P/E adj (x)	29.9	33.4	29.8	36.4	27.8	20.8	17.4
P/Book (x)	6.51	9.31	8.22	6.02	4.85	4.37	3.83
ROE (%)	21.9	27.3	28.1	21.6	18.4	22.1	23.4
ROCE (%)	28.5	34.9	33.6	26.1	22.4	25.4	27.4
Dividend yield (%)	3.3	3.4	2.6	2.1	2.3	2.5	2.5

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

IARB versus OMXS30 (12m)



Source: Factset

### SUMMARY

Share price (SEK)	217
Tickers	IARB SS, IARB.ST

### CAPITAL STRUCTURE

No. of shares (m)	13.6
No. of shares fully dil. (m)	14.0
Market cap. (SEKm)	2,956
NIBD adj end-2019e (SEKm)	-45
Enterprise value adj (SEKm)	2,911
Net debt/EBITDA adj (x)	-0.25
Free float (%)	100

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are the last closing price.

### NEXT EVENT

Q2 2019	21/08/2019
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### ESTIMATE CHANGES (SEK)

Year-end Dec	2019e	2020e	2021e
Sales (old)	456.0	559.9	654.8
Sales (new)	460.0	566.7	657.1
Change (%)	0.9	1.2	0.3
EPS (old)	7.72	10.71	12.94
EPS (new)	7.81	10.43	12.44
Change (%)	1.1	-2.6	-3.8

Source: DNB Markets.

This report has been commissioned and paid for by the company, and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

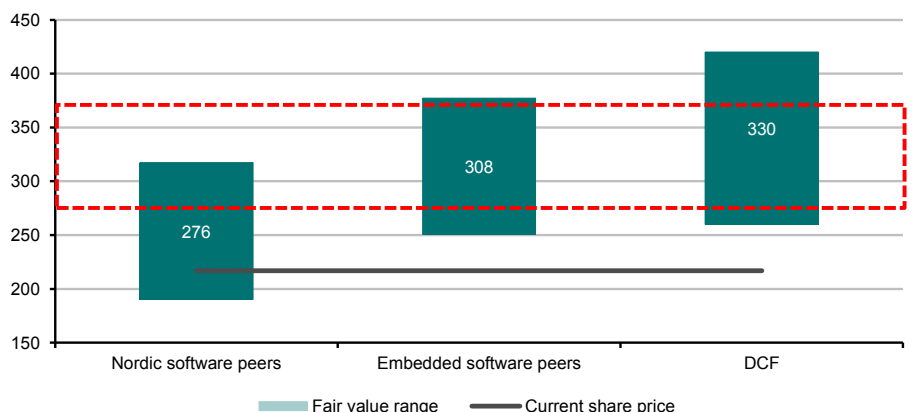
### ANALYSTS

Joachim Gunell

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# 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 prompt share devaluation, as in 2017.
- 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 show itself in IAR Systems' sales. Thus, it would be negative if the Secure Thingz collaboration falls short of management 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 3.0 will mark the shift 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.
- A broad consensus has yet to emerge on IAR Systems' investment case; however, we particularly like the group's market opportunity, operating profile, financial outlook, and valuation.
- We estimate that IAR Systems should generate a 2018–2021 EBIT CAGR of 25%, with the true potential expected beyond our forecast period.

Source: DNB Markets

## Valuation methodology

- Blending our total peer group of Nordic software and embedded software peers with DCF suggests a fair value of SEK270–370/share (300–375) in our 12-month perspective (methodology unchanged).
- Our estimates correspond to a 2020e P/E of 21x, an EV/EBIT of 15x, and an EV/sales of 5x.

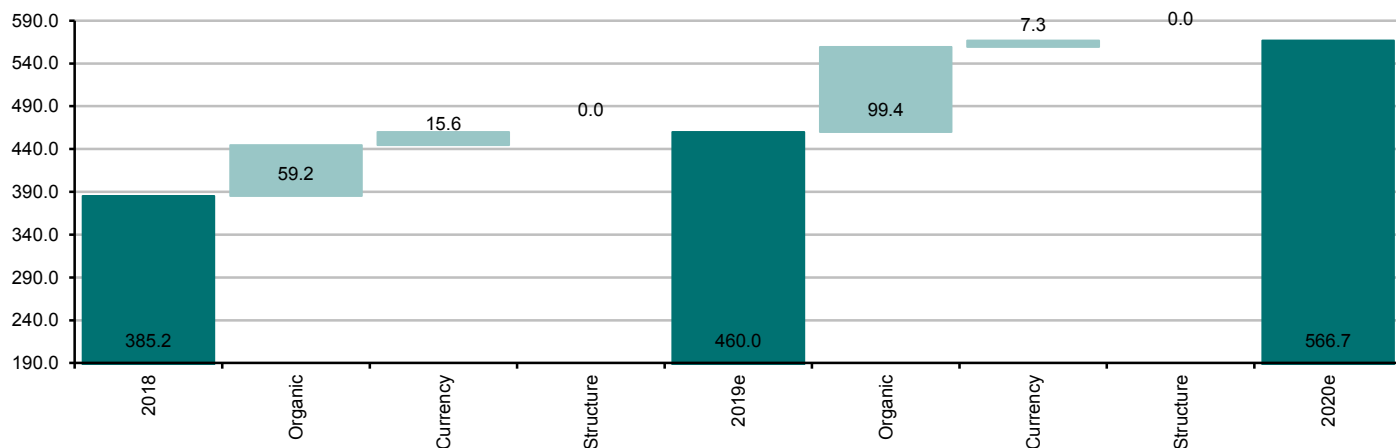
Source: DNB Markets

### Upside risks to our fair value

- The company over-delivering on its financial targets (particularly for 10–15% in organic growth).
- If IAR Systems' new security offering gains faster penetration than we assume by leveraging on its head-start, we believe there is a 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 2018–2020e (SEKm)



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

16 August 2019

## Estimate revisions

Figure 1: Estimate changes

(SEKm, except per share data)	Old			New			Change		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
<b>Sales</b>									
Legacy IAR Systems	413.3	443.9	473.6	418.0	451.0	480.0	1%	2%	1%
Royalty-based revenue	7.8	16.9	35.2	7.9	15.7	29.1	2%	-7%	-17%
Secure Thingz	35.0	99.1	146.0	34.1	100.0	148.0	-3%	1%	1%
<b>Group Total</b>	<b>456.0</b>	<b>559.9</b>	<b>654.8</b>	<b>460.0</b>	<b>566.7</b>	<b>657.1</b>	<b>1%</b>	<b>1%</b>	<b>0%</b>
<b>EBIT adjusted</b>									
Legacy IAR Systems + Secure Thingz	133.8	181.0	204.1	135.2	177.4	201.5	1%	-2%	-1%
Royalty-based revenue	7.6	16.6	34.6	7.7	15.2	28.2	1%	-9%	-19%
<b>Group Total</b>	<b>141.4</b>	<b>197.6</b>	<b>238.7</b>	<b>142.9</b>	<b>192.6</b>	<b>229.6</b>	<b>1%</b>	<b>-3%</b>	<b>-4%</b>
<b>EBIT adjusted margin</b>									
Legacy IAR Systems + Secure Thingz	29.8%	33.3%	32.9%	29.9%	32.2%	32.1%	7bp	-113bp	-85bp
Royalty-based revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0bp	0bp	0bp
<b>Group Total</b>	<b>31.0%</b>	<b>35.3%</b>	<b>36.5%</b>	<b>31.1%</b>	<b>34.0%</b>	<b>34.9%</b>	<b>6bp</b>	<b>-131bp</b>	<b>-150bp</b>
<b>Organic growth</b>									
Legacy IAR Systems	7.8%	6.5%	5.4%	7.6%	6.5%	5.3%	-24bp	-7bp	-8bp
Royalty-based revenue	0.5%	1.9%	3.2%	0.6%	1.6%	2.3%	1bp	-34bp	-91bp
Secure Thingz	7.6%	13.5%	8.2%	7.3%	13.5%	8.2%	-34bp	-2bp	0bp
<b>Group Total</b>	<b>16.0%</b>	<b>22.0%</b>	<b>16.7%</b>	<b>15.4%</b>	<b>21.6%</b>	<b>15.7%</b>	<b>-58bp</b>	<b>-43bp</b>	<b>-99bp</b>
<b>Group</b>									
<b>Sales</b>	<b>456.0</b>	<b>559.9</b>	<b>654.8</b>	<b>460.0</b>	<b>566.7</b>	<b>657.1</b>	<b>1%</b>	<b>1%</b>	<b>0%</b>
Sales growth	20.4%	22.4%	16.7%	21.5%	22.8%	15.7%	104bp	42bp	-99bp
Organic	16.0%	22.0%	16.7%	15.4%	21.6%	15.7%	-58bp	-43bp	-99bp
Structure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
Currency	4.5%	0.4%	0.0%	6.1%	1.2%	0.0%	162bp	84bp	0bp
<b>Gross profit</b>	<b>446.5</b>	<b>548.1</b>	<b>641.1</b>	<b>450.4</b>	<b>554.8</b>	<b>643.3</b>	<b>1%</b>	<b>1%</b>	<b>0%</b>
Margin	97.9%	97.9%	97.9%	97.9%	97.9%	97.9%	0bp	0bp	0bp
<b>EBIT adjusted</b>	<b>141.4</b>	<b>197.6</b>	<b>238.7</b>	<b>142.9</b>	<b>192.6</b>	<b>229.6</b>	<b>1%</b>	<b>-3%</b>	<b>-4%</b>
Margin	31.0%	35.3%	36.5%	31.1%	34.0%	34.9%	6bp	-131bp	-150bp
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0			
EBIT	141.4	197.6	238.7	142.9	192.6	229.6	1%	-3%	-4%
Margin	31.0%	35.3%	36.5%	31.1%	34.0%	34.9%	6bp	-131bp	-150bp
Net financial items	-1.7	-3.1	-3.6	-1.7	-3.1	-3.6			
Pretax profit	139.7	194.5	235.0	141.2	189.5	226.0	1%	-3%	-4%
Tax	-33.9	-48.6	-58.8	-34.3	-47.4	-56.5	1%	-3%	-4%
Tax rate	24.3%	25.0%	25.0%	24.3%	25.0%	25.0%	1bp	0bp	0bp
Net profit	105.8	145.9	176.3	106.9	142.1	169.5	1%	-3%	-4%
EPS adjusted	7.72	10.71	12.94	7.81	10.43	12.44	1%	-3%	-4%
EPS	7.76	10.71	12.94	7.85	10.43	12.44	1%	-3%	-4%
DPS	5.00	5.50	5.50	5.00	5.50	5.50	0%	0%	0%

Source: DNB Markets

16 August 2019

Figure 2: Quarterly estimates by division

(SEKm, except per share data)	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19e	Q3'19e	Q4'19e
<b>Sales</b>												
Legacy IAR Systems	83.5	85.4	82.9	86.4	87.6	93.8	95.5	97.8	98.0	103.7	106.7	109.4
Royalty-based revenue	2.9	1.4	1.3	1.2	1.3	1.3	1.4	1.5	1.4	1.4	2.5	2.6
Secure Thingz	0.0	0.0	0.0	0.0	0.0	0.5	1.0	3.5	0.4	0.7	4.8	28.4
<b>Group Total</b>	<b>86.4</b>	<b>86.8</b>	<b>84.2</b>	<b>87.6</b>	<b>88.9</b>	<b>95.6</b>	<b>97.9</b>	<b>102.8</b>	<b>99.8</b>	<b>105.9</b>	<b>114.0</b>	<b>140.4</b>
<b>EBIT</b>												
Legacy IAR Systems + Secure Thingz	23.3	24.4	27.3	25.6	28.2	22.4	29.9	29.6	28.0	28.0	32.6	46.3
Royalty-based revenue	2.9	1.4	1.3	1.2	1.3	1.3	1.4	1.5	1.4	1.4	2.5	2.6
<b>Group Total</b>	<b>26.2</b>	<b>25.8</b>	<b>28.6</b>	<b>26.8</b>	<b>29.5</b>	<b>23.7</b>	<b>31.3</b>	<b>31.1</b>	<b>29.4</b>	<b>29.4</b>	<b>35.1</b>	<b>48.9</b>
<b>EBIT adjusted margin</b>												
Legacy IAR Systems + Secure Thingz	27.9%	28.6%	32.9%	29.6%	32.2%	23.9%	31.3%	30.3%	28.6%	27.0%	30.6%	42.4%
Royalty-based revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Group Total</b>	<b>30.3%</b>	<b>29.7%</b>	<b>34.0%</b>	<b>30.6%</b>	<b>33.2%</b>	<b>24.8%</b>	<b>32.0%</b>	<b>30.3%</b>	<b>29.5%</b>	<b>27.8%</b>	<b>30.8%</b>	<b>34.9%</b>
<b>Organic growth</b>												
Legacy IAR Systems	2.6%	0.6%	8.3%	8.4%	4.9%	7.9%	6.5%	9.6%	3.4%	4.9%	6.8%	7.1%
Royalty-based revenue	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	1.0%	1.0%
Secure Thingz	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%	0.0%	0.2%	3.6%	23.2%
<b>Group Total</b>	<b>2.7%</b>	<b>0.6%</b>	<b>8.4%</b>	<b>8.5%</b>	<b>5.0%</b>	<b>8.1%</b>	<b>6.7%</b>	<b>10.0%</b>	<b>3.5%</b>	<b>5.2%</b>	<b>11.5%</b>	<b>31.3%</b>
<b>Group</b>												
<b>Sales</b>	<b>86.4</b>	<b>86.8</b>	<b>84.2</b>	<b>87.6</b>	<b>88.9</b>	<b>95.6</b>	<b>97.9</b>	<b>102.8</b>	<b>99.8</b>	<b>105.9</b>	<b>114.0</b>	<b>140.4</b>
Sales growth	7.3%	6.1%	3.8%	3.1%	2.9%	10.1%	16.3%	17.4%	12.3%	10.8%	16.4%	36.6%
Organic	2.7%	0.6%	8.4%	8.5%	5.0%	8.1%	6.7%	10.0%	3.5%	5.2%	11.5%	31.3%
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	4.6%	5.5%	-4.6%	-5.4%	-2.1%	2.1%	9.6%	7.3%	8.8%	5.6%	4.9%	5.3%
<b>Gross profit</b>	<b>84.0</b>	<b>85.2</b>	<b>82.3</b>	<b>85.0</b>	<b>86.1</b>	<b>93.7</b>	<b>95.8</b>	<b>100.6</b>	<b>97.7</b>	<b>103.8</b>	<b>111.5</b>	<b>137.4</b>
Margin	97.2%	98.2%	97.7%	97.0%	96.9%	98.0%	97.9%	97.9%	97.9%	98.0%	97.9%	97.9%
<b>EBIT adjusted</b>	<b>26.2</b>	<b>25.8</b>	<b>28.6</b>	<b>26.8</b>	<b>29.5</b>	<b>26.9</b>	<b>31.3</b>	<b>31.1</b>	<b>29.4</b>	<b>29.4</b>	<b>35.1</b>	<b>48.9</b>
Margin	30.3%	29.7%	34.0%	30.6%	33.2%	28.1%	32.0%	30.3%	29.5%	27.8%	30.8%	34.9%
Adjustments	0.0	0.0	0.0	0.0	0.0	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	26.2	25.8	28.6	26.8	29.5	23.7	31.3	31.1	29.4	29.4	35.1	48.9
Margin	30.3%	29.7%	34.0%	30.6%	33.2%	24.8%	32.0%	30.3%	29.5%	27.8%	30.8%	34.9%
Net financial items	-0.8	-0.1	-0.4	-0.4	-0.4	-1.7	-0.3	0.6	-0.2	-0.8	-0.4	-0.2
Pretax profit	25.4	25.7	28.2	26.4	29.1	22.0	31.0	31.7	29.2	28.6	34.7	48.7
Tax	-6.6	-4.5	-7.9	-6.7	-6.3	-5.8	-4.2	-9.9	-6.3	-7.1	-8.7	-12.2
Tax rate	26.0%	17.5%	28.0%	25.4%	21.6%	26.4%	13.5%	31.2%	21.6%	25.0%	25.0%	25.0%
Net profit	18.8	21.2	20.3	19.7	22.8	16.2	26.8	21.8	22.9	21.4	26.0	36.5
EPS adjusted	1.49	1.68	1.61	1.56	1.81	1.43	1.97	1.60	1.64	1.57	1.91	2.68
EPS	1.49	1.67	1.61	1.56	1.81	1.20	1.97	1.60	1.68	1.57	1.91	2.68
DPS	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00

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

Figure 3: Peer group (%)

	Sales growth			GM*	EBIT margin			EBIT growth			EPS growth			2018–2021e CAGR		
	2019e	2020e	2021e		2018	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e	Sales	EBIT
<b>IAR Systems (DNBe)</b>	<b>19.4</b>	<b>23.2</b>	<b>16.0</b>	<b>97.7</b>	<b>31.1</b>	<b>34.0</b>	<b>34.9</b>	<b>20.2</b>	<b>34.8</b>	<b>19.3</b>	<b>17.7</b>	<b>32.9</b>	<b>19.3</b>	<b>19.5</b>	<b>24.6</b>	<b>23.1</b>
IAR Systems versus total peer group	0.3	9.8	3.9	27.5	6.4	8.6	8.0	-2.5	4.5	-1.6	-6.7	-3.6	-0.7	4.7	0.6	-2.8
<b>Nordic software peers</b>																
HMS Networks	16.8	13.8	13.8	61.1	18.5	17.4	19.7	9.8	29.6	22.2	16.1	28.3	23.5	14.8	20.2	22.5
SimCorp	14.1	8.4	9.7	58.1	27.0	27.4	27.8	16.0	9.7	14.9	16.7	11.2	15.2	10.7	13.5	14.4
F-Secure	15.9	7.9	9.2	79.4	4.0	3.3	6.9	-6.5	129.0	50.5	8.6	228.6	47.8	11.0	47.7	74.1
INVISIO Communications	21.7	22.4	19.2	58.9	18.0	21.9	25.8	48.2	43.9	30.5	56.0	41.1	30.4	21.1	40.7	42.1
Fortnox	36.1	23.3	18.4	n.a.	27.6	32.2	34.7	58.8	32.9	25.2	61.2	32.2	24.9	25.7	38.3	38.6
Vitec Software	19.6	4.6	3.1	n.a.	13.2	14.5	14.9	31.3	8.0	5.8	16.1	7.7	7.6	8.9	14.5	10.4
<b>Average of the above</b>	<b>20.7</b>	<b>13.4</b>	<b>12.3</b>	<b>64.4</b>	<b>18.0</b>	<b>19.4</b>	<b>21.6</b>	<b>26.3</b>	<b>42.2</b>	<b>24.9</b>	<b>29.1</b>	<b>58.2</b>	<b>24.9</b>	<b>15.4</b>	<b>29.1</b>	<b>33.7</b>
DNBe versus peer group	-1.3	9.8	3.7	33.3	13.0	14.5	13.3	-6.0	-7.4	-5.6	-11.4	-25.2	-5.6	4.1	-4.6	-10.5
<b>Embedded software peers</b>																
Cadence Design Systems	8.9	6.8	6.4	87.8	30.2	31.7	31.6	14.0	6.4	7.4	15.3	6.6	6.8	7.4	9.2	9.5
ANSYS	14.2	9.8	8.5	86.3	47.4	44.6	44.9	7.4	10.5	9.1	4.1	8.7	8.8	10.8	9.0	7.1
Xilinx	12.0	12.3	12.4	70.0	31.4	28.4	30.0	1.3	18.4	15.6	6.9	14.1	11.0	12.2	11.5	10.6
Altium	35.2	22.3	19.5	44.4	30.3	33.4	35.5	48.8	30.1	27.3	53.4	15.8	24.3	25.5	35.1	30.2
Red Hat	15.6	15.5		85.3	23.7	24.7	24.5	20.8	14.5		14.5	7.2				
<b>Average of the above</b>	<b>17.2</b>	<b>13.3</b>	<b>11.7</b>	<b>74.8</b>	<b>32.6</b>	<b>32.6</b>	<b>33.3</b>	<b>18.5</b>	<b>16.0</b>	<b>14.9</b>	<b>18.8</b>	<b>10.5</b>	<b>12.7</b>	<b>14.0</b>	<b>16.2</b>	<b>14.4</b>
DNBe vs. peer group	2.3	9.9	4.2	22.9	-1.6	1.4	1.6	1.8	18.8	4.4	-1.1	22.5	6.5	5.5	8.4	8.8
<b>Average of total peer group</b>	<b>19.1</b>	<b>13.4</b>	<b>12.0</b>	<b>70.1</b>	<b>24.7</b>	<b>25.4</b>	<b>26.9</b>	<b>22.7</b>	<b>30.3</b>	<b>20.9</b>	<b>24.4</b>	<b>36.5</b>	<b>20.0</b>	<b>14.8</b>	<b>24.0</b>	<b>25.9</b>
<b>Median of total peer group</b>	<b>15.9</b>	<b>12.3</b>	<b>11.1</b>	<b>70.0</b>	<b>27.0</b>	<b>27.4</b>	<b>27.8</b>	<b>16.0</b>	<b>18.4</b>	<b>18.9</b>	<b>16.1</b>	<b>14.1</b>	<b>19.3</b>	<b>11.6</b>	<b>17.4</b>	<b>18.4</b>

Source: Factset (15 August 2019)  
Note (GM = gross margin)

Figure 4: Peer group (x/%)

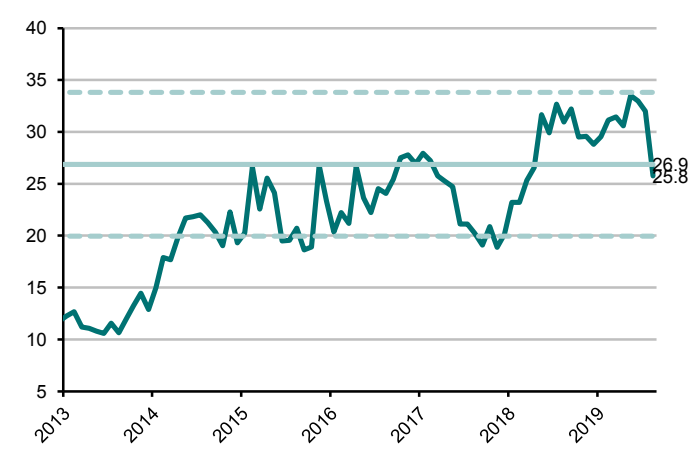
	M Cap (SEKbn)	P/E (x)			EV/EBITDA (x)			EV/EBIT (x)			FCF yield 2019e	RoE 2019e	Div. yield 2019e	Performance (%)		
		2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e				-1M	-3M	-12M
<b>IAR Systems (DNBe)</b>	<b>2.9</b>	<b>27.3</b>	<b>20.5</b>	<b>17.2</b>	<b>15.9</b>	<b>11.7</b>	<b>9.6</b>	<b>20.1</b>	<b>14.9</b>	<b>12.5</b>	<b>1.9%</b>	<b>17.5%</b>	<b>2.3%</b>	<b>-20.5</b>	<b>-26.5</b>	<b>-18.7</b>
Premium (+) / discount (-)		-40%	-38%	-37%	-37%	-43%	-44%	-40%	-40%	-37%						
<b>Nordic software peers</b>																
HMS Networks	6.9	34.6	27.0	21.8	20.7	16.2	13.2	26.0	19.6	15.6	3.0%	20.4%	1.3%	-15.7	-14.4	-0.8
SimCorp	32.6	32.8	29.5	25.6	23.0	20.7	18.0	24.9	22.4	19.3	2.3%	42.6%	1.5%	-7.8	-11.8	-3.2
F-Secure	4.3	107.6	32.7	22.1	13.4	12.8	9.0	56.9	24.4	15.8	2.5%	5.2%	0.1%	-0.4	-0.6	-26.2
INVISIO Communications	3.2	43.0	30.5	23.4	29.3	19.6	15.0	32.7	22.5	16.9	3.6%	22.8%	1.4%	1.7	2.5	8.1
Fortnox	8.0	62.0	46.9	37.6	40.6	31.0	24.8	47.1	34.8	27.2	1.3%	51.4%	0.4%	1.5	4.0	85.1
Vitec Software	3.5	31.1	28.9	26.8	12.3	12.2	11.5	24.6	22.2	20.4	-4.9%	16.3%	1.0%	-7.0	13.2	45.3
<b>Average of the above</b>		<b>51.8</b>	<b>32.6</b>	<b>26.2</b>	<b>23.2</b>	<b>18.8</b>	<b>15.3</b>	<b>35.4</b>	<b>24.3</b>	<b>19.2</b>	<b>1.3%</b>	<b>26.4%</b>	<b>0.9%</b>	<b>-4.6</b>	<b>-1.2</b>	<b>18.0</b>
Premium (+) / discount (-)		-47%	-37%	-34%	-32%	-38%	-37%	-43%	-39%	-35%						
<b>Embedded software peers</b>																
Cadence Design Systems	182.1	31.3	29.3	27.4	23.2	21.7	17.7	25.0	22.7	20.1	3.4%	36.9%	0.0%	-10.2	-1.0	46.5
ANSYS	165.3	32.8	30.2	27.7	23.9	20.9	18.5	24.5	21.4	18.7	2.7%	17.6%	0.0%	-4.0	9.6	17.5
Altium	251.5	27.8	24.4	22.0	22.7	18.8	17.4	25.1	20.7	17.7	4.2%	30.6%	1.3%	-14.2	-8.8	45.1
Xilinx	27.4	53.3	46.0	37.0	42.8	33.1	26.0	47.4	36.2	28.1		29.8%	1.3%	-11.8	4.2	50.7
Red Hat		44.4	41.4								3.5%			0.0	1.5	30.8
<b>Average of the above</b>		<b>37.9</b>	<b>34.3</b>	<b>28.5</b>	<b>28.1</b>	<b>23.6</b>	<b>19.9</b>	<b>30.5</b>	<b>25.2</b>	<b>21.2</b>	<b>3.5%</b>	<b>28.7%</b>	<b>0.7%</b>	<b>-8.0</b>	<b>1.1</b>	<b>38.1</b>
Premium (+) / discount (-)		-28%	-40%	-40%	-44%	-50%	-52%	-34%	-41%	-41%						
<b>Average of total peer group</b>		<b>45.5</b>	<b>33.3</b>	<b>27.2</b>	<b>25.2</b>	<b>20.7</b>	<b>17.1</b>	<b>33.4</b>	<b>24.7</b>	<b>20.0</b>	<b>2.2%</b>	<b>27.4%</b>	<b>0.8%</b>	<b>-6.2</b>	<b>-0.1</b>	<b>27.2</b>
<b>Median of total peer group</b>	<b>2.9</b>	<b>34.6</b>	<b>30.2</b>	<b>26.2</b>	<b>23.1</b>	<b>20.2</b>	<b>17.5</b>	<b>25.6</b>	<b>22.4</b>	<b>19.0</b>	<b>2.9%</b>	<b>26.3%</b>	<b>1.1%</b>	<b>-7.0</b>	<b>1.5</b>	<b>30.8</b>

Source: Factset  
Note: Share prices correct as of 17.30.00 CET on 15 August 2019

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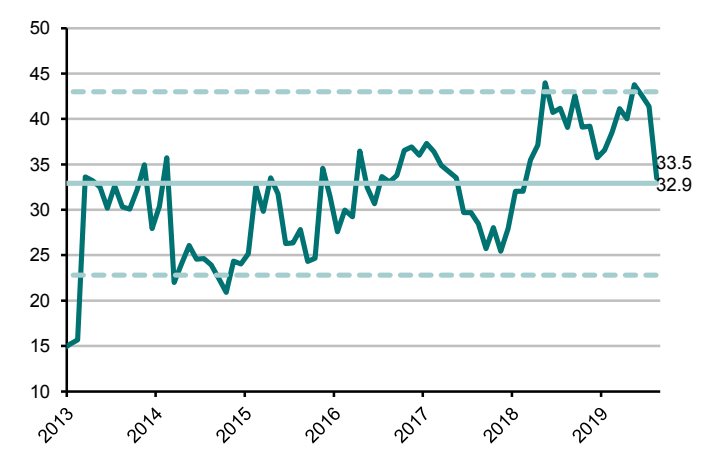
# Valuation

**Figure 5: IAR Systems EV/EBIT LTM**



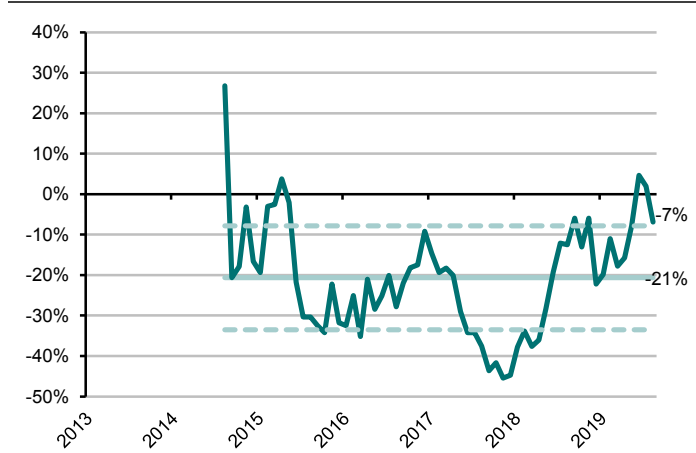
Source: Factset (underlying data), DNB Markets (further calculations)

**Figure 6: IAR Systems P/E LTM**



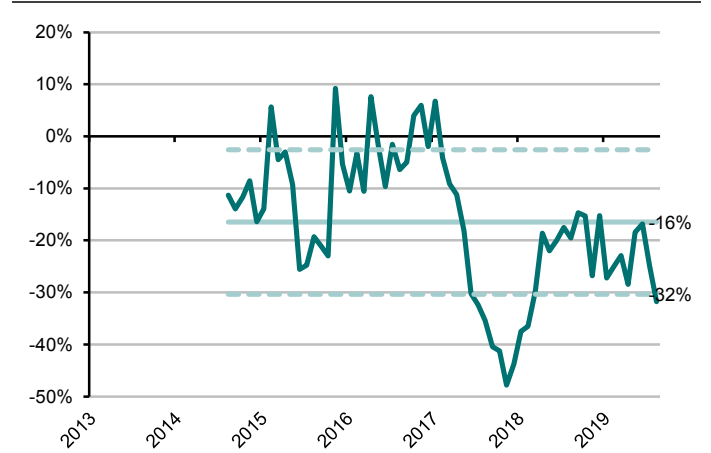
Source: Factset (underlying data), DNB Markets (further calculations)

**Figure 7: Premium/discount EV/EBIT LTM IAR Systems to Nordic software peers**



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

**Figure 8: Premium/discount EV/EBIT LTM IAR Systems to embedded software peers**



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

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Revenues	460	567	657	456	560	655	4	7	2
Cost of sales	-10	-12	-14	-10	-12	-14	0	0	0
Gross profit	450	555	643	446	548	641	4	7	2
Operating expenses	-270	-310	-344	-267	-297	-330	-3	-13	-14
EBITDA	181	245	300	179	251	311	1	-6	-12
EBITDA adj	181	245	300	179	251	311	1	-6	-12
EBITDA margin (%)	39.3	43.2	45.6	39.4	44.8	47.6	-0.1	-1.6	-1.9
Depreciation	-8	-12	-20	-9	-14	-22	1	2	3
Amortisation	-29	-40	-50	-29	-39	-50	0	0	0
EBIT	143	193	230	141	198	239	1	-5	-9
EBIT adj	143	193	230	141	198	239	1	-5	-9
Net financial items	-2	-3	-4	-2	-3	-4	0	0	0
PBT	141	189	226	140	195	235	2	-5	-9
Taxes	-34	-47	-56	-34	-49	-59	0	1	2
Minorities	0	0	0	0	0	0	0	0	0
Net profit	107	142	169	106	146	176	1	-4	-7
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	107	142	169	106	146	176	1	-4	-7
<i>Per share data (SEK)</i>									
EPS	7.85	10.43	12.44	7.76	10.71	12.94	0.08	-0.28	-0.50
EPS adj	7.81	10.43	12.44	7.72	10.71	12.94	0.08	-0.28	-0.50
DPS ordinary	5.00	5.50	5.50	5.00	5.50	5.50	0.00	0.00	0.00
DPS	5.00	5.50	5.50	5.00	5.50	5.50	0.00	0.00	0.00
<i>Other key metrics (%)</i>									
Revenue growth	19.4	23.2	16.0	18.4	22.8	17.0	1.0	0.4	-1.0
EBIT adj growth	20.2	34.8	19.3	19.0	39.8	20.8	1.3	-5.0	-1.6
EPS adj growth	17.1	33.6	19.3	15.8	38.7	20.8	1.2	-5.0	-1.6
Avg. number of shares (m)	14	14	14	14	14	14	0	0	0
Capex	-76	-95	-104	-76	-97	-108	0	2	4
OpFCF	104	150	195	104	154	203	1	-4	-8
Working capital	69	94	155	69	96	162	1	-2	-8
NIBD adj	-45	-66	-105	-48	-68	-115	4	2	10

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
<b>Assumptions</b>									
Revenue org. % YOY	15.37	21.60	15.74	15.95	22.03	16.72	-0.58	-0.43	-0.99
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Currency impact % YOY	6.08	1.21	0.00	4.46	0.37	0.00	1.62	0.84	0.00

Source: DNB Markets



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## Quarterly numbers

(SEKm)	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e	Q1 2020e
<b>Revenues</b>	<b>84</b>	<b>88</b>	<b>89</b>	<b>96</b>	<b>98</b>	<b>103</b>	<b>100</b>	<b>106</b>	<b>114</b>	<b>140</b>	<b>137</b>
Cost of sales	-2	-3	-3	-2	-2	-2	-2	-2	-2	-3	-3
<b>Gross profit</b>	<b>82</b>	<b>85</b>	<b>86</b>	<b>94</b>	<b>96</b>	<b>101</b>	<b>98</b>	<b>104</b>	<b>112</b>	<b>137</b>	<b>134</b>
Operating expenses	-49	-53	-51	-64	-58	-63	-59	-66	-67	-77	-73
<b>EBITDA</b>	<b>34</b>	<b>32</b>	<b>35</b>	<b>30</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>44</b>	<b>60</b>	<b>61</b>
Depreciation	-1	-1	-1	-1	-1	-1	-3	-1	-2	-3	-2
Amortisation	-5	-5	-5	-6	-6	-6	-6	-7	-8	-9	-10
<b>EBIT</b>	<b>29</b>	<b>27</b>	<b>30</b>	<b>24</b>	<b>31</b>	<b>31</b>	<b>29</b>	<b>29</b>	<b>35</b>	<b>49</b>	<b>50</b>
Net financial items	0	0	0	-2	0	1	0	-1	0	0	-1
<b>PBT</b>	<b>28</b>	<b>26</b>	<b>29</b>	<b>22</b>	<b>31</b>	<b>32</b>	<b>29</b>	<b>29</b>	<b>35</b>	<b>49</b>	<b>49</b>
Taxes	-8	-7	-6	-6	-4	-10	-6	-7	-9	-12	-12
Minorities	0	0	0	0	0	0	0	0	0	0	0
<b>Net profit</b>	<b>20</b>	<b>20</b>	<b>23</b>	<b>16</b>	<b>27</b>	<b>22</b>	<b>23</b>	<b>21</b>	<b>26</b>	<b>37</b>	<b>37</b>
Adjustments to net profit	0	0	0	-2	0	0	0	0	0	0	0
Net profit adj	20	20	23	14	27	22	23	21	26	37	37
Dividend paid	0	0	0	-68	0	0	0	-68	0	0	0
Avg. number of shares (m)	13	13	13	14	14	14	14	14	14	14	14
<i>Per share data (SEK)</i>											
EPS	1.61	1.56	1.81	1.20	1.97	1.60	1.68	1.57	1.91	2.68	2.70
<b>EPS adj</b>	<b>1.61</b>	<b>1.56</b>	<b>1.81</b>	<b>1.43</b>	<b>1.97</b>	<b>1.60</b>	<b>1.64</b>	<b>1.57</b>	<b>1.91</b>	<b>2.68</b>	<b>2.70</b>
DPS ordinary	0.00	0.00	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
DPS	0.00	0.00	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	-3.0	4.0	1.5	7.5	2.4	5.0	-2.9	6.1	7.6	23.2	-2.2
Revenues, YOY growth	3.8	3.1	2.9	10.1	16.3	17.4	12.3	10.8	16.4	36.6	37.6
EPS adj, YOY growth	-6.9	-2.0	21.3	-15.1	22.5	2.6	-9.2	10.4	-2.9	67.5	64.7
Gross margin	97.7	97.0	96.9	98.0	97.9	97.9	97.9	98.0	97.9	97.9	97.9
EBITDA adj margin	40.1	36.4	39.0	31.4	38.6	36.6	38.5	35.4	39.0	42.9	44.7
Depreciation/revenues	-0.7	-0.7	-0.6	-0.6	-0.7	-0.8	-2.7	-1.0	-1.6	-1.9	-1.4
EBIT adj margin	34.0	30.6	33.2	28.1	32.0	30.3	29.5	27.8	30.8	34.9	36.3
Net profit margin	24.1	22.5	25.6	16.9	27.4	21.2	22.9	20.2	22.9	26.0	26.8

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

## Adjustments to quarterly numbers

(SEKm)	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e	Q1 2020e
<b>EBITDA</b>	<b>34</b>	<b>32</b>	<b>35</b>	<b>30</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>44</b>	<b>60</b>	<b>61</b>
EBITDA adj	34	32	35	30	38	38	38	38	44	60	61
<b>EBIT</b>	<b>29</b>	<b>27</b>	<b>30</b>	<b>24</b>	<b>31</b>	<b>31</b>	<b>29</b>	<b>29</b>	<b>35</b>	<b>49</b>	<b>50</b>
Other EBIT adjustments	0	0	0	-3	0	0	0	0	0	0	0
EBIT adj	29	27	30	27	31	31	29	29	35	49	50
<b>Net profit</b>	<b>20</b>	<b>20</b>	<b>23</b>	<b>16</b>	<b>27</b>	<b>22</b>	<b>23</b>	<b>21</b>	<b>26</b>	<b>37</b>	<b>37</b>
Other EBIT adjustments	0	0	0	-3	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	20	20	23	14	27	22	23	21	26	37	37

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

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Quarterly numbers by segment and assumptions

(SEKm)	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e	Q1 2020e
<b>Assumptions</b>											
Revenue org. % YOY	8.38	8.47	4.98	8.06	6.65	10.05	3.49	5.17	11.48	31.26	33.95
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	-4.56	-5.41	-2.08	2.07	9.62	7.31	8.77	5.60	4.93	5.30	3.65

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

Annual P&L

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	
<b>Revenues</b>	<b>230</b>	<b>236</b>	<b>256</b>	<b>312</b>	<b>328</b>	<b>345</b>	<b>385</b>	<b>460</b>	<b>567</b>	<b>657</b>	
Cost of sales	-23	-15	-13	-10	-12	-9	-9	-10	-12	-14	
<b>Gross profit</b>	<b>207</b>	<b>222</b>	<b>243</b>	<b>301</b>	<b>316</b>	<b>337</b>	<b>376</b>	<b>450</b>	<b>555</b>	<b>643</b>	
Operating expenses	-165	-171	-179	-203	-203	-209	-236	-270	-310	-344	
<b>EBITDA</b>	<b>42</b>	<b>51</b>	<b>64</b>	<b>98</b>	<b>113</b>	<b>127</b>	<b>140</b>	<b>181</b>	<b>245</b>	<b>300</b>	
Depreciation	-2	-2	-2	-3	-3	-2	-3	-8	-12	-20	
Amortisation	-4	-7	-8	-12	-14	-17	-22	-29	-40	-50	
<b>EBIT</b>	<b>35</b>	<b>41</b>	<b>53</b>	<b>83</b>	<b>97</b>	<b>107</b>	<b>116</b>	<b>143</b>	<b>193</b>	<b>230</b>	
Net financial items	0	0	0	0	0	-2	-2	-2	-3	-4	
<b>PBT</b>	<b>35</b>	<b>37</b>	<b>54</b>	<b>83</b>	<b>100</b>	<b>106</b>	<b>117</b>	<b>141</b>	<b>189</b>	<b>226</b>	
Taxes	-22	-12	-11	-20	-22	-26	-26	-34	-47	-56	
Effective tax rate (%)	63	31	21	24	22	24	22	24	25	25	
Minorities	0	0	0	0	0	0	0	0	0	0	
<b>Net profit</b>	<b>13</b>	<b>26</b>	<b>42</b>	<b>63</b>	<b>78</b>	<b>80</b>	<b>91</b>	<b>107</b>	<b>142</b>	<b>169</b>	
Adjustments to net profit	0	3	0	0	-3	0	-2	0	0	0	
Net profit adj	13	29	42	63	75	80	88	107	142	169	
Dividend paid	-11	-23	0	-63	-88	-63	-68	-68	-75	-75	
Avg. number of shares	11	12	13	13	13	13	14	14	14	14	
<i>Per share data (SEK)</i>											
EPS	1.14	2.10	3.34	5.02	6.18	6.33	6.67	7.85	10.43	12.44	
<b>EPS adj</b>	<b>1.14</b>	<b>2.10</b>	<b>3.34</b>	<b>5.02</b>	<b>6.18</b>	<b>6.33</b>	<b>6.67</b>	<b>7.81</b>	<b>10.43</b>	<b>12.44</b>	
DPS ordinary	0.98	1.85	0.00	5.00	7.00	5.00	4.99	5.00	5.50	5.50	
DPS	0.98	1.85	0.00	5.00	7.00	5.00	4.99	5.00	5.50	5.50	
<i>Growth and margins (%)</i>											
Revenue growth	14.8	2.7	8.3	21.9	5.4	5.1	11.7	19.4	23.2	16.0	
EPS adj growth	-53.2	83.4	59.2	50.2	23.0	2.6	5.3	17.1	33.6	19.3	
Gross margin	89.9	93.9	95.0	96.7	96.3	97.5	97.7	97.9	97.9	97.9	
EBITDA margin	18.2	21.4	24.9	31.5	34.5	36.9	36.4	39.3	43.2	45.6	
EBITDA adj margin	18.2	21.4	24.9	31.5	34.5	36.9	36.4	39.3	43.2	45.6	
Depreciation/revenues	-1.0	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-1.8	-2.2	-3.0	
EBIT margin	15.3	17.5	20.8	26.8	29.4	31.1	30.0	31.1	34.0	34.9	
EBIT adj margin	15.3	15.8	20.8	26.8	30.6	31.1	30.8	31.1	34.0	34.9	
PBT margin	15.3	15.8	21.0	26.7	30.5	30.6	30.4	30.7	33.4	34.4	
Net profit margin	5.6	11.0	16.5	20.3	23.8	23.2	23.6	23.2	25.1	25.8	

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

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### Adjustments to annual P&L

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
<b>EBITDA</b>	<b>42</b>	<b>51</b>	<b>64</b>	<b>98</b>	<b>113</b>	<b>127</b>	<b>140</b>	<b>181</b>	<b>245</b>	<b>300</b>
EBITDA adj	42	51	64	98	113	127	140	181	245	300
<b>EBIT</b>	<b>35</b>	<b>41</b>	<b>53</b>	<b>83</b>	<b>97</b>	<b>107</b>	<b>116</b>	<b>143</b>	<b>193</b>	<b>230</b>
Other EBIT adjustments	0	4	0	0	-4	0	-3	0	0	0
EBIT adj	35	37	53	83	101	107	119	143	193	230
<b>Net profit</b>	<b>13</b>	<b>26</b>	<b>42</b>	<b>63</b>	<b>78</b>	<b>80</b>	<b>91</b>	<b>107</b>	<b>142</b>	<b>169</b>
Other EBIT adjustments	0	4	0	0	-4	0	-3	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	13	29	42	63	75	80	88	107	142	169
<i>Per share data (SEK)</i>										
EPS	1.14	2.10	3.34	5.02	6.18	6.33	6.67	7.85	10.43	12.44
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.04	0.00	0.00
EPS adj	1.14	2.10	3.34	5.02	6.18	6.33	6.67	7.81	10.43	12.44

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

### Cash flow

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Net profit	13	26	42	63	78	80	91	107	142	169
Depreciation and amortisation	7	9	10	15	17	20	25	38	52	70
<b>Cash flow from operations (CFO)</b>	<b>38</b>	<b>41</b>	<b>70</b>	<b>99</b>	<b>114</b>	<b>124</b>	<b>93</b>	<b>115</b>	<b>191</b>	<b>219</b>
Capital expenditure	-22	-21	-32	-19	-19	-19	-47	-76	-95	-104
Acquisitions/Investments	0	0	0	0	0	0	-171	0	0	0
Divestments	0	0	0	1	0	0	0	0	0	0
<b>Cash flow from investing (CFI)</b>	<b>-18</b>	<b>-19</b>	<b>-32</b>	<b>-18</b>	<b>-19</b>	<b>-38</b>	<b>-218</b>	<b>-76</b>	<b>-95</b>	<b>-104</b>
<b>Free cash flow (FCF)</b>	<b>20</b>	<b>22</b>	<b>39</b>	<b>80</b>	<b>95</b>	<b>86</b>	<b>-125</b>	<b>38</b>	<b>96</b>	<b>114</b>
Net change in debt	0	0	0	0	0	0	0	0	0	0
Dividends paid	-11	-23	0	-63	-88	-63	-68	-68	-75	-75
Share issue (repurchase)	0	22	-53	0	0	0	172	0	0	0
Other	12	12	0	0	0	0	4	-2	0	0
<b>Cash flow from financing (CFF)</b>	<b>1</b>	<b>12</b>	<b>-53</b>	<b>-64</b>	<b>-88</b>	<b>-63</b>	<b>108</b>	<b>-70</b>	<b>-75</b>	<b>-75</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>21</b>	<b>33</b>	<b>-15</b>	<b>17</b>	<b>7</b>	<b>23</b>	<b>-17</b>	<b>-32</b>	<b>21</b>	<b>39</b>
<i>FCFF calculation</i>										
Free cash flow	20	22	39	80	95	86	-125	38	96	114
Less: tax shields/other	0	0	0	0	0	0	0	0	0	0
Less: acquisitions	0	0	0	0	0	0	171	0	0	0
Less: divestments	0	0	0	-1	0	0	0	0	0	0
<b>Growth (%)</b>										
CFO	10.1	6.3	72.7	40.4	15.7	8.5	-25.3	23.7	66.8	14.4
CFI	30.1	-5.5	-66.0	42.3	-3.3	-98.9	-478.5	65.0	-24.6	-9.9
FCF	127.0	6.9	78.7	108.3	18.5	-9.4	-244.7	130.7	150.5	18.9
CFF	-92.2	1866.7	-550.8	-19.5	-39.0	28.5	270.4	-165.3	-6.6	0.0
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)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
<b>Assets</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>722</b>	<b>810</b>	<b>878</b>	<b>975</b>
Inventories	4	3	4	5	6	5	7	9	9	11
Trade receivables	29	34	39	44	48	51	63	82	87	108
Other receivables	14	15	11	20	19	12	38	44	44	44
Current financial assets	3	1	0	0	0	0	0	0	0	0
Cash and cash equivalents	49	82	71	89	99	120	106	76	97	137
<b>Current assets</b>	<b>98</b>	<b>135</b>	<b>124</b>	<b>158</b>	<b>172</b>	<b>187</b>	<b>214</b>	<b>211</b>	<b>237</b>	<b>300</b>
Property, plant and equipment	6	6	8	7	6	6	9	11	16	15
Other intangible assets	152	164	186	192	197	194	484	571	609	643
Deferred tax assets	62	59	51	37	16	3	13	15	15	15
Non-current financial assets	5	5	6	5	5	20	2	2	2	2
<b>Non-current assets</b>	<b>226</b>	<b>235</b>	<b>251</b>	<b>241</b>	<b>224</b>	<b>223</b>	<b>508</b>	<b>599</b>	<b>641</b>	<b>676</b>
<b>Total assets</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>722</b>	<b>810</b>	<b>878</b>	<b>975</b>
<b>Equity and liabilities</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>722</b>	<b>810</b>	<b>878</b>	<b>975</b>
<b>Total equity</b>	<b>254</b>	<b>295</b>	<b>289</b>	<b>291</b>	<b>280</b>	<b>290</b>	<b>550</b>	<b>610</b>	<b>677</b>	<b>771</b>
Trade payables	6	6	5	5	5	6	7	7	8	11
Other payables and accruals	53	54	65	84	92	31	131	44	44	44
Short-term debt	1	1	1	1	1	1	2	8	8	8
<b>Total current liabilities</b>	<b>61</b>	<b>61</b>	<b>71</b>	<b>90</b>	<b>99</b>	<b>102</b>	<b>140</b>	<b>142</b>	<b>143</b>	<b>145</b>
Long-term debt	1	1	2	1	2	2	1	23	23	23
Deferred tax liabilities	9	13	15	17	15	14	30	34	34	34
Other non-current liabilities	0	0	0	1	1	2	2	2	2	2
<b>Total non-current liabilities</b>	<b>10</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>17</b>	<b>32</b>	<b>59</b>	<b>59</b>	<b>59</b>
<b>Total liabilities</b>	<b>70</b>	<b>75</b>	<b>87</b>	<b>108</b>	<b>116</b>	<b>120</b>	<b>172</b>	<b>201</b>	<b>201</b>	<b>204</b>
<b>Total equity and liabilities</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>722</b>	<b>810</b>	<b>878</b>	<b>975</b>
<i>Key metrics</i>										
Net interest bearing debt	-47	-79	-68	-88	-97	-117	-103	-45	-66	-105

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

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Valuation ratios

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
<i>Enterprise value</i>										
Share price (SEK)		39.77	74.75	150.00	206.00	189.00	243.00	217.00	217.00	217.00
Number of shares (m)	11.36	12.34	12.63	12.63	12.63	12.63	13.62	13.62	13.62	13.62
Market capitalisation		491	944	1,895	2,602	2,387	3,310	2,956	2,956	2,956
Net interest bearing debt	-47	-79	-68	-88	-97	-117	-103	-45	-66	-105
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	-47	-79	-68	-88	-97	-117	-103	-45	-66	-105
EV		411	876	1,807	2,505	2,270	3,206	2,911	2,890	2,850
EV adj		411	876	1,807	2,505	2,270	3,206	2,911	2,890	2,850
<i>Valuation</i>										
EPS	1.14	2.10	3.34	5.02	6.18	6.33	6.67	7.85	10.43	12.44
<b>EPS adj</b>	<b>1.14</b>	<b>2.10</b>	<b>3.34</b>	<b>5.02</b>	<b>6.18</b>	<b>6.33</b>	<b>6.67</b>	<b>7.81</b>	<b>10.43</b>	<b>12.44</b>
DPS ordinary	0.98	1.85	0.00	5.00	7.00	5.00	4.99	5.00	5.50	5.50
DPS	0.98	1.85	0.00	5.00	7.00	5.00	4.99	5.00	5.50	5.50
P/E		18.9	22.4	29.9	33.4	29.8	36.4	27.7	20.8	17.4
P/E adj		18.9	22.4	29.9	33.4	29.8	36.4	27.8	20.8	17.4
P/B		1.66	3.27	6.51	9.31	8.22	6.02	4.85	4.37	3.83
Average ROE	5.3%	9.4%	14.5%	21.9%	27.3%	28.1%	21.6%	18.4%	22.1%	23.4%
Earnings yield adj		5.3%	4.5%	3.3%	3.0%	3.4%	2.7%	3.6%	4.8%	5.7%
Dividend yield		4.6%	0.0%	3.3%	3.4%	2.6%	2.1%	2.3%	2.5%	2.5%
Free cash flow yield		4.4%	4.1%	4.2%	3.7%	3.6%	-3.8%	1.3%	3.3%	3.9%
EV/SALES		1.74	3.42	5.80	7.63	6.58	8.32	6.33	5.10	4.34
EV/SALES adj		1.74	3.42	5.80	7.63	6.58	8.32	6.33	5.10	4.34
EV/EBITDA		8.1	13.8	18.4	22.1	17.8	22.9	16.1	11.8	9.5
EV/EBITDA adj		8.1	13.8	18.4	22.1	17.8	22.9	16.1	11.8	9.5
EV/EBIT		10.0	16.5	21.7	26.0	21.1	27.7	20.4	15.0	12.4
EV/EBIT adj		11.0	16.5	21.7	24.9	21.1	27.0	20.4	15.0	12.4
EV/capital employed		1.4	3.0	6.2	8.9	6.4	5.8	4.0	3.7	3.2
EV/NOPLAT		13.5	22.2	29.3	35.1	28.6	37.5	27.5	20.3	16.8
EV/OpFCF (taxed)		20.8	50.1	31.6	36.6	28.3	51.4	43.2	28.9	21.0

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

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## Key accounting ratios

	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
<i>Profitability (%)</i>										
ROA	4.1	7.5	11.3	16.4	19.6	19.9	16.0	13.9	16.8	18.3
ROCE	14.0	13.4	18.1	28.5	34.9	33.6	26.1	22.4	25.4	27.4
ROCE after tax	10.4	9.9	13.4	21.1	25.8	24.8	19.3	16.6	18.8	20.3
<i>Return on invested capital (%)</i>										
Net PPE/revenues	2.7	2.6	3.1	2.1	1.9	1.8	2.3	2.4	2.8	2.3
Working capital/revenues	16.4	31.2	20.9	22.0	22.4	24.6	19.3	15.1	16.6	23.5
<i>Cash flow ratios (%)</i>										
FCF/revenues	8.8	9.1	15.1	25.8	29.0	25.0	-32.4	8.3	17.0	17.4
FCF/market capitalisation		4.4	4.1	4.2	3.7	3.6	-3.8	1.3	3.3	3.9
CFO/revenues	16.6	17.2	27.5	31.7	34.8	35.9	24.0	24.9	33.7	33.3
CFO/market capitalisation		8.3	7.4	5.2	4.4	5.2	2.8	3.9	6.5	7.4
CFO/capex	171.0	192.9	217.6	508.8	614.0	652.1	197.9	150.4	201.4	209.8
CFO/current liabilities	63.3	66.8	99.4	110.2	115.8	121.1	66.2	80.7	133.8	150.4
Cash conversion ratio	155.4	83.4	91.5	126.8	122.2	107.9	-137.6	35.9	67.7	67.5
Capex/revenues	9.7	8.9	12.6	6.2	5.7	5.5	12.1	16.5	16.7	15.9
Capex/depreciation	973.9	959.1	1404.3	776.0	744.0	791.7	1800.0	915.4	760.6	532.3
OpFCF margin	8.4	12.5	12.2	25.3	28.8	31.4	24.2	22.7	26.5	29.8
Total payout ratio	85.4	88.0	0.0	99.7	113.3	79.0	74.9	63.7	52.7	44.2
<i>Leverage and solvency (x)</i>										
Net debt/EBITDA	-1.12	-1.57	-1.08	-0.89	-0.85	-0.92	-0.74	-0.25	-0.27	-0.35
Total debt/total capital (BV)	0.01	0.01	0.01	0.00	0.01	0.01	0.00	0.04	0.04	0.03
LTD / (LTD + equity (MV))		0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01
<i>Cash conversion cycle</i>										
Inventory turnover days	61.1	83.1	104.7	180.7	167.5	223.3	267.7	335.2	278.8	301.4
Receivables turnover days	67.7	75.3	70.9	74.5	74.7	66.2	96.1	100.4	84.1	84.3
Credit period	95.6	143.5	147.1	170.1	158.6	244.8	296.1	277.9	254.3	286.3
Cash conversion cycle	33.3	14.8	28.5	85.1	83.7	44.8	67.7	157.7	108.6	99.4

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

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## Important Information

Company: IAR Systems  
 Coverage by Analyst: Joachim Gunell  
 Date: 15/08/2019

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