

# IAR SYSTEMS

## Embedded World adds conviction

Embedded World sent a clear message on the secure embedded systems market potential, notably: 1) keener interest in IAR Systems' and Secure Thingz Embedded Trust and C-Trust products than management expected; and 2) the legislative IoT security roadmap being a key driver of uptake. We maintain our SEK280–350/share fair value on IAR Systems.

**Leading the pack in a market poised to take off.** Our main takeaway from Embedded World 2019 was that secure embedded systems are now widely valued by clients, and the market offers real potential. Security challenges are the number one barrier for digital products and IoT adoption, and after our visit we are more assured of rapidly growing demand for solutions enabling secure programming, provisioning, and protection of critical IP assets. IAR Systems and Secure Thingz seem to be leading the pack in terms of creating an entire supply chain of trust, providing a key differentiator.

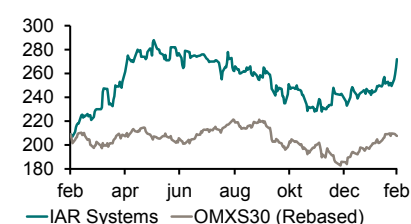
**What do customers and partners say?** Discussions with customers and partners further cemented our view of IAR Systems' value proposition. While the wider market has yet to tap into the embedded security mindset, many businesses are at an inflection point where they will have to secure applications through the entire lifecycle to comply with new legislation (DCMS in the UK, ETSI in the EU, 2020 California IoT Law, etc). Several referred to IAR Systems and Secure Thingz as benchmarks for meeting scalable security requirements, and highlighted easy implementation of C-Trust (targeting IAR Systems' 150,000 programmers), which we believe should act as an enabler for Embedded Trust (targeting its 46,000 OEM customers), and later Secure Deploy – which we believe offers the real growth opportunity.

**Well placed to take share in two emerging markets.** We see an attractive embedded security systems market (peers value it at >USD3bn), but believe IAR Systems will have to continue to invest heavily to maintain its leading position and win a sizeable share of the market. Also, the industry players we met said RISC-V is taking off far faster than expected. It is still early days, but Embedded World 2019 highlighted the potential in two of IAR Systems' new growth initiatives; we see potential upside to our maintained fair value of SEK280–350/share if it is able to leverage, defend, and maintain its leading position in creating a secure embedded ecosystem.

Year-end Dec	2015	2016	2017	2018	2019e	2020e	2021e
Revenue (SEKm)	312	328	345	385	462	563	656
EBITDA adj (SEKm)	98	113	127	140	178	243	299
EBIT adj (SEKm)	83	101	107	119	146	199	243
PTP (SEKm)	83	100	106	114	143	196	239
EPS rep (SEK)	5.02	6.18	6.33	6.58	7.70	10.52	12.85
EPS adj (SEK)	5.02	6.18	6.33	6.76	7.70	10.52	12.85
DPS (SEK)	5.00	7.00	5.00	5.00	5.00	5.50	5.50
Revenue growth (%)	21.9	5.4	5.1	11.7	20.0	21.8	16.7
EBITDA growth adj (%)	54.6	15.2	12.4	10.1	27.2	36.2	23.2
EPS growth adj (%)	50.2	23.0	2.6	6.7	13.9	36.6	22.2
EBITDA margin adj (%)	31.5	34.5	36.9	36.4	38.6	43.2	45.6
EV/Sales adj (x)	5.80	7.63	6.58	8.54	8.02	6.53	5.49
EV/EBITDA adj (x)	18.4	22.1	17.8	23.5	20.8	15.1	12.1
EV/EBIT adj (x)	21.7	24.9	21.1	27.7	25.5	18.4	14.8
P/E adj (x)	29.9	33.4	29.8	35.9	35.3	25.9	21.2
P/Book (x)	6.51	9.31	8.22	6.17	6.46	5.78	5.00
ROE (%)	21.9	27.3	28.1	20.8	18.9	23.6	25.3
ROCE (%)	28.5	34.9	33.6	24.0	22.4	28.3	30.8
Dividend yield (%)	3.3	3.4	2.6	2.1	1.8	2.0	2.0

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

IARB versus OMXS30 (12m)



Source: Factset

### SUMMARY

Share price (SEK)	272
Tickers	IARB SS, IARB.ST

### CAPITAL STRUCTURE

No. of shares (m)	14.0
No. of shares fully dil. (m)	14.0
Market cap. (SEKm)	3,799
NIBD adj end-2019e (SEKm)	-93
Enterprise value adj (SEKm)	3,706
Net debt/EBITDA adj (x)	-0.52
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

Q1 2019	24/04/2019
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### ESTIMATE CHANGES (SEK)

Year-end Dec	2019e	2020e	2021e
Sales (old)	462.0	562.6	656.3
Sales (new)	462.0	562.6	656.3
Change (%)	0.0	0.0	0.0
EPS (old)	7.70	10.52	12.85
EPS (new)	7.70	10.52	12.85
Change (%)	0.0	0.0	0.0

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

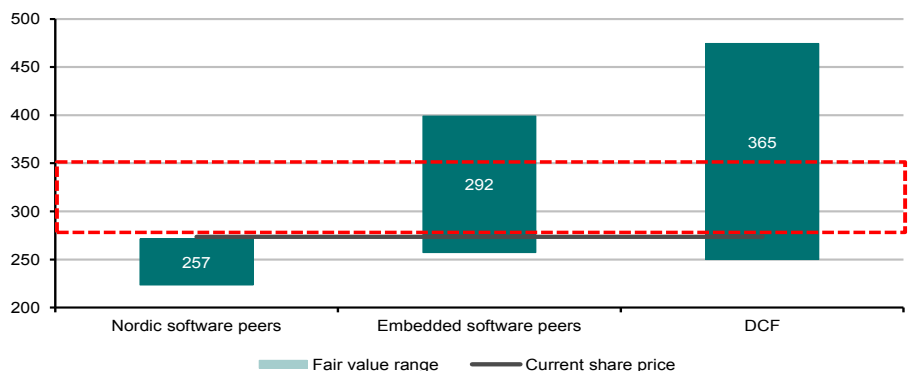
### ANALYSTS

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 its ability to reinstate growth, it could trigger a devaluation of the shares, as in 2017.
- Disappointing disclosures regarding key strategic partnerships in terms of when they will materialise and 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 did not meet 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 be when the market stops seeing IAR Systems as a compiler supplier and instead starts to view it as the go-to tools partner for global players as they position their embedded systems ahead of the IoT. We particularly 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 forecast that IAR Systems should generate a 2018–2021 EBIT CAGR of 27%, with the true potential 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 SEK280–350 in our 12-month perspective (methodology unchanged.)
- Our estimates correspond to a 2019e P/E of 35x, an EV/EBIT of 26x, and an EV/sales of 8x.

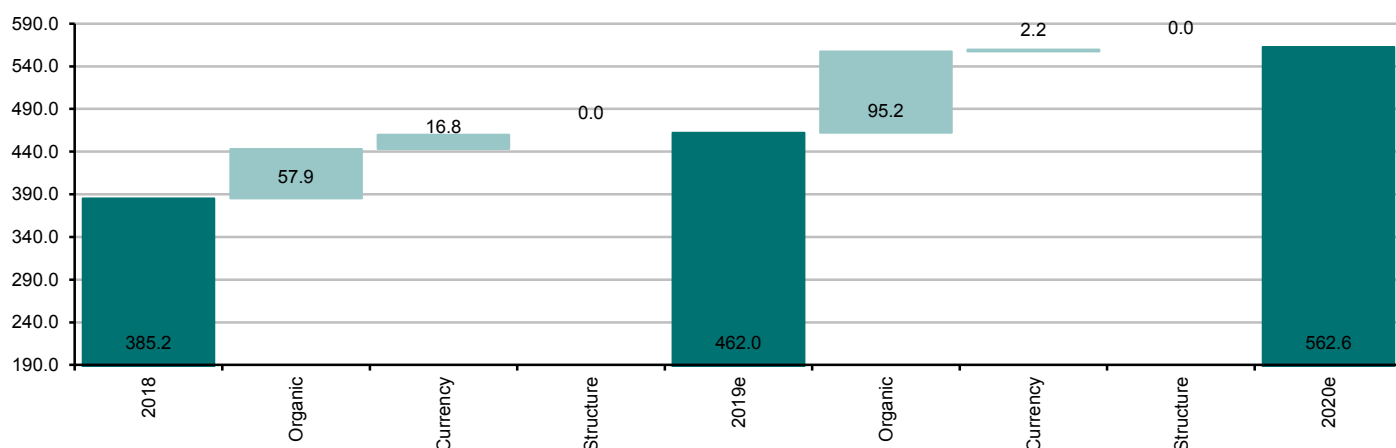
Source: DNB Markets

### 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.

Source: DNB Markets

## Sales bridge 2018–2020e (SEKm)



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

1 March 2019

**Figure 1: Embedded World attended by c32k visitors is the single-most important channel for IAR Systems to educate its customers on technological shifts, new products and to create sales leads**



Source: IAR Systems, DNB Markets (attending Embedded World 2019 in Nuremberg Germany)

**Figure 2: IoT Security legislation is an enabler for IAR Systems and Secure Thingz Emedded Trust, C-Trust, and Secure Deploy products...**

- 1) No default passwords ✓
- 2) Implement a vulnerability disclosure policy
- 3) Keep software updated ✓
- 4) Securely store credentials and security-sensitive data ✓
- 5) Communicate securely ✓
- 6) Minimise exposed attack surfaces ✓
- 7) Ensure software integrity ✓
- 8) Ensure that personal data is protected ✓
- 9) Make systems resilient to outages ✓
- 10) Monitor system telemetry data
- 11) Make it easy for consumers to delete personal data ✓
- 12) Make installation and maintenance of devices easy ✓
- 13) Validate input data ✓



Source: Secure Thingz

... for instance 11 out of 13 of the UK's Department for Digital, Culture Media & Sport guidelines highlight the need to implement security in embedded applications.

1 March 2019

Forecast changes – P&L

(SEKm)	New			Old			Change		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Revenues	462	563	656	462	563	656	0	0	0
Cost of sales	-11	-13	-15	-11	-13	-15	0	0	0
Gross profit	451	549	641	451	549	641	0	0	0
Operating expenses	-273	-307	-342	-273	-307	-342	0	0	0
EBITDA	178	243	299	178	243	299	0	0	0
EBITDA adj	178	243	299	178	243	299	0	0	0
EBITDA margin (%)	38.6	43.2	45.6	38.6	43.2	45.6	0.0	0.0	0.0
Depreciation	-4	-5	-6	-4	-5	-6	0	0	0
Amortisation	-29	-39	-49	-29	-39	-49	0	0	0
EBIT	146	199	243	146	199	243	0	0	0
EBIT adj	146	199	243	146	199	243	0	0	0
Net financial items	-2	-3	-4	-2	-3	-4	0	0	0
PBT	143	196	239	143	196	239	0	0	0
Taxes	-36	-49	-60	-36	-49	-60	0	0	0
Minorities	0	0	0	0	0	0	0	0	0
Net profit	108	147	180	108	147	180	0	0	0
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	108	147	180	108	147	180	0	0	0
<i>Per share data (SEK)</i>									
EPS	7.70	10.52	12.85	7.70	10.52	12.85	0.00	0.00	0.00
EPS adj	7.70	10.52	12.85	7.70	10.52	12.85	0.00	0.00	0.00
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	20.0	21.8	16.7	20.0	21.8	16.7	0.0	0.0	0.0
EBIT adj growth	22.5	36.8	22.2	22.5	36.8	22.2	0.0	0.0	0.0
EPS adj growth	13.9	36.6	22.2	13.9	36.6	22.2	0.0	0.0	0.0
Avg. number of shares (m)	14	14	14	14	14	14	0	0	0
Capex	-64	-72	-74	-64	-72	-74	0	0	0
OpFCF	115	171	225	115	171	225	0	0	0
Working capital	81	123	207	81	123	207	0	0	0
NIBD adj	-93	-127	-193	-93	-127	-193	0	0	0

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	15.03	20.61	16.23	15.03	20.61	16.23	0.00	0.00	0.00
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Currency impact % YOY	4.35	0.47	0.00	4.35	0.47	0.00	0.00	0.00	0.00

Source: DNB Markets

1 March 2019

## 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>104</b>	<b>110</b>	<b>116</b>	<b>132</b>	<b>137</b>
Cost of sales	-2	-3	-3	-2	-2	-2	-3	-2	-2	-3	-4
<b>Gross profit</b>	<b>82</b>	<b>85</b>	<b>86</b>	<b>94</b>	<b>96</b>	<b>101</b>	<b>100</b>	<b>108</b>	<b>114</b>	<b>129</b>	<b>132</b>
Operating expenses	-49	-53	-51	-64	-58	-63	-62	-65	-69	-78	-71
<b>EBITDA</b>	<b>34</b>	<b>32</b>	<b>35</b>	<b>30</b>	<b>38</b>	<b>38</b>	<b>39</b>	<b>43</b>	<b>45</b>	<b>52</b>	<b>61</b>
Depreciation	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Amortisation	-5	-5	-5	-6	-6	-6	-6	-7	-8	-8	-9
<b>EBIT</b>	<b>29</b>	<b>27</b>	<b>30</b>	<b>24</b>	<b>31</b>	<b>31</b>	<b>32</b>	<b>35</b>	<b>36</b>	<b>43</b>	<b>51</b>
Net financial items	0	0	0	-2	0	1	-1	-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>32</b>	<b>34</b>	<b>36</b>	<b>42</b>	<b>50</b>
Taxes	-8	-7	-6	-6	-4	-10	-8	-8	-9	-11	-13
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>24</b>	<b>25</b>	<b>27</b>	<b>32</b>	<b>38</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	24	25	27	32	38
Dividend paid	0	0	0	-68	0	0	0	-70	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	1.69	1.81	1.92	2.28	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>1.56</b>	<b>1.69</b>	<b>1.81</b>	<b>1.92</b>	<b>2.28</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	0.9	6.0	5.6	13.9	3.3
Revenues, YOY growth	3.8	3.1	2.9	10.1	16.3	17.4	16.6	15.0	18.6	28.6	31.7
EPS adj, YOY growth	-6.9	-2.0	21.3	-15.1	22.5	0.1	-6.2	27.0	-2.5	46.1	59.5
Gross margin	97.7	97.0	96.9	98.0	97.9	97.9	96.9	98.0	97.9	97.9	96.9
EBITDA adj margin	40.1	36.4	39.0	31.4	38.6	36.6	37.5	38.8	38.6	39.3	44.8
Depreciation/revenues	-0.7	-0.7	-0.6	-0.6	-0.7	-0.8	-0.7	-0.7	-0.8	-0.9	-0.7
EBIT adj margin	34.0	30.6	33.2	28.1	32.0	30.3	31.0	31.4	31.2	32.3	37.6
Net profit margin	24.1	22.5	25.6	16.9	27.4	21.2	22.8	23.0	23.1	24.1	27.6

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>39</b>	<b>43</b>	<b>45</b>	<b>52</b>	<b>61</b>
EBITDA adj	34	32	35	30	38	38	39	43	45	52	61
<b>EBIT</b>	<b>29</b>	<b>27</b>	<b>30</b>	<b>24</b>	<b>31</b>	<b>31</b>	<b>32</b>	<b>35</b>	<b>36</b>	<b>43</b>	<b>51</b>
Other EBIT adjustments	0	0	0	-3	0	0	0	0	0	0	0
EBIT adj	29	27	30	27	31	31	32	35	36	43	51
<b>Net profit</b>	<b>20</b>	<b>20</b>	<b>23</b>	<b>16</b>	<b>27</b>	<b>22</b>	<b>24</b>	<b>25</b>	<b>27</b>	<b>32</b>	<b>38</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	24	25	27	32	38

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

1 March 2019

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	8.87	10.53	15.77	25.98	29.61
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	7.78	4.48	2.88	2.67	2.10

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>462</b>	<b>563</b>	<b>656</b>
Cost of sales	-23	-15	-13	-10	-12	-9	-9	-11	-13	-15
<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>451</b>	<b>549</b>	<b>641</b>
Operating expenses	-165	-171	-179	-203	-203	-209	-236	-273	-307	-342
<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>178</b>	<b>243</b>	<b>299</b>
Depreciation	-2	-2	-2	-3	-3	-2	-3	-4	-5	-6
Amortisation	-4	-7	-8	-12	-14	-17	-22	-29	-39	-49
<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>146</b>	<b>199</b>	<b>243</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>114</b>	<b>143</b>	<b>196</b>	<b>239</b>
Taxes	-22	-12	-11	-20	-22	-26	-26	-36	-49	-60
Effective tax rate (%)	63	31	21	24	22	24	23	25	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>88</b>	<b>108</b>	<b>147</b>	<b>180</b>
Adjustments to net profit	0	3	0	0	-3	0	-2	0	0	0
Net profit adj	13	29	42	63	75	80	85	108	147	180
Dividend paid	-11	-23	0	-63	-88	-63	-68	-70	-77	-77
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	6.58	7.70	10.52	12.85
<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>6.76</b>	<b>7.70</b>	<b>10.52</b>	<b>12.85</b>
DPS ordinary	0.98	1.85	0.00	5.00	7.00	5.00	5.00	5.00	5.50	5.50
DPS	0.98	1.85	0.00	5.00	7.00	5.00	5.00	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	20.0	21.8	16.7
EPS adj growth	-53.2	83.4	59.2	50.2	23.0	2.6	6.7	13.9	36.6	22.2
Gross margin	89.9	93.9	95.0	96.7	96.3	97.5	97.7	97.7	97.7	97.7
EBITDA margin	18.2	21.4	24.9	31.5	34.5	36.9	36.4	38.6	43.2	45.6
EBITDA adj margin	18.2	21.4	24.9	31.5	34.5	36.9	36.4	38.6	43.2	45.6
Depreciation/revenues	-1.0	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.8	-0.9	-1.0
EBIT margin	15.3	17.5	20.8	26.8	29.4	31.1	30.0	31.5	35.4	37.1
EBIT adj margin	15.3	15.8	20.8	26.8	30.6	31.1	30.8	31.5	35.4	37.1
PBT margin	15.3	15.8	21.0	26.7	30.5	30.6	29.5	31.0	34.8	36.5
Net profit margin	5.6	11.0	16.5	20.3	23.8	23.2	22.7	23.3	26.1	27.4

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

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## Adjustments to annual P&amp;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>178</b>	<b>243</b>	<b>299</b>
EBITDA adj	42	51	64	98	113	127	140	178	243	299
<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>146</b>	<b>199</b>	<b>243</b>
Other EBIT adjustments	0	4	0	0	-4	0	-3	0	0	0
EBIT adj	35	37	53	83	101	107	119	146	199	243
<b>Net profit</b>	<b>13</b>	<b>26</b>	<b>42</b>	<b>63</b>	<b>78</b>	<b>80</b>	<b>88</b>	<b>108</b>	<b>147</b>	<b>180</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	85	108	147	180
<i>Per share data (SEK)</i>										
EPS	1.14	2.10	3.34	5.02	6.18	6.33	6.58	7.70	10.52	12.85
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.18	0.00	0.00	0.00
EPS adj	1.14	2.10	3.34	5.02	6.18	6.33	6.76	7.70	10.52	12.85

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	88	108	147	180
Depreciation and amortisation	7	9	10	15	17	20	25	33	44	56
<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>124</b>	<b>183</b>	<b>217</b>
Capital expenditure	-22	-21	-32	-19	-19	-19	-47	-64	-72	-74
Acquisitions/Investments	0	0	0	0	0	0	-1	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>-217</b>	<b>-64</b>	<b>-72</b>	<b>-74</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>60</b>	<b>111</b>	<b>142</b>
Net change in debt	0	0	0	0	0	0	1	0	0	0
Dividends paid	-11	-23	0	-63	-88	-63	-68	-70	-77	-77
Share issue (repurchase)	0	22	-53	0	0	0	172	0	0	0
Other	12	12	0	0	0	0	3	0	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>-77</b>	<b>-77</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>-10</b>	<b>34</b>	<b>65</b>
<i>FCFF calculation</i>										
Free cash flow	20	22	39	80	95	86	-125	60	111	142
Less: tax shields/other	0	0	0	0	0	0	0	0	0	0
Less: acquisitions	0	0	0	0	0	0	1	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	33.5	48.1	18.3
CFI	30.1	-5.5	-66.0	42.3	-3.3	-98.9	-478.2	70.7	-13.2	-2.9
FCF	127.0	6.9	78.7	108.3	18.5	-9.4	-244.6	148.0	85.1	28.2
CFF	-92.2	1866.7	-550.8	-19.5	-39.0	28.5	270.7	-164.7	-10.0	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**

<b>(SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
<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>760</b>	<b>831</b>	<b>936</b>
Inventories	4	3	4	5	6	5	7	8	9	11
Trade receivables	29	34	39	44	48	51	63	78	86	105
Other receivables	14	15	11	20	19	12	38	38	38	38
Current financial assets	3	1	0	0	0	0	0	0	0	0
Cash and cash equivalents	49	82	71	89	99	120	106	96	130	196
<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>220</b>	<b>263</b>	<b>350</b>
Property, plant and equipment	6	6	8	7	6	6	9	17	25	33
Other intangible assets	152	164	186	192	197	194	484	507	527	538
Deferred tax assets	62	59	51	37	16	3	13	13	13	13
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>539</b>	<b>568</b>	<b>586</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>760</b>	<b>831</b>	<b>936</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>760</b>	<b>831</b>	<b>936</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>588</b>	<b>658</b>	<b>761</b>
Trade payables	6	6	5	5	5	6	7	7	8	11
Other payables and accruals	53	54	65	84	92	31	52	52	52	52
Short-term debt	1	1	1	1	1	1	2	2	2	2
<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>139</b>	<b>141</b>	<b>143</b>
Long-term debt	1	1	2	1	2	2	1	1	1	1
Deferred tax liabilities	9	13	15	17	15	14	30	30	30	30
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>32</b>	<b>32</b>	<b>32</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>172</b>	<b>173</b>	<b>175</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>760</b>	<b>831</b>	<b>936</b>
<i>Key metrics</i>										
Net interest bearing debt	-47	-79	-68	-88	-97	-117	-103	-93	-127	-193

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	272.00	272.00	272.00
Number of shares (m)	11.36	12.34	12.63	12.63	12.63	12.63	13.97	13.97	13.97	13.97
Market capitalisation		491	944	1,895	2,602	2,387	3,394	3,799	3,799	3,799
Net interest bearing debt	-47	-79	-68	-88	-97	-117	-103	-93	-127	-193
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	-93	-127	-193
EV		411	876	1,807	2,505	2,270	3,291	3,706	3,672	3,606
EV adj		411	876	1,807	2,505	2,270	3,291	3,706	3,672	3,606
<i>Valuation</i>										
EPS	1.14	2.10	3.34	5.02	6.18	6.33	6.58	7.70	10.52	12.85
<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>6.76</b>	<b>7.70</b>	<b>10.52</b>	<b>12.85</b>
DPS ordinary	0.98	1.85	0.00	5.00	7.00	5.00	5.00	5.00	5.50	5.50
DPS	0.98	1.85	0.00	5.00	7.00	5.00	5.00	5.00	5.50	5.50
P/E		18.9	22.4	29.9	33.4	29.8	36.9	35.3	25.9	21.2
P/E adj		18.9	22.4	29.9	33.4	29.8	35.9	35.3	25.9	21.2
P/B		1.66	3.27	6.51	9.31	8.22	6.17	6.46	5.78	5.00
Average ROE	5.3%	9.4%	14.5%	21.9%	27.3%	28.1%	20.8%	18.9%	23.6%	25.3%
Earnings yield adj		5.3%	4.5%	3.3%	3.0%	3.4%	2.8%	2.8%	3.9%	4.7%
Dividend yield		4.6%	0.0%	3.3%	3.4%	2.6%	2.1%	1.8%	2.0%	2.0%
Free cash flow yield		4.4%	4.1%	4.2%	3.7%	3.6%	-3.7%	1.6%	2.9%	3.7%
EV/SALES		1.74	3.42	5.80	7.63	6.58	8.54	8.02	6.53	5.49
EV/SALES adj		1.74	3.42	5.80	7.63	6.58	8.54	8.02	6.53	5.49
EV/EBITDA		8.1	13.8	18.4	22.1	17.8	23.5	20.8	15.1	12.1
EV/EBITDA adj		8.1	13.8	18.4	22.1	17.8	23.5	20.8	15.1	12.1
EV/EBIT		10.0	16.5	21.7	26.0	21.1	28.5	25.5	18.4	14.8
EV/EBIT adj		11.0	16.5	21.7	24.9	21.1	27.7	25.5	18.4	14.8
EV/capital employed		1.4	3.0	6.2	8.9	6.4	5.2	5.5	5.0	4.3
EV/NOPLAT		13.5	22.2	29.3	35.1	28.6	38.5	34.4	24.9	20.0
EV/OpFCF (taxed)		20.8	50.1	31.6	36.6	28.3	52.7	48.3	30.9	22.3

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	15.5	14.5	18.5	20.3
ROCE	14.0	13.4	18.1	28.5	34.9	33.6	24.0	22.4	28.3	30.8
ROCE after tax	10.4	9.9	13.4	21.1	25.8	24.8	17.8	16.6	20.9	22.8
<i>Return on invested capital (%)</i>										
Net PPE/revenues	2.7	2.6	3.1	2.1	1.9	1.8	2.3	3.7	4.5	5.0
Working capital/revenues	16.4	31.2	20.9	22.0	22.4	24.6	19.3	17.5	21.8	31.5
<i>Cash flow ratios (%)</i>										
FCF/revenues	8.8	9.1	15.1	25.8	29.0	25.0	-32.4	13.0	19.7	21.7
FCF/market capitalisation		4.4	4.1	4.2	3.7	3.6	-3.7	1.6	2.9	3.7
CFO/revenues	16.6	17.2	27.5	31.7	34.8	35.9	24.0	26.8	32.5	33.0
CFO/market capitalisation		8.3	7.4	5.2	4.4	5.2	2.7	3.3	4.8	5.7
CFO/capex	171.0	192.9	217.6	508.8	614.0	652.1	197.9	194.0	253.8	291.6
CFO/current liabilities	63.3	66.8	99.4	110.2	115.8	121.1	66.2	88.7	130.1	151.4
Cash conversion ratio	155.4	83.4	91.5	126.8	122.2	107.9	-142.5	55.7	75.5	79.2
Capex/revenues	9.7	8.9	12.6	6.2	5.7	5.5	12.1	13.8	12.8	11.3
Capex/depreciation	973.9	959.1	1404.3	776.0	744.0	791.7	1800.0	1788.3	1493.1	1185.3
OpFCF margin	8.4	12.5	12.2	25.3	28.8	31.4	24.2	24.8	30.3	34.2
Total payout ratio	85.4	88.0	0.0	99.7	113.3	79.0	75.9	64.9	52.3	42.8
<i>Leverage and solvency (x)</i>										
Net debt/EBITDA	-1.12	-1.57	-1.08	-0.89	-0.85	-0.92	-0.74	-0.52	-0.53	-0.65
Total debt/total capital (BV)	0.01	0.01	0.01	0.00	0.01	0.01	0.00	0.00	0.00	0.00
LTD / (LTD + equity (MV))		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Cash conversion cycle</i>										
Inventory turnover days	61.1	83.1	104.7	180.7	167.5	223.3	267.7	283.0	248.3	262.7
Receivables turnover days	67.7	75.3	70.9	74.5	74.7	66.2	96.1	91.6	80.4	79.5
Credit period	95.6	143.5	147.1	170.1	158.6	244.8	296.1	234.6	226.4	249.6
Cash conversion cycle	33.3	14.8	28.5	85.1	83.7	44.8	67.7	140.0	102.3	92.6

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

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## Important Information

Company: IAR Systems  
 Coverage by Analyst: Joachim Gunell  
 Date: 01-3-2019

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