

# IAR SYSTEMS

## Strong underlying earnings

IAR Systems reported strong Q2 sales growth and solid underlying EBIT, beating our forecasts. With Secure Thingz in the numbers, the scene is set to reignite the growth story, we believe. While the long-term potential in this growth leg lies beyond our forecast period, we have raised our fair value estimate to SEK280–330 (250–310) on updated estimates.

**Strong underlying Q2 results.** Q2 sales were SEK95.6m (3% above our estimate) and adj. EBIT was SEK26.9m (8% above our estimate), equating to a 28.1% margin (+120bp versus our expectations, -160bp versus Q2 2017). The beat was mainly from robust sales growth in Europe (+40% YOY), strong automotive demand, market share gains and intensified focus on larger strategic customers, and positive FX, slightly offset by Secure Thingz reporting a higher operating loss than expected (-SEK4.0m).

**With Secure Thingz in the numbers, the growth scene appears set.** Following the acquisition of Secure Thingz earlier this year, IAR Systems is the frontrunner in secure embedded systems. While it is still early days for this market (as there are no real competitors), we believe it could mark a paradigm shift for IAR Systems, if it can leverage on its head-start and capture considerable market share. With the Embedded Thrust launch set for Q3, we expect rapid sales growth in H2 2018, albeit from a very low base. However, we prefer to take a prudent approach until we see some of the potential materialise.

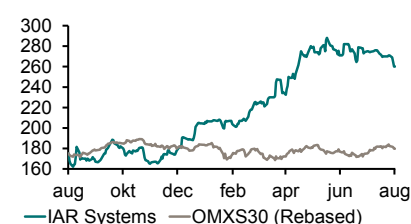
**Estimates changes.** We have raised EBIT by c5–10% throughout the forecast period mainly due to including Secure Thingz in our estimates and positive FX, while we have lowered our expectations of royalty-based revenues from Renesas Electronics. Thus, we forecast that IAR Systems will grow at an 2017–2020e organic growth CAGR of 13.1% (10–15% financial target), driven by 6.1% in its legacy business, 2.2% from Renesas Electronics royalties, and 4.8% from Secure Thingz. However, with 19 new employees QOQ in Q2 (most of whom are developers from Secure Thingz), we forecast that opex cost increases will hamper the EBIT margin in 2018e (30.7%, down 0.5%-points YOY) as sales from Secure Thingz are set to be tilted towards the end of our forecast period, resulting in a 2017–2020e EBIT CAGR of 20.3%.

**Fair value raised to SEK270–330 (250–310).** We find the stock's valuation attractive even though the shares are trading at historically elevated levels as we believe IAR Systems will reinstall confidence and prove its credentials on its growth trajectory. Our estimates correspond to a 32.3x 2019e P/E, 22.5x EV/EBIT, and 7.5x EV/Sales.

Year-end Dec	2014	2015	2016	2017	2018e	2019e	2020e
Revenue (SEKm)	256	312	328	345	388	456	525
EBIT adj (SEKm)	53	83	101	107	119	151	187
PTP (SEKm)	54	83	100	106	116	149	183
EPS rep (SEK)	3.34	5.02	6.18	6.33	6.37	8.06	9.92
EPS adj (SEK)	3.34	5.02	6.18	6.33	6.46	8.06	9.92
DPS (SEK)	0.00	5.00	7.00	5.00	5.00	5.50	6.00
Revenue growth (%)	8.3	21.9	5.4	5.1	12.6	17.3	15.3
EPS growth adj (%)	59.2	50.2	23.0	2.6	2.0	24.7	23.1
P/E adj (x)	22.4	29.9	33.4	29.8	40.2	32.3	26.2
P/Book (x)	3.27	6.51	9.31	8.22	6.40	6.02	5.52
ROE (%)	14.5	21.9	27.3	28.1	20.9	19.2	22.0
ROCE (%)	18.1	28.5	34.9	36.7	27.8	26.4	30.3
Dividend yield (%)	0.0	3.3	3.4	2.6	1.9	2.1	2.3

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

IARB versus OMXS30 (12m)



Source: Factset

### SUMMARY

Share price (SEK)	260
Tickers	IARB SS, IARb.ST

### CAPITAL STRUCTURE

No. of shares fully dil. (m)	13.6
NIBD adj end-2018e (SEKm)	-124

### SHARE PRICE PERFORMANCE

Abs. 1/3/12m (%)	-5/-7/49
Rel. 1/3/12m (%)	-8/-6/46
High/Low 12m (SEK)	288/162

Source: Company, DNB Markets (estimates)

### NEXT EVENT

Q3 2018	09/11/2018
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### ESTIMATE CHANGES (SEK)

Year-end Dec	2018e	2019e	2020e
Sales (old)	378.2	418.9	460.1
Sales (new)	388.5	455.6	525.5
Change (%)	2.7	8.8	14.2
EPS (old)	6.73	7.59	8.94
EPS (new)	6.46	8.06	9.92
Change (%)	-4.0	6.2	11.0

Source: DNB Markets,

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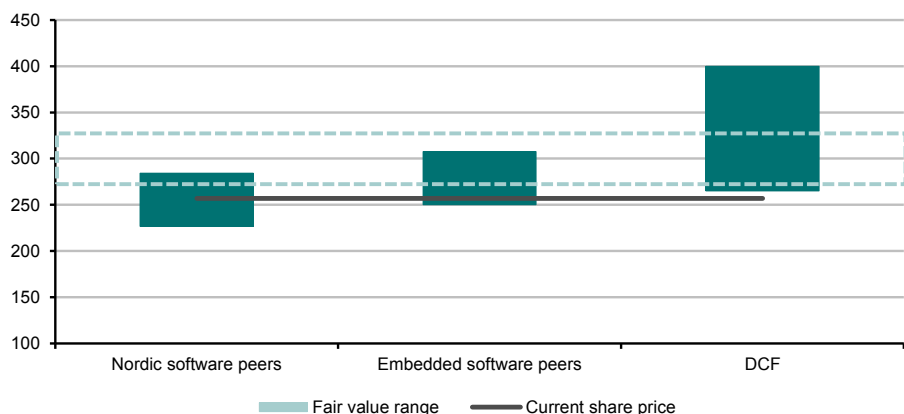
### ANALYSTS

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.
- IAR Systems is considerably 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 names such as Amazon and Renesas Electronics as they position their embedded systems ahead of the Internet of Things.
- A broad consensus has yet to emerge on IAR Systems' investment case; however, we particularly like the company's market opportunity, operating profile, financial outlook and valuation. We are c2-4% ahead of consensus on 2018-2020e estimates.

Source: DNB Markets

## Valuation methodology

- Blending our total peer group of Nordic software and embedded software peers with DCF suggests a fair value of SEK270-330 in our 12-month perspective. (Methodology unchanged.)
- Using just our embedded systems peers implies a fair value of SEK250-310. We believe these peers (rather than Nordic software peers) better reflect IAR Systems' operating environment, business model, and growth prospects.
- Our estimates correspond to a 2019e P/E of 32.3x, EV/EBIT of 22.5x, and EV/Sales of 7.5x.

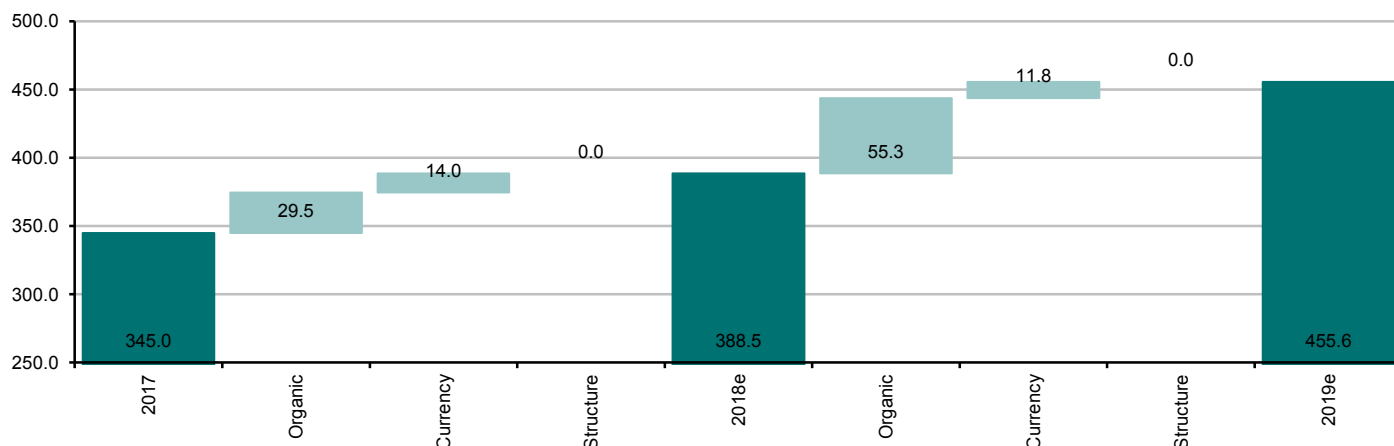
Source: DNB Markets

### Upside risks to our fair value

- The company over-delivering on its financial targets (particularly in organic growth of 10-15%)
- IAR Systems' new security offering gaining faster penetration than we assume by leveraging on its head-start.
- Value-enhancing acquisitions to be integrated in its product offering or new strategic partnerships.
- Faster than expected revaluation of the stock towards embedded software peer valuations.

Source: DNB Markets

## Sales bridge 2017-2019e (SEKm)



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

16 August 2018

## Q2 2018 results review

Q2 sales were SEK95.6m (3% above our estimate) and adj. EBIT was SEK26.9m (8% above our estimate), corresponding to a 28.1% margin (+120bp versus our expectations, -160bp versus Q2 2017). The beat was mainly driven by robust sales growth in Europe (+40% YOY), strong automotive demand, market share gains, an intensified focus on larger strategic customers, as well as positive FX, slightly offset by Secure Thingz reporting a higher operating loss than expected (-SEK4.0m).

Still, sales stemming from the royalty-based agreement with Renesas Electronics pertained to the guaranteed minimum remuneration for the period.

Figure 1: Q2 2018 results versus expectations

Key highlights (SEKm, except per share data)	Q2 2018			Deviation (%)		Deviation, Abs		Q2 2017	DNBe
	Actual	DNB	Cons.	DNB	Cons.	DNB	Cons.	Actual	2018e
<b>Sales</b>	<b>95.6</b>	<b>93.0</b>	<b>99.8</b>	<b>3%</b>	<b>-4%</b>	<b>2.6</b>	<b>-4.2</b>	<b>86.8</b>	<b>378.2</b>
<b>EBIT adjusted</b>	<b>26.9</b>	<b>25.0</b>	<b>27.6</b>	<b>8%</b>	<b>-3%</b>	<b>1.9</b>	<b>-0.7</b>	<b>25.8</b>	<b>124.7</b>
Margin	28.1%	26.9%	27.7%			126bp	48bp	29.7%	33.0%
One-offs	-3.2	-5.0	<b>0.0</b>			1.8	-3.2	0.0	-5.0
EBIT	23.7	20.0	27.6	<b>19%</b>	<b>-14%</b>	3.7	-3.9	25.8	119.7
Margin	24.8%	21.5%	27.7%			329bp	-286bp	29.7%	31.7%
<b>EPS</b>	<b>1.20</b>	<b>1.09</b>	<b>1.7</b>	<b>10%</b>	<b>-27%</b>	<b>0.11</b>	<b>-0.45</b>	<b>1.67</b>	<b>6.50</b>
<b>Growth YOY</b>									
Sales growth	10.1%	7.1%	14.9%			300bp	-476bp	6.1%	9.6%
-of w hich organic	8.3%	6.8%	13.0%			142bp	-474bp	0.6%	7.5%
-of w hich FX	1.9%	0.3%	1.9%			157bp	-2bp	5.5%	2.2%
<b>Divisions</b> (SEKm)									
		<b>Q2 2018</b>		<b>Deviation (%)</b>		<b>Deviation, Abs</b>		<b>Q2 2017</b>	<b>DNBe</b>
		<b>DNB</b>	<b>Cons.</b>	<b>DNB</b>	<b>Cons.</b>	<b>DNB</b>	<b>Cons.</b>	<b>Actual</b>	<b>2018e</b>
<b>Sales</b>									
Legacy IAR Systems	94.3	90.0		5%		4.3		85.4	363.2
Royalty-based revenue	1.3	3.0		-57%		-1.7		1.4	15.0
<b>Group</b>	<b>95.6</b>	<b>93.0</b>	<b>99.8</b>	<b>3%</b>	<b>-4%</b>	<b>2.6</b>	<b>-4.2</b>	<b>86.8</b>	<b>378.2</b>
<b>EBIT adjusted</b>									
Legacy IAR Systems	25.6	22.0		16%		3.6		24.4	109.7
Royalty-based revenue	1.3	3.0		-57%		-1.7		1.4	15.0
<b>Group</b>	<b>26.9</b>	<b>25.0</b>	<b>27.6</b>	<b>8%</b>	<b>-3%</b>	<b>1.9</b>	<b>-0.7</b>	<b>25.8</b>	<b>124.7</b>
<b>FX impact</b>									
Sales	1.9%	0.3%				157bp		5.5%	
EBIT	8.4%	3.1%				534bp		16.6%	

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

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

16 August 2018

## Estimate revisions

We have raised our EBIT by c5-10% throughout the forecast period mainly owing to including Secure Thingz in our estimates and positive FX, while we have lowered our expectations of royalty-based revenues from Renesas Electronics. Thus, we forecast that IAR Systems will grow at a 13.1% 2017–2020e organic growth CAGR (10-15% financial target), driven by 7.1% in its legacy business, 2.2% from Renesas Electronics royalties, and 4.8% from Secure Thingz.

However, with 19 new employees QOQ in Q2 (most of whom are developers from Secure Thingz), we forecast that opex cost increases will hamper the EBIT margin in 2018e (30.7%, down -0.5%-points YOY) as sales from Secure Thingz will be tilted towards the end of our forecast period, resulting in a 2017–2020e EBIT CAGR of 20.3%.

Figure 2: Estimate changes

(SEKm, except per share data)	Old			New			Change		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
<b>Sales</b>									
Legacy IAR Systems	363.5	393.2	423.2	373.9	410.0	438.9	3%	4%	4%
Royalty-based revenue	14.7	25.6	36.8	8.2	18.9	31.7	-44%	-26%	-14%
Secure Thingz	n.a.	n.a.	n.a.	6.4	26.7	54.9	n.a.	n.a.	n.a.
<b>Group Total</b>	<b>378.2</b>	<b>418.9</b>	<b>460.1</b>	<b>388.5</b>	<b>455.6</b>	<b>525.5</b>	<b>3%</b>	<b>9%</b>	<b>14%</b>
<b>EBIT adjusted</b>									
Legacy IAR Systems + Secure Thingz	107.2	117.2	133.3	108.1	133.6	156.8	1%	14%	18%
Royalty-based revenue	14.7	25.6	36.8	8.2	18.9	31.7	-44%	-26%	-14%
<b>Group Total</b>	<b>124.7</b>	<b>140.3</b>	<b>167.4</b>	<b>119.2</b>	<b>151.4</b>	<b>187.0</b>	<b>-4%</b>	<b>8%</b>	<b>12%</b>
<b>EBIT adjusted margin</b>									
Legacy IAR Systems + Secure Thingz	29.5%	29.8%	31.5%	28.9%	32.6%	35.7%	-58bp	277bp	423bp
Royalty-based revenue	98.0%	97.2%	97.5%	100.0%	100.0%	100.0%	198bp	277bp	252bp
<b>Group Total</b>	<b>31.7%</b>	<b>33.5%</b>	<b>36.4%</b>	<b>30.7%</b>	<b>33.2%</b>	<b>35.6%</b>	<b>-98bp</b>	<b>-27bp</b>	<b>-82bp</b>
<b>Organic growth</b>									
Legacy IAR Systems	5.3%	6.9%	7.2%	6.5%	6.8%	6.7%	120bp	-11bp	-50bp
Royalty-based revenue	2.2%	2.8%	2.6%	0.3%	2.5%	2.7%	-187bp	-23bp	8bp
Secure Thingz	n.a.	n.a.	n.a.	1.8%	4.9%	5.9%	n.a.	n.a.	n.a.
<b>Group Total</b>	<b>7.5%</b>	<b>9.7%</b>	<b>9.8%</b>	<b>8.5%</b>	<b>14.2%</b>	<b>15.3%</b>	<b>110bp</b>	<b>456bp</b>	<b>550bp</b>
<b>Group</b>									
<b>Sales</b>	<b>378.2</b>	<b>418.9</b>	<b>460.1</b>	<b>388.5</b>	<b>455.6</b>	<b>525.5</b>	<b>3%</b>	<b>9%</b>	<b>14%</b>
Sales growth	9.6%	10.8%	9.8%	12.6%	17.3%	15.3%	299bp	652bp	550bp
Organic	7.5%	9.7%	9.8%	6.8%	9.3%	9.4%	-68bp	-34bp	-43bp
Structure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
Currency	2.2%	1.1%	0.0%	4.1%	3.0%	0.0%	189bp	196bp	0bp
<b>Gross profit</b>	<b>368.5</b>	<b>408.1</b>	<b>448.3</b>	<b>378.4</b>	<b>443.8</b>	<b>511.9</b>	<b>3%</b>	<b>9%</b>	<b>14%</b>
Margin	97.4%	97.4%	97.4%	97.4%	97.4%	97.4%	-2bp	-2bp	-2bp
<b>EBIT adjusted</b>	<b>124.7</b>	<b>140.3</b>	<b>167.4</b>	<b>119.2</b>	<b>151.4</b>	<b>187.0</b>	<b>-4%</b>	<b>8%</b>	<b>12%</b>
Margin	33.0%	33.5%	36.4%	30.7%	33.2%	35.6%	-230bp	-27bp	-82bp
Adjustments	-5.0	0.0	0.0	0.0	0.0	0.0			
EBIT	119.7	140.3	167.4	119.2	151.4	187.0	0%	8%	12%
Margin	31.7%	33.5%	36.4%	30.7%	33.2%	35.6%	-98bp	-27bp	-82bp
Net financial items	-1.2	-1.7	-2.4	-2.7	-2.5	-3.6			
Pretax profit	123.5	138.6	165.1	116.4	148.9	183.4	-6%	7%	11%
Tax	-27.9	-35.1	-41.7	-28.5	-39.3	-48.3	2%	12%	16%
Tax rate	22.6%	25.3%	25.3%	24.5%	26.4%	26.4%	191bp	104bp	109bp
Net profit	95.7	103.5	123.4	88.0	109.7	135.0	-8%	6%	9%
EPS adjusted	6.79	7.74	9.20	6.46	8.06	9.92	-5%	4%	8%
EPS	6.56	7.74	9.20	6.37	8.06	9.92	-3%	4%	8%
DPS	5.00	5.50	6.00	5.00	5.50	6.00	0%	0%	0%

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

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Figure 3: Quarterly estimates by division

(SEKm, except per share data)	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18e	Q4'18e	Q1'19e	Q2'19e	Q3'19e
<b>Sales</b>											
Legacy IAR Systems	83.5	85.4	82.9	86.4	87.6	93.8	87.0	92.0	93.7	100.6	93.6
Royalty-based revenue	2.9	1.4	1.3	1.2	1.3	1.3	2.0	3.3	3.6	4.5	4.5
Secure Thingz	0.0	0.0	0.0	0.0	0.0	0.5	1.9	3.8	4.7	5.6	6.8
<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>97.7</b>	<b>106.2</b>	<b>109.3</b>	<b>113.2</b>	<b>113.6</b>
<b>EBIT adjusted</b>											
Legacy IAR Systems + Secure Thingz	23.3	24.4	27.3	25.6	28.2	22.4	25.8	31.7	32.9	26.7	34.5
Royalty-based revenue	2.9	1.4	1.3	1.2	1.3	1.3	2.0	3.3	3.6	4.5	4.5
<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>26.9</b>	<b>27.7</b>	<b>35.0</b>	<b>36.4</b>	<b>31.1</b>	<b>39.0</b>
<b>EBIT adjusted margin</b>											
Legacy IAR Systems + Secure Thingz	27.9%	28.6%	32.9%	29.6%	32.2%	23.9%	29.6%	34.5%	35.1%	26.5%	36.9%
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%
<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>28.1%</b>	<b>28.4%</b>	<b>33.0%</b>	<b>33.3%</b>	<b>27.5%</b>	<b>34.3%</b>
<b>Organic growth</b>											
Legacy IAR Systems	2.6%	0.6%	8.3%	8.4%	4.9%	7.9%	4.9%	6.4%	6.9%	7.1%	6.7%
Royalty-based revenue	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.8%	2.4%	2.5%	3.3%	2.5%
Secure Thingz	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%	4.3%	5.3%	5.4%	5.0%
<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>8.0%</b>	<b>13.1%</b>	<b>14.7%</b>	<b>15.7%</b>	<b>14.2%</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>97.7</b>	<b>106.2</b>	<b>109.3</b>	<b>113.2</b>	<b>113.6</b>
Sales growth	7.3%	6.1%	3.8%	3.1%	2.9%	10.1%	16.1%	21.3%	22.9%	18.4%	16.2%
Organic	2.7%	0.6%	8.4%	8.5%	5.0%	8.1%	8.0%	13.1%	14.7%	15.7%	14.2%
Structure	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%	8.1%	8.2%	8.2%	2.7%	2.0%
<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>95.5</b>	<b>103.1</b>	<b>105.8</b>	<b>111.0</b>	<b>111.0</b>
Margin	97.2%	98.2%	97.7%	97.0%	96.9%	98.0%	97.7%	97.0%	96.9%	98.0%	97.7%
<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>27.7</b>	<b>35.0</b>	<b>36.4</b>	<b>31.1</b>	<b>39.0</b>
Margin	30.3%	29.7%	34.0%	30.6%	33.2%	28.1%	28.4%	33.0%	33.3%	27.5%	34.3%
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	26.2	25.8	28.6	26.8	29.5	26.9	27.7	35.0	36.4	31.1	39.0
Margin	30.3%	29.7%	34.0%	30.6%	33.2%	28.1%	28.4%	33.0%	33.3%	27.5%	34.3%
Net financial items	-0.8	-0.1	-0.4	-0.4	-0.4	-1.7	-0.3	-0.4	-0.6	-0.9	-0.4
Pretax profit	25.4	25.7	28.2	26.4	29.1	22.0	27.5	34.7	35.8	30.2	38.6
Tax	-6.6	-4.5	-7.9	-6.7	-6.3	-5.8	-7.2	-9.1	-9.4	-8.0	-10.2
Tax rate	26.0%	17.5%	28.0%	25.4%	21.6%	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%
Net profit	18.8	21.2	20.3	19.7	22.8	16.2	20.2	25.5	26.4	22.3	28.4
EPS adjusted	1.49	1.68	1.61	1.56	1.68	1.43	1.49	1.88	1.94	1.64	2.09
EPS	1.49	1.67	1.61	1.56	1.81	1.20	1.49	1.88	1.94	1.64	2.09
DPS	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	5.50	0.00

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

Figure 4: Peer group (%)

	Sales growth			GM	EBIT margin			EBIT growth			EPS growth			2017–2020e CAGR		
	2018e	2019e	2020e	2017	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	Sales	EBIT	EPS
<b>IAR Systems (DNBe)</b>	12.6	17.3	15.3	97.5	30.7	33.2	35.6	11.0	27.0	23.5	9.9	24.7	23.1	15.1	20.3	19.1
<b>IAR Systems (consensus)</b>	13.0	15.4	8.7	97.5	31.1	30.3	32.9	10.1	25.4	19.6	6.4	22.8	19.9	12.3	18.2	16.2
DNB vs. consensus	-0.4	1.9	6.7	0.0	-0.4	3.0	2.7	0.9	1.6	3.9	3.5	1.8	3.2	2.7	2.1	2.9
<b>Nordic software peers</b>																
HMS Networks	16.4	18.3	14.6	61.0	17.9	17.7	19.1	15.3	27.2	22.7	20.2	28.2	23.3	16.4	21.6	23.8
SimCorp	11.8	8.4	7.9	61.4	25.9	27.5	27.6	18.6	8.8	9.6	19.3	10.9	10.4	9.4	12.2	13.4
Micro Systemation	14.7	16.6	12.5	90.0	22.8	23.5	27.2	18.3	34.8	24.7	22.3	29.4	24.7	14.6	25.7	25.4
F-Secure	14.8	17.3	9.4	96.1	6.5	2.9	7.4	-49.4	203.1	34.5	-64.4	204.4	45.0	13.8	27.3	16.3
INVISIO Communications	23.3	14.5	21.4	55.3	22.6	24.8	28.3	35.4	30.4	34.9	64.0	36.0	7.1	19.7	33.5	33.7
RaySearch Laboratories	8.0	24.6	19.7	93.7	27.4	26.2	29.4	3.4	39.8	38.3	12.6	48.5	42.8	17.2	26.0	33.6
<b>Average of the above</b>	<b>14.8</b>	<b>16.6</b>	<b>14.3</b>	<b>76.3</b>	<b>20.5</b>	<b>20.4</b>	<b>23.2</b>	<b>6.9</b>	<b>57.4</b>	<b>27.5</b>	<b>12.3</b>	<b>59.6</b>	<b>25.5</b>	<b>15.2</b>	<b>24.4</b>	<b>24.4</b>
DNBe vs. peer group	-2.2	0.6	1.1	21.3	10.1	12.8	12.4	4.1	-30.3	-4.0	-2.4	-34.9	-2.4	-0.1	-4.1	-5.3
<b>Embedded software peers</b>																
Cadence Design Systems	7.1	6.4	5.9	87.8	27.5	28.1	25.9	9.5	-2.0	9.1	20.2	9.6	7.9	6.5	5.4	12.4
ANSYS	12.4	9.0	9.8	86.3	46.4	44.2	43.8	7.1	7.9	14.1	25.3	8.3	12.2	10.4	9.6	15.0
Xilinx	12.1	7.6	11.1	70.0	29.4	30.0	30.7	14.4	10.3	14.1	48.7	10.5	13.4	10.2	12.9	23.0
Altium	37.4	19.8	17.8	50.0	28.3	29.6	32.1	43.8	29.8	26.1	49.3	25.1	26.6	24.7	33.0	33.2
Red Hat	16.3	15.3	12.6	85.3	23.9	23.8	24.3	16.0	17.7	15.0	16.4	14.5	16.6	14.7	16.2	15.8
<b>Average of the above</b>	<b>17.1</b>	<b>11.6</b>	<b>11.4</b>	<b>75.9</b>	<b>31.1</b>	<b>31.1</b>	<b>31.3</b>	<b>18.1</b>	<b>12.7</b>	<b>15.7</b>	<b>32.0</b>	<b>13.6</b>	<b>15.3</b>	<b>13.3</b>	<b>15.4</b>	<b>19.9</b>
DNBe vs. peer group	-4.5	5.6	3.9	21.6	-0.4	2.1	4.2	-7.2	14.3	7.8	-22.0	11.1	7.8	1.7	4.9	-0.8
<b>Average of total peer group</b>	<b>15.9</b>	<b>14.4</b>	<b>13.0</b>	<b>76.1</b>	<b>25.3</b>	<b>25.3</b>	<b>26.9</b>	<b>12.0</b>	<b>37.1</b>	<b>22.1</b>	<b>21.3</b>	<b>38.7</b>	<b>20.9</b>	<b>14.3</b>	<b>20.3</b>	<b>22.4</b>
<b>Median of total peer group</b>	<b>14.7</b>	<b>15.3</b>	<b>12.5</b>	<b>85.3</b>	<b>25.9</b>	<b>26.2</b>	<b>27.6</b>	<b>15.3</b>	<b>27.2</b>	<b>22.7</b>	<b>20.2</b>	<b>25.1</b>	<b>16.6</b>	<b>14.6</b>	<b>21.6</b>	<b>23.0</b>

Source: Factset (15 August 2018)  
 Note (GM = gross margin)

**Figure 5: Peer group (x/%)**

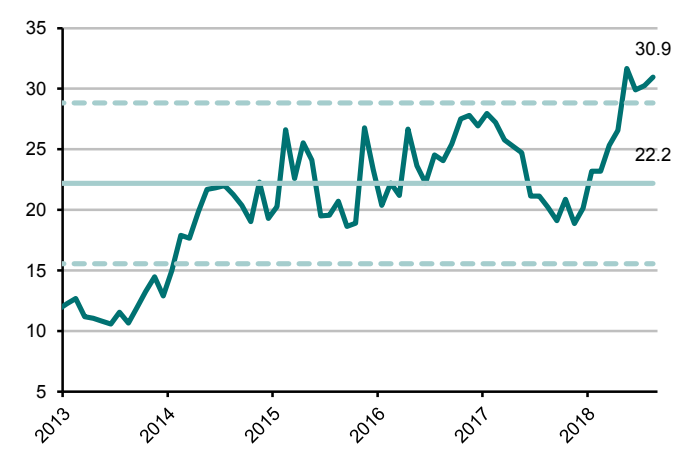
	M Cap (SEKbn)	P/E (x)			EV/EBITDA (x)			EV/EBIT (x)			FCF Yield 2018e	RoE 2018e	Div. yield 2018e	Performance (%)		
		2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e				-1M	-3M	-12M
<b>IAR Systems (DNBe)</b>	<b>3.5</b>	<b>39.9</b>	<b>32.0</b>	<b>26.0</b>	<b>22.6</b>	<b>17.3</b>	<b>14.0</b>	<b>27.4</b>	<b>21.0</b>	<b>17.0</b>	<b>-3.0%</b>	<b>30.3%</b>	<b>2.3%</b>	<b>-5.1</b>	<b>-7.1</b>	<b>49.0</b>
Premium (+) / discount (-)		-8%	8%	6%	-11%	-12%	-12%	-16%	-7%	-6%						
<b>IAR Systems (consensus)</b>	<b>3.5</b>	<b>38.6</b>	<b>31.4</b>	<b>26.2</b>	<b>24.8</b>	<b>20.0</b>	<b>16.8</b>	<b>29.2</b>	<b>23.1</b>	<b>19.0</b>	<b>-3.7%</b>		<b>2.3%</b>	<b>-5.1</b>	<b>-7.1</b>	<b>49.0</b>
Premium (+) / discount (-)		-11%	6%	6%	-2%	1%	5%	-10%	3%	6%						
<b>Nordic software peers</b>																
HMS Networks	6.7	39.2	30.6	24.8	24.2	19.3	15.8	28.9	22.3	17.7	0.5%	21.4%	1.2%	-11.3	-5.7	22.7
SimCorp	32.3	38.2	34.5	31.2	28.1	25.7	23.3	29.2	26.7	24.2	2.0%	51.3%	1.2%	7.2	25.6	44.6
Micro Systemation	1.4	21.9	16.9	13.6	15.7	11.3	8.6	15.8	11.3	8.6	4.7%	47.0%	3.2%	5.4	0.6	29.4
F-Secure	5.4	130.6	42.9	29.6	43.3	22.2	17.1	91.9	30.6	22.5	-8.1%	5.6%	1.2%	-12.7	-16.3	-20.6
INVISIO Communications	2.9	28.8	21.2	19.8	23.5	17.4	12.4	24.4	18.2	13.0	3.8%	31.3%	0.8%	2.3	7.9	-13.2
RaySearch Laboratories	3.2	38.3	25.8	18.0	15.5	11.6	8.7	25.4	17.7	12.3	0.3%	15.7%	0.2%	7.8	11.1	-31.9
<b>Average of the above</b>		<b>49.5</b>	<b>28.6</b>	<b>22.8</b>	<b>25.0</b>	<b>17.9</b>	<b>14.3</b>	<b>35.9</b>	<b>21.1</b>	<b>16.4</b>	<b>0.5%</b>	<b>28.7%</b>	<b>1.3%</b>	<b>-0.2</b>	<b>3.9</b>	<b>5.1</b>
Premium (+) / discount (-)		-22%	10%	15%	-1%	11%	17%	-19%	9%	16%						
<b>Embedded software peers</b>																
Cadence Design Systems	118.5	27.0	24.6	22.8	20.4	18.1	13.8	21.5	21.1	18.3	4.0%	36.1%	0.0%	0.2	7.6	22.7
ANSYS	133.0	34.0	31.4	28.0	23.3	20.9	18.5	24.5	22.1	18.9	3.0%	16.7%	0.0%	-4.8	2.5	36.6
Altium	163.2	23.6	21.4	18.9	17.0	15.2	13.0	18.6	16.6	14.3	4.8%	30.7%	2.1%	2.9	-2.1	10.7
Xilinx	18.9	53.5	42.7	33.8	43.2	34.1	27.3	49.1	37.8	30.0	2.1%	25.6%	1.5%	1.6	-3.2	162.0
Red Hat	227.2	40.0	35.0	30.0	24.8	20.8	17.3	28.0	22.9	18.6	3.9%	37.3%	0.0%	-6.0	-15.7	39.2
<b>Average of the above</b>		<b>35.6</b>	<b>31.0</b>	<b>26.7</b>	<b>25.7</b>	<b>21.8</b>	<b>18.0</b>	<b>28.3</b>	<b>24.1</b>	<b>20.0</b>	<b>3.6%</b>	<b>29.3%</b>	<b>0.7%</b>	<b>-1.2</b>	<b>-2.2</b>	<b>54.2</b>
Premium (+) / discount (-)		8%	1%	-2%	-4%	-8%	-7%	3%	-4%	-5%						
<b>Average of total peer group</b>		<b>43.2</b>	<b>29.7</b>	<b>24.6</b>	<b>25.3</b>	<b>19.7</b>	<b>16.0</b>	<b>32.5</b>	<b>22.5</b>	<b>18.1</b>	<b>1.9%</b>	<b>29.0%</b>	<b>1.0%</b>	<b>-0.7</b>	<b>1.1</b>	<b>27.5</b>
<b>Median of total peer group</b>		<b>38.2</b>	<b>30.6</b>	<b>24.8</b>	<b>23.5</b>	<b>19.3</b>	<b>15.8</b>	<b>25.4</b>	<b>22.1</b>	<b>18.3</b>	<b>3.0%</b>	<b>30.7%</b>	<b>1.2%</b>	<b>1.6</b>	<b>0.6</b>	<b>22.7</b>

Source: Factset (15 August 2018)

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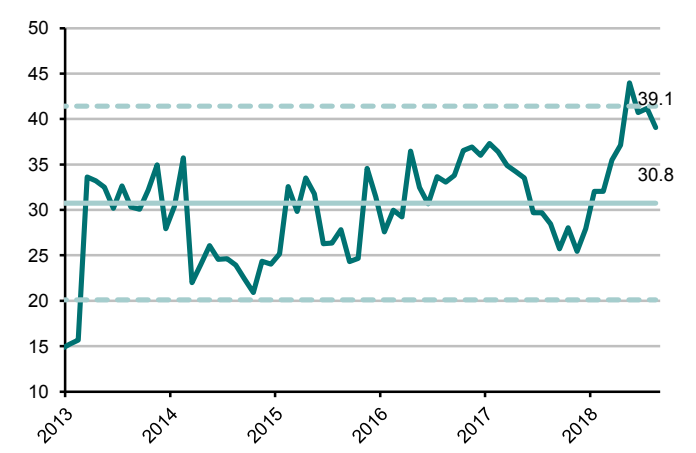
# Valuation

**Figure 6: IAR Systems EV/EBIT LTM**



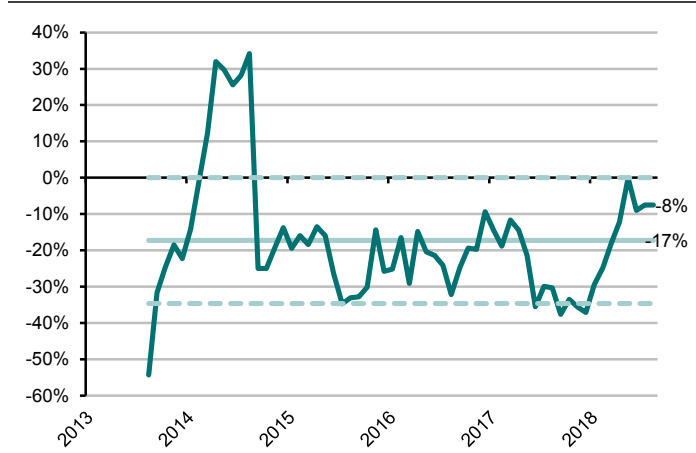
Source: Factset (underlying data), DNB Markets (further calculations)

**Figure 7: IAR Systems P/E LTM**



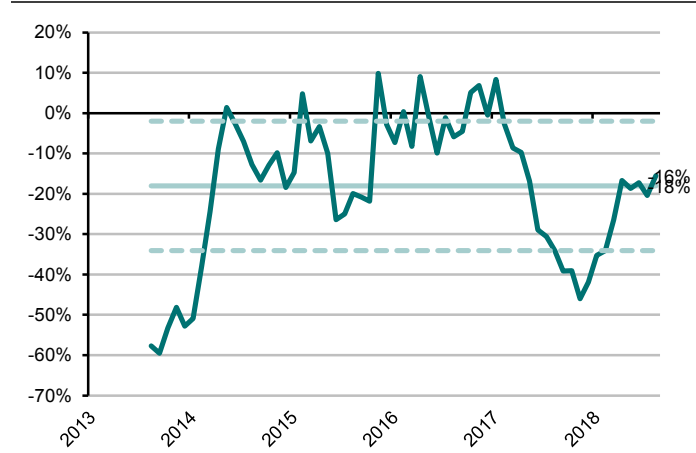
Source: Factset (underlying data), DNB Markets (further calculations)

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



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

**Figure 9: Premium/discount EV/EBIT LTM IAR Systems to embedded software peers**



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



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## Summary of positives

### World-leading provider of software development tools and services

Sweden-based IAR Systems is a world-leading provider of software tools and services for embedded systems (a chip containing embedded software) that enable the development of digital products for 46,000+ customers in end-markets underpinned by growing demand for digital technology. We believe IAR Systems has a resilient business model selling flexible right-to-use licences to access its wholly owned software tool-chain (the IAR Embedded Workbench), which enables close customer relationships, high customer retention, and consistent revenue streams complemented by a royalty-based agreement with world-leading processor vendor Renesas Electronics. The March 2018 acquisition of Secure Thingz (the leading provider of advanced security solutions that help customers to take control of digital products from day one) has made IAR Systems the frontrunner ahead of the paradigm shift associated with security solutions for embedded systems in the Internet of Things (IoT).

Its software tools and services enable the development of digital products...

...in end-markets underpinned by growing demand for digital technology

### Embedded resilience in a sticky business

We consider IAR Systems' key competitive advantage to be its proprietary technology platform, the IAR Embedded Workbench, which holds a ~50% global market share, as: 1) it is a unique line-up of a complete tool-chain for product developers; 2) being independent, IAR Systems supports a wide range of design architecture, meaning customers can choose the programming environment and tools according to their own needs, regardless of processor or project, which avoids locking customers in to one technical platform; 3) superior quality as its commercial customers cannot compromise on tools' code performance, reliability, user-friendliness, or time-to-market using inferior technologies such as open-source alternatives; 4) it is now a leading participant in embedded systems security, and should be able to leverage its head-start and unique technology to maximise the market potential; and 5) a scaled-up management team with the ability to execute the growth potential in the business, in our view.

IAR Systems owns the market for software development tools with c50% global market share

Key competitive strengths:

- 1) unique and complete tool-chain
- 2) independence
- 3) high-quality products
- 4) frontrunner in security solutions
- 5) management's ability to achieve its long-term potential

### IAR 3.0

IAR Systems has gone through various phases since 2010, having: 1) streamlined itself towards proprietary software, creating a more specialised company; and 2) shifted its project-based business model to scalable licence sales, which has substantially improved margins. In our view, it is now heading into its third phase: the growth story. We believe that IAR 3.0 (our interpretation of IAR Systems' next phase) marks the shift from being a supplier of a compiler to become the go-to software tool partner for global names such as Amazon and Renesas Electronics as they position their embedded systems ahead of the Internet of Things (IoT).

Setting the scene for the growth story

### Growing addressable market with the spread of digital technology

The spread of digital technology is driving the market for embedded systems. Thus, the market has numerous underlying drivers that all indicate a continuation of the solid industry growth of the past decade. Global Market Insights estimates a 7% market CAGR until 2023e, and we believe the factors that should affect growth for IAR Systems are likely to be: 1) continued increase in the number (and complexity) of embedded systems driven by IoT; 2) demand for reliable and advanced software tools that offer faster time-to-market and a complete development platform; 3) the automotive opportunity as cars become mobile computing platforms; 4) market consolidation and participants becoming too dominant; and 5) untapped potential in security solutions for embedded systems.

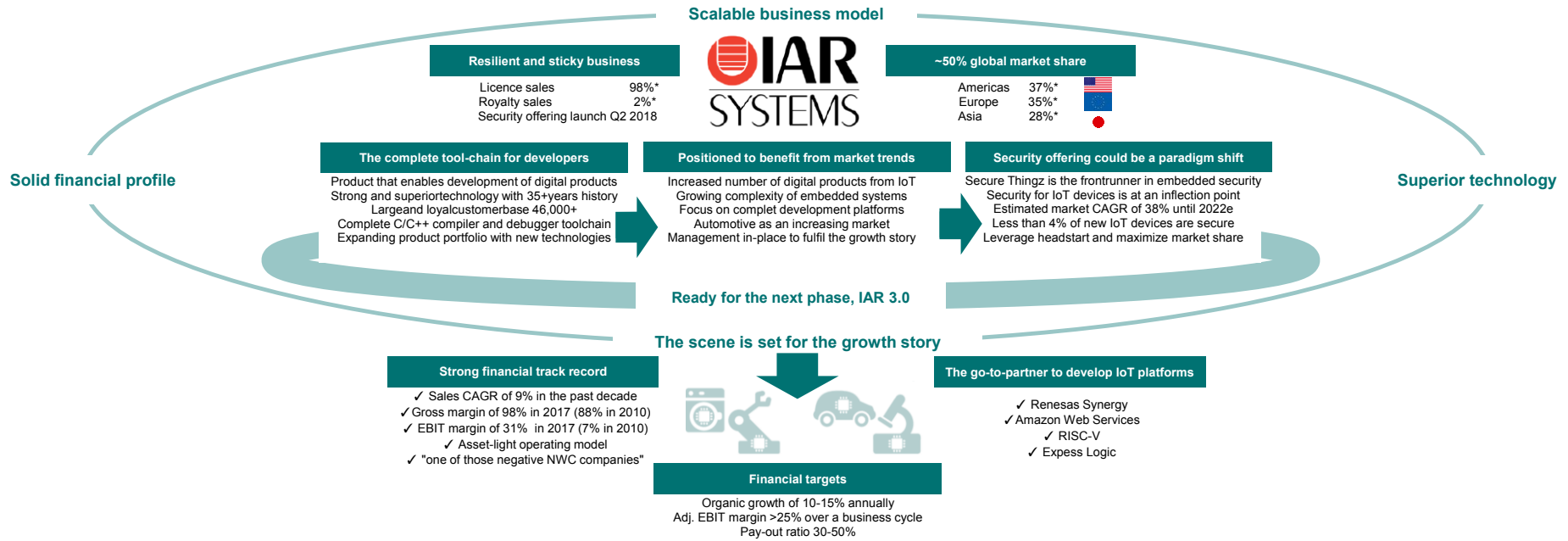
Numerous market drivers indicate a continuation of the solid industry growth

### Security for embedded systems could mark a paradigm shift for IAR Systems

Following the acquisition of Secure Thingz, IAR Systems is now the frontrunner in offering secure embedded systems. We believe IAR Systems identified Secure Thingz as a takeover candidate before the market had valued its demand growth opportunity. The security market for embedded systems is in its inception phase but we expect it to grow rapidly through 2022e as the share of secure new embedded products is set to grow from 4% today to almost 20% by 2022e, according to ABI Research. There are no real competitors in this market yet, and if IAR Systems were to capture considerable market share, we believe it could be a paradigm shift for the company. However, to be prudent, we have included minimal sales from its security offering in our estimates, preferring to see sales materialise.

Untapped potential in security offering

Figure 10: IAR Systems' in one picture



Source: Company (underlying data), DNB Markets (compilation)  
Note: \* Percentage of sales 2017

**We forecast 2017–2020e sales and EBIT CAGRs of 15.1% and 20.3%**

We forecast a 2017–2020 sales CAGR of 15.1% and EBIT CAGR of 20.3% based on a strong market outlook underpinned by: 1) an increase in the number (and complexity) of embedded systems; 2) growing demand for reliable and advanced software tools that offer faster time-to-market and complete development platforms; 3) the automotive opportunity, as cars become mobile computing platforms; and 4) royalties from Renesas Electronics. Moreover, we see additional prospects and untapped potential in security solutions for embedded systems.

This should be driven by a 7.1% organic sales CAGR for its legacy licensing business (98% of 2017 sales) as the aforementioned market drivers should translate into more processors and lines of code, driving demand for software development tools and possibly programmers (user keys) for IAR Systems, as well as a full user-friendly total solution enabling customers to re-use large amounts of code. In addition, increased penetration from existing and new technologies in the IAR Embedded Workbench should drive add-on sales.

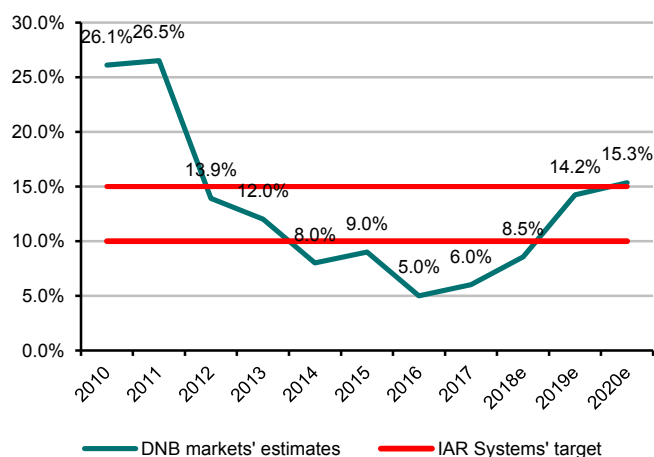
We estimate that revenues stemming from the royalty-based agreement with Renesas Electronics (2%) should contribute to a 2.2% organic sales CAGR for IAR Systems until 2020e. However, as the dynamics of this agreement have not been disclosed, we take a conservative approach for estimating the revenue impact.

We forecast a 2017–2020 EBIT CAGR of 20.3%, implying a margin gain from 31.1% in 2017 to 35.6% in 2020e, driven by: 1) solid organic volume growth; and 2) operational leverage averaging 70% (hurt in 2018 by the integration of Secure Thingz) in 2019–2020e as we believe IAR Systems should continue to benefit from economies of scale due to its large fixed cost base.

Market drivers should create more processors and lines of code, driving demand for software development tools, and a user-friendly total solution enabling customers to re-use code

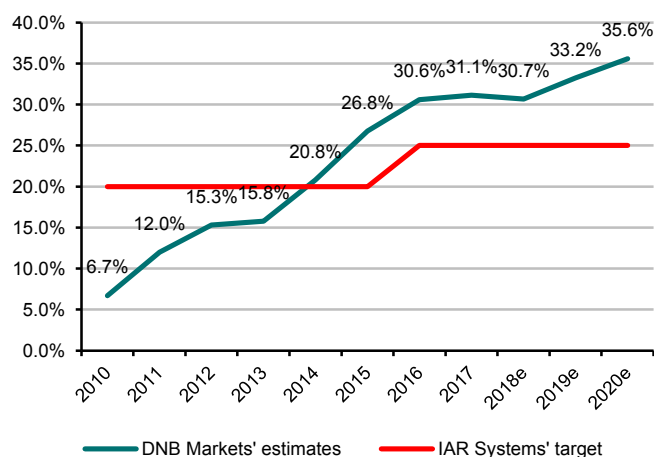
We expect Secure Thingz to contribute to group sales with a 4.8% organic growth CAGR in 2017–2020e

**Figure 11: Organic sales growth (2010-2020e)**



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

**Figure 12: Adj. EBIT margin**



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

**Financial targets**

IAR Systems has three financial targets: 1) average organic growth of 10–15% annually; 2) an adj. EBIT margin in excess of 25% over a business cycle; and 3) a dividend payout of 30–50% of annual net income. Our estimates for organic growth remain below the target for 2018e, but on profitability and the dividend policy, we are above IAR Systems throughout our forecast period.

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Figure 13: IAR Systems's financial targets – reported and DNB Markets' estimates

	Reported fiscal years					IAR target	DNB Markets' estimates		
	2013	2014	2015	2016	2017		2018e	2019e	2020e
Organic growth	12.0%	8.0%	9.0%	5.0%	6.0%	10-15%	8.5%	14.2%	15.3%
EBIT margin	15.8%	20.8%	26.8%	30.6%	31.1%	>25%	29.9%	33.2%	35.6%
Pay-out ratio	88.0%	149.3%	99.7%	113.3%	79.0%	30-50%	77%	68%	60%

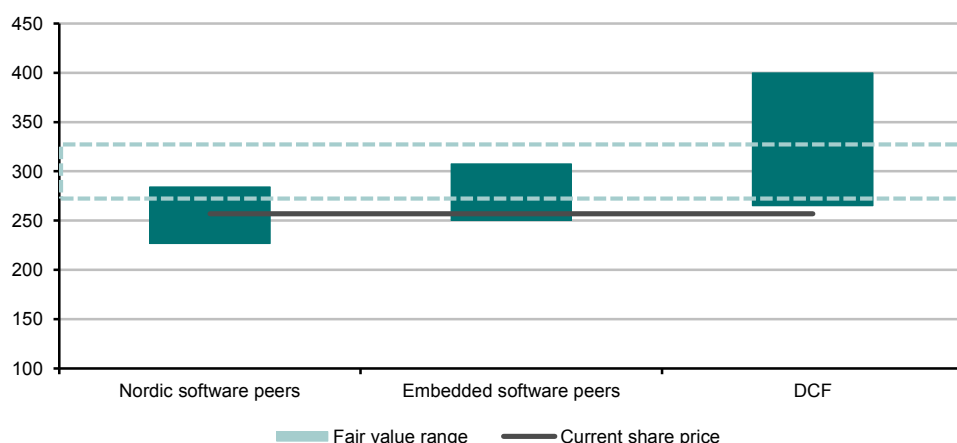
Source: DNB Markets (forecasts), company (historical data and targets)

**We calculate a fair value of SEK270–330**

Based on our group of Nordic software peers (7), embedded software peers (5), and our DCF model, we calculate a fair value of SEK270–330. We believe the market has been valuing IAR Systems relative to Nordic Software peers, whereas in our view embedded software peers better reflect its operating environment, business model, and growth prospects. On the current share price, our estimates suggest a 32.3x 2019e P/E, 22.5x EV/EBIT, and 7.5x EV/sales, while our fair value suggests share price potential of 4–27%.

Fair value of SEK270–330 suggests potential of 4% to 27%

Figure 14: Valuation summary (SEK/share)



Source: DNB Markets

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## Summary of negatives

The key risks that could affect our fair value are: 1) IAR Systems' inability to resurrect the growth story, e.g. if it failed to capture the underlying market growth, or if there was prolonged market consolidation (causing market uncertainty) or delays in key strategic initiatives; 2) market entry from large and well-resourced participants that until now have overlooked the potential in software tools for embedded systems; and 3) FX headwinds, as the company is rather sensitive to currency fluctuations in the SEK as it does not hedge its currency flows (with >98% of sales from markets outside Sweden but 58% of its cost base in SEK).

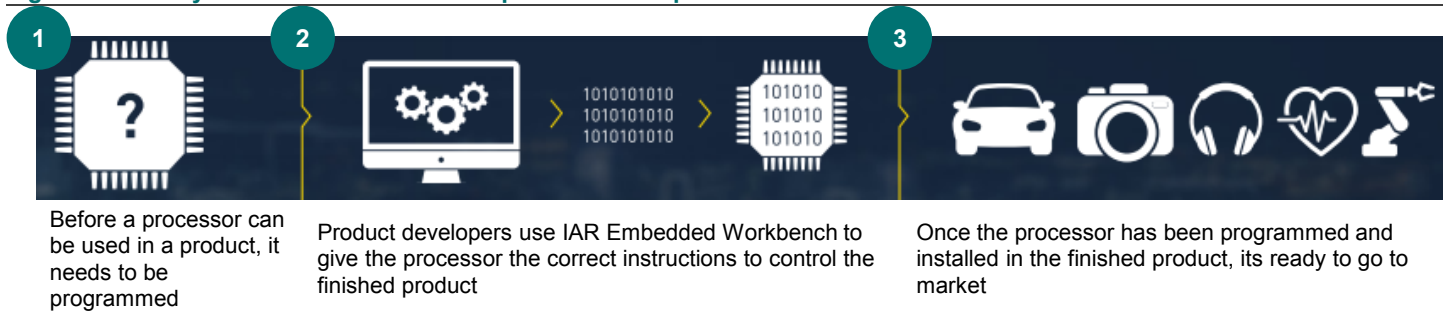
- **Failure to resurrect the growth story.** Having reported average local currency growth of 20% in 2010–2013, 9% in 2014–2015, and 6% in 2016–2017, we believe the key risk to the valuation is a failure to resurrect the organic growth story. While we have identified numerous market drivers that should fuel organic growth in our forecast period, an inability to capture these trends, delays in when the factors materialise, or disappointing disclosures regarding the new strategic alliances in royalty fees, licensing structures, etc. could raise questions about the operations and thus the valuation.
- **FX headwinds.** With >98% of sales from markets outside Sweden, while the vast majority of the fixed cost base is denominated in SEK (we estimate ~58%), IAR Systems is rather sensitive to currency fluctuations to the SEK. If the SEK were to strengthen by 10% against its most important currencies (USD, EUR, JPY) as well as GBP and KRW in 2018, we estimate a ~10% FX headwind on sales and a ~30% headwind on 2018 EBIT.
- **Intensified competitive landscape.** While the company holds leading positions across most processor types, it still faces a highly competitive environment, particularly from the independent supplier Green Hills Software and Arm's development tool Kiel. If the competitiveness were to intensify or market growth rates were to abate, there could be pressure on the pricing of software licences (from those not giving it away free) in efforts to recapture growth or gain market share. While we believe that the commercial viability of open source names is a limited risk for IAR Systems' offering today, any success of these alternatives could result in reduced licensing revenues for IAR Systems.
- **Continued market consolidation.** The ongoing consolidation trend among processor vendors could last longer than IAR Systems expects. If this continues to create market uncertainty and disrupt IAR Systems' partner network, it could hamper its growth prospects. Moreover, if the acquisitions of embedded software companies continue, it could cap IAR Systems' ability to integrate new technologies to its product offering. If it fails to acquire new technologies or create strategic alliances to integrate into IAR Systems' offering, this could impede its ability to address new market trends that should contribute to growth.
- **Large company entering the market.** While we believe the barriers to entry are considerable, we believe the attractiveness of this market has been somewhat overlooked by industry giants as they have often acquired development tools companies and given away the products 'free' to reduce costs. As many competitors in the semiconductor industry (particularly processor vendors) but especially global giants such as Google and Amazon are well resourced, it could pose a threat if they were to consider increasing their presence in software development tools.
- **Limited supply of qualified personnel.** In an industry characterised by rapid technological development, it is vital for IAR Systems to continually improve its product offering through innovation. A need for its technology and products to be market leading means it has to constantly retain qualified employees, particularly in the technological aspects of product development. Failure to respond quickly to technological developments through qualified personnel could hurt its operations.
- **Worsening economic conditions.** A deteriorating global economy would likely cause a downturn in the cyclical semiconductor industry and customers' end-markets, which could affect the number of new microprocessors, and consequently demand for software development tools that program the chips.

## Business overview

Dating back to 1983, IAR Systems is an independent provider of software for the programming of microprocessors in embedded systems (the control function in digital products). Its leading software – the IAR Embedded Workbench – facilitates, quality-assures, and improves the time-to-market of programming instructions in processors so they can fulfil their function in the embedded system for developers of smart products. The customer base of 150,000+ programmers (users) is found mainly in end-markets underpinned by growing demand for digital technology and embedded systems, such as industrial automation, medical technology, telecommunication, consumer electronics, and the automotive industry.

World-leading provider of software for programming processors in embedded systems, which enable the development of digital products

Figure 15: IAR Systems' role in customers' product development



Source: Company

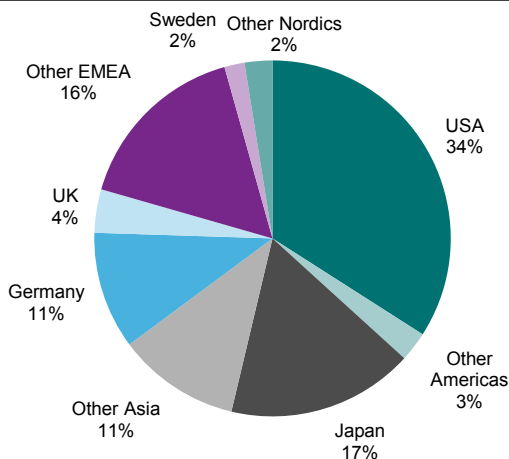
Headquartered in Uppsala (Sweden), the company holds a leading global market share of ~50% with 95%+ of sales stemming from markets outside the Nordics and a market presence in 50+ countries and headcount of 163. With a history of adapting to meet customer demand, IAR Systems' business model is primarily licence-based, where customers pay for a flexible right-to-use licence to access the IAR Embedded Workbench®, giving it attractive and steady revenue streams (~30% recurring revenues). Also, to position itself more towards the Internet of Things (IoT), the company complemented its licence-based model in 2016 with an exclusive royalty-based agreement with world-leading process vendor Renesas Electronics.

50% global market share with 98% licence-based revenues, which are flexible for customers and leverage the number of programmers using its licence...

...complemented by royalty-based revenue that leverages the number of chips used in customers' production, which falls straight through to EBIT

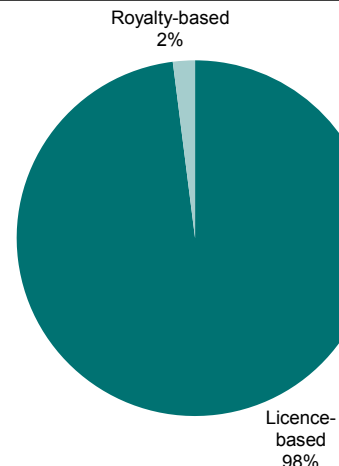
- **Licenced-based revenue (98% of 2017 sales)** based entirely on the number of licence users (perpetual software keys) of the IAR Embedded Workbench sold when a developer programs a product. The licence cost is ~SEK30,000 (upfront) while the customer can add a support and update agreement for an annual cost of 20% of the licence price.
- **Royalty-based revenue (2%)** based on the number of microprocessors produced in Renesas Synergy series. Unlike the licence-based model, IAR Systems receives revenue throughout the entire production period.

Figure 16: Geographical sales split (2017)



Source: Company

Figure 17: Sales by business model (2017)



Source: Company



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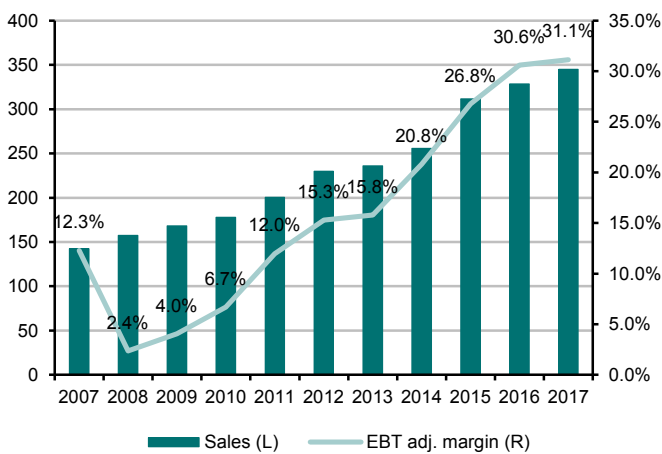
IAR Systems was acquired by IT conglomerate Nocom in 2005. However, by 2010 Nocom (known as Intoi by then) wanted to focus more on proprietary software and create a more specialised company, so it kept only IAR Systems and took on that name.

With 2017 net sales of SEK345m, IAR Systems is 2.7x larger than the company acquired in 2005. While experiencing a sales CAGR of 9.2% over the past 10 years, it has been able to significantly boost its underlying profitability from an adj. EBIT margin of 12.3% in 2007 to 31.1% in 2017, which we attribute to: 1) the scalability of its high gross-margin standardised software; 2) more focus on proprietary products; and 3) increased cost efficiency (given the large fixed cost base where personnel costs compose 46% of sales).

From an IT conglomerate to a streamlined proprietary software provider....

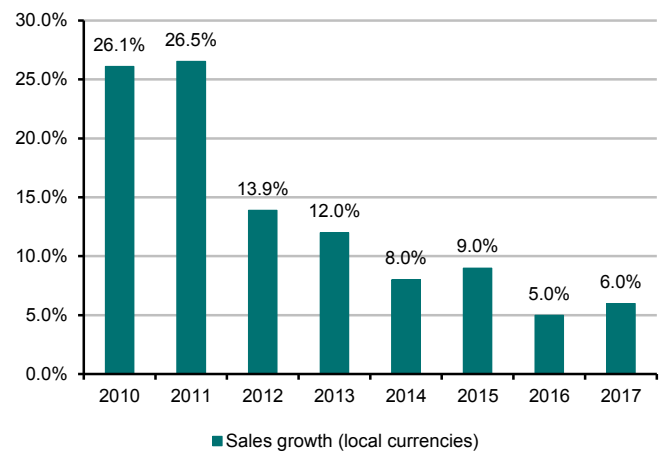
...with profitable growth, sales CAGR of 9% and adj. EBIT CAGR of 20% in the past 10 years

Figure 18: IAR Systems – sales (SEKm) and adj. EBIT margin



Source: Company

Figure 19: IAR Systems – sales growth local currencies



Source: Company

IAR Systems' key competitive advantage in our view is its flagship product, the IAR Embedded Workbench, which is a complete tool-chain for customers. Being independent, the software supports 12,000+ processors for embedded systems from the major process vendors with 8-, 16-, and 32-bit architecture, meaning customers can choose the programming environment and tools according to their own needs regardless of processor or project, which avoids locking customers in to one technical platform. Moreover, it can re-use 70–80% of previously developed code instead of rewriting it (saving time and resources).

Key competitive advantage: cutting-edge wholly owned technology that maximises customer benefits offering a complete solution...

Over the past few years, IAR Systems has expanded its product portfolio and now offers several adjacent products integrated in the IAR Embedded Workbench to optimise the code programming, for instance C-STAT and C-RUN (static and dynamic analysis that quality-assures and strengthens the reliability of the programming), Embedded Trust (security development environment for IoT solutions) through its acquisition of Secure Thingz, as well as support for Amazon FreeRTOS (IoT Microcontroller Operating System). In addition to driving add-on sales, this has – combined with a comprehensive support organisation – translated into impressive customer retention (95% recurring customers) and strengthened IAR Systems' competitiveness. The customer base is very broad as none of the 46,000+ customer organisations accounts for more than 3% of group sales.

...which combined with complementary integrated products and comprehensive support means a loyal customer base (95% recurring customers)

Figure 20: IAR Embedded Workbench® sold to >46,000 customer organisations

IDE Tools	Build Tools	C-SPY Debugger
<ul style="list-style-type: none"> <li>- Editor</li> <li>- Project manager</li> <li>- Library Tools</li> </ul>	<ul style="list-style-type: none"> <li>- IAR C/C++ Compiler</li> <li>- Assembler</li> <li>- Linker</li> </ul>	<ul style="list-style-type: none"> <li>- Simulator driver</li> <li>- Hardware debugging</li> <li>- Power debugging</li> <li>- RTOS plugins</li> </ul>



Source: Company (information), DNB Markets (graph structuring)

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Revenues	388	456	525	378	419	460	10	37	65
Cost of sales	-10	-12	-14	-11	-14	-17	1	2	3
Gross profit	378	444	512	367	405	444	11	38	68
Operating expenses	-238	-261	-286	-225	-239	-248	-13	-22	-38
EBITDA	141	183	226	142	166	196	-2	17	30
EBITDA margin (%)	36.2	40.1	43.0	37.7	39.6	42.6	-1.5	0.5	0.4
Depreciation	-2	-3	-3	-2	-2	-1	0	-1	-1
Amortisation	-22	-29	-37	-22	-27	-32	-1	-2	-5
EBIT	116	151	187	119	138	163	-3	14	24
EBIT adj	119	151	187	124	138	163	-4	14	24
Net financial items	-3	-2	-4	-1	-2	-2	-2	-1	-1
PBT	116	149	183	122	136	160	-6	13	23
Taxes	-28	-39	-48	-28	-34	-41	-1	-5	-8
Net profit	88	110	135	95	101	120	-7	8	15
Adjustments to net profit	-2	0	0	-4	0	0	1	0	0
Net profit adj	86	110	135	91	101	120	-6	8	15
<i>Per share data (SEK)</i>									
EPS	6.37	8.06	9.92	6.50	7.59	8.94	-0.13	0.47	0.99
EPS adj	6.46	8.06	9.92	6.73	7.59	8.94	-0.27	0.47	0.99
DPS ordinary	5.00	5.50	6.00	5.00	5.50	6.00	0.00	0.00	0.00
DPS	5.00	5.50	6.00	5.00	5.50	6.00	0.00	0.00	0.00
<i>Other key metrics (%)</i>									
Revenue growth	12.6	17.3	15.3	9.6	10.8	9.8	3.0	6.5	5.5
EBIT adj growth	11.0	27.0	23.5	15.1	11.3	18.3	-4.2	15.8	5.2
EPS adj growth	2.0	24.7	23.1	6.3	12.6	17.8	-4.3	12.0	5.3
Avg. number of shares (m)	14	14	14	14	14	14	0	0	0
Capex	-36	-45	-55	-17	-27	-32	-19	-18	-24
OpFCF	-36	-45	-55	-17	-27	-32	-19	-18	-24
Working capital	80	101	138	87	117	158	-7	-15	-20
NIBD adj	-124	-136	-163	-4	-28	-66	-120	-108	-97

Source: DNB Markets



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## Quarterly numbers

(SEKm)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018e	Q4 2018e	Q1 2019e	Q2 2019e	Q3 2019e
<b>Revenues</b>	<b>86</b>	<b>87</b>	<b>84</b>	<b>88</b>	<b>89</b>	<b>96</b>	<b>98</b>	<b>106</b>	<b>109</b>	<b>113</b>	<b>114</b>
Cost of sales	-2	-2	-2	-3	-3	-2	-2	-3	-3	-2	-3
<b>Gross profit</b>	<b>84</b>	<b>85</b>	<b>82</b>	<b>85</b>	<b>86</b>	<b>94</b>	<b>96</b>	<b>103</b>	<b>106</b>	<b>111</b>	<b>111</b>
Operating expenses	-53	-54	-49	-53	-51	-64	-61	-61	-62	-72	-64
<b>EBITDA</b>	<b>31</b>	<b>31</b>	<b>34</b>	<b>32</b>	<b>35</b>	<b>30</b>	<b>34</b>	<b>42</b>	<b>43</b>	<b>39</b>	<b>47</b>
Depreciation	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Amortisation	-4	-5	-5	-5	-5	-6	-6	-6	-6	-8	-8
<b>EBIT</b>	<b>26</b>	<b>26</b>	<b>29</b>	<b>27</b>	<b>30</b>	<b>24</b>	<b>28</b>	<b>35</b>	<b>36</b>	<b>31</b>	<b>39</b>
Net financial items	-1	0	0	0	0	-2	0	0	-1	-1	0
<b>PBT</b>	<b>25</b>	<b>26</b>	<b>28</b>	<b>26</b>	<b>29</b>	<b>22</b>	<b>27</b>	<b>35</b>	<b>36</b>	<b>30</b>	<b>39</b>
Taxes	-7	-5	-8	-7	-6	-6	-7	-9	-9	-8	-10
<b>Net profit</b>	<b>19</b>	<b>21</b>	<b>20</b>	<b>20</b>	<b>23</b>	<b>16</b>	<b>20</b>	<b>26</b>	<b>26</b>	<b>22</b>	<b>28</b>
Adjustments to net profit	0	0	0	0	0	-2	0	0	0	0	0
Net profit adj	19	21	20	20	23	14	20	26	26	22	28
Dividend paid	0	-63	0	0	0	-68	0	0	0	-75	0
Avg. number of shares (m)	13	13	13	13	14	14	14	14	14	14	14
<i>Per share data (SEK)</i>											
EPS	1.49	1.67	1.61	1.56	1.81	1.20	1.49	1.88	1.94	1.64	2.09
<b>EPS adj</b>	<b>1.49</b>	<b>1.68</b>	<b>1.61</b>	<b>1.56</b>	<b>1.68</b>	<b>1.43</b>	<b>1.49</b>	<b>1.88</b>	<b>1.94</b>	<b>1.64</b>	<b>2.09</b>
DPS ordinary	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	5.50	0.00
DPS	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	5.50	0.00
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	1.6	0.5	-3.0	4.0	1.5	7.5	2.2	8.7	2.8	3.6	0.3
Revenues, YOY growth	7.3	6.1	3.8	3.1	2.9	10.1	16.1	21.3	22.9	18.4	16.2
EPS adj, YOY growth	-2.1	25.4	-6.9	-2.0	12.6	-15.1	-7.5	20.2	15.7	14.8	40.5
Gross margin	97.2	98.2	97.7	97.0	96.9	98.0	97.7	97.0	96.9	98.0	97.7
EBITDA adj margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Depreciation/revenues	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5	-0.6	-0.6
EBIT adj margin	30.3	29.7	34.0	30.6	33.2	28.1	28.4	33.0	33.3	27.5	34.3
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

## Adjustments to quarterly numbers

(SEKm)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018e	Q4 2018e	Q1 2019e	Q2 2019e	Q3 2019e
<b>EBITDA</b>	<b>31</b>	<b>31</b>	<b>34</b>	<b>32</b>	<b>35</b>	<b>30</b>	<b>34</b>	<b>42</b>	<b>43</b>	<b>39</b>	<b>47</b>
<b>EBIT</b>	<b>26</b>	<b>26</b>	<b>29</b>	<b>27</b>	<b>30</b>	<b>24</b>	<b>28</b>	<b>35</b>	<b>36</b>	<b>31</b>	<b>39</b>
Other EBIT adjustments	0	0	0	0	0	-3	0	0	0	0	0
EBIT adj	26	26	29	27	30	27	28	35	36	31	39
<b>Net profit</b>	<b>19</b>	<b>21</b>	<b>20</b>	<b>20</b>	<b>23</b>	<b>16</b>	<b>20</b>	<b>26</b>	<b>26</b>	<b>22</b>	<b>28</b>
Other EBIT adjustments	0	0	0	0	0	-3	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	19	21	20	20	23	14	20	26	26	22	28

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

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Quarterly numbers by segment and assumptions

(SEKm)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018e	Q4 2018e	Q1 2019e	Q2 2019e	Q3 2019e
<b>Assumptions</b>											
Revenue org. % YOY	2.73	0.61	8.38	8.47	4.98	8.06	7.95	13.13	14.71	15.72	14.20
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	4.60	5.50	-4.56	-5.41	-2.08	2.07	8.14	8.15	8.19	2.72	2.02

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

Annual P&L

(SEKm)	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
<b>Revenues</b>	<b>200</b>	<b>230</b>	<b>236</b>	<b>256</b>	<b>312</b>	<b>328</b>	<b>345</b>	<b>388</b>	<b>456</b>	<b>525</b>
Cost of sales	-19	-23	-15	-13	-10	-12	-9	-10	-12	-14
<b>Gross profit</b>	<b>181</b>	<b>207</b>	<b>222</b>	<b>243</b>	<b>301</b>	<b>316</b>	<b>337</b>	<b>378</b>	<b>444</b>	<b>512</b>
Operating expenses	-152	-165	-171	-179	-203	-203	-209	-238	-261	-286
<b>EBITDA</b>	<b>29</b>	<b>42</b>	<b>51</b>	<b>64</b>	<b>98</b>	<b>113</b>	<b>127</b>	<b>141</b>	<b>183</b>	<b>226</b>
Depreciation	-2	-2	-2	-2	-3	-3	-2	-2	-3	-3
Amortisation	-4	-4	-7	-8	-12	-14	-17	-22	-29	-37
<b>EBIT</b>	<b>24</b>	<b>35</b>	<b>41</b>	<b>53</b>	<b>83</b>	<b>97</b>	<b>107</b>	<b>116</b>	<b>151</b>	<b>187</b>
Net financial items	0	0	0	0	0	0	-2	-3	-2	-4
<b>PBT</b>	<b>24</b>	<b>35</b>	<b>37</b>	<b>54</b>	<b>83</b>	<b>100</b>	<b>106</b>	<b>116</b>	<b>149</b>	<b>183</b>
Taxes	3	-22	-12	-11	-20	-22	-26	-28	-39	-48
Effective tax rate (%)	-12	63	31	21	24	22	24	24	26	26
<b>Net profit</b>	<b>27</b>	<b>13</b>	<b>26</b>	<b>42</b>	<b>63</b>	<b>78</b>	<b>80</b>	<b>88</b>	<b>110</b>	<b>135</b>
Adjustments to net profit	0	0	3	0	0	-3	0	-2	0	0
Net profit adj	27	13	29	42	63	75	80	86	110	135
Dividend paid	0	-11	-23	0	-63	-88	-63	-68	-75	-82
Avg. number of shares	11	11	12	13	13	13	13	14	14	14
<i>Per share data (SEK)</i>										
EPS	2.44	1.14	2.10	3.34	5.02	6.18	6.33	6.37	8.06	9.92
<b>EPS adj</b>	<b>2.44</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>6.46</b>	<b>8.06</b>	<b>9.92</b>
DPS ordinary	0.00	0.98	1.85	0.00	5.00	7.00	5.00	5.00	5.50	6.00
DPS	0.00	0.98	1.85	0.00	5.00	7.00	5.00	5.00	5.50	6.00
<i>Growth and margins (%)</i>										
Revenue growth	12.6	14.8	2.7	8.3	21.9	5.4	5.1	12.6	17.3	15.3
EPS adj growth	126.9	-53.2	83.4	59.2	50.2	23.0	2.6	2.0	24.7	23.1
Gross margin	90.5	89.9	93.9	95.0	96.7	96.3	97.5	97.4	97.4	97.4
EBITDA margin	14.7	18.2	21.4	24.9	31.5	34.5	36.9	36.2	40.1	43.0
EBITDA adj margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Depreciation/revenues	-0.8	-1.0	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	-0.6	-0.5
EBIT margin	12.0	15.3	17.5	20.8	26.8	29.4	31.1	29.9	33.2	35.6
EBIT adj margin	12.0	15.3	15.8	20.8	26.8	30.6	31.1	30.7	33.2	35.6
PBT margin	12.0	15.3	15.8	21.0	26.7	30.5	30.6	30.0	32.7	34.9
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

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## Adjustments to annual P&amp;L

(SEKm)	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
<b>EBITDA</b>	<b>29</b>	<b>42</b>	<b>51</b>	<b>64</b>	<b>98</b>	<b>113</b>	<b>127</b>	<b>141</b>	<b>183</b>	<b>226</b>
<b>EBIT</b>	<b>24</b>	<b>35</b>	<b>41</b>	<b>53</b>	<b>83</b>	<b>97</b>	<b>107</b>	<b>116</b>	<b>151</b>	<b>187</b>
Other EBIT adjustments	0	0	4	0	0	-4	0	-3	0	0
EBIT adj	24	35	37	53	83	101	107	119	151	187
<b>Net profit</b>	<b>27</b>	<b>13</b>	<b>26</b>	<b>42</b>	<b>63</b>	<b>78</b>	<b>80</b>	<b>88</b>	<b>110</b>	<b>135</b>
Other EBIT adjustments	0	0	4	0	0	-4	0	-3	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	27	13	29	42	63	75	80	86	110	135
<i>Per share data (SEK)</i>										
EPS	2.44	1.14	2.10	3.34	5.02	6.18	6.33	6.37	8.06	9.92
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	0.00	0.00
EPS adj	2.44	1.14	2.10	3.34	5.02	6.18	6.33	6.46	8.06	9.92

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

## Cash flow

(SEKm)	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Net profit	27	13	26	42	63	78	80	88	110	135
Depreciation and amortisation	5	7	9	10	15	17	20	25	31	39
<b>Cash flow from operations (CFO)</b>	<b>35</b>	<b>38</b>	<b>41</b>	<b>70</b>	<b>99</b>	<b>114</b>	<b>124</b>	<b>102</b>	<b>132</b>	<b>164</b>
Capital expenditure	-11	-22	-21	-32	-19	-19	-19	-36	-45	-55
Acquisitions/Investments	-15	0	0	0	0	0	0	0	0	0
Divestments	0	0	0	0	1	0	0	0	0	0
<b>Cash flow from investing (CFI)</b>	<b>-26</b>	<b>-18</b>	<b>-19</b>	<b>-32</b>	<b>-18</b>	<b>-19</b>	<b>-38</b>	<b>-206</b>	<b>-45</b>	<b>-55</b>
<b>Free cash flow (FCF)</b>	<b>9</b>	<b>20</b>	<b>22</b>	<b>39</b>	<b>80</b>	<b>95</b>	<b>86</b>	<b>-104</b>	<b>87</b>	<b>109</b>
Net change in debt	7	0	0	0	0	0	0	0	0	0
Dividends paid	0	-11	-23	0	-63	-88	-63	-68	-75	-82
Share issue (repurchase)	0	0	22	-53	0	0	0	175	0	0
Other	1	12	12	0	0	0	0	-1	0	0
<b>Cash flow from financing (CFF)</b>	<b>8</b>	<b>1</b>	<b>12</b>	<b>-53</b>	<b>-64</b>	<b>-88</b>	<b>-63</b>	<b>106</b>	<b>-75</b>	<b>-82</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>17</b>	<b>21</b>	<b>33</b>	<b>-15</b>	<b>17</b>	<b>7</b>	<b>23</b>	<b>2</b>	<b>12</b>	<b>27</b>
<i>FCFF calculation</i>										
Free cash flow	9	20	22	39	80	95	86	-104	87	109
Less: tax shields/other	0	0	0	0	0	0	0	0	0	0
Less: acquisitions	15	0	0	0	0	0	0	0	0	0
Less: divestments	0	0	0	0	-1	0	0	0	0	0
<b>Growth (%)</b>										
CFO	152.2	10.1	6.3	72.7	40.4	15.7	8.5	-17.8	29.7	24.2
CFI	-105.6	30.1	-5.5	-66.0	42.3	-3.3	-98.9	-448.0	78.3	-23.6
FCF	641.7	127.0	6.9	78.7	108.3	18.5	-9.4	-220.8	183.8	24.5
CFF	348.4	-92.2	1866.7	-550.8	-19.5	-39.0	28.5	267.6	-170.7	-9.1
FCFF	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

16 August 2018

## Balance sheet

(SEKm)	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
<b>Assets</b>	<b>309</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>732</b>	<b>767</b>	<b>822</b>
Inventories	5	4	3	4	5	6	5	7	8	9
Trade receivables	32	29	34	39	44	48	51	61	69	80
Other receivables	11	14	15	11	20	19	12	37	37	37
Current financial assets	7	3	1	0	0	0	0	0	0	0
Cash and cash equivalents	30	49	82	71	89	99	120	127	139	166
<b>Current assets</b>	<b>85</b>	<b>98</b>	<b>135</b>	<b>124</b>	<b>158</b>	<b>172</b>	<b>187</b>	<b>231</b>	<b>252</b>	<b>291</b>
Property, plant and equipment	6	6	6	8	7	6	6	9	15	22
Other intangible assets	139	152	164	186	192	197	194	482	490	498
Deferred tax assets	74	62	59	51	37	16	3	9	9	9
Non-current financial assets	6	5	5	6	5	5	20	2	2	2
<b>Non-current assets</b>	<b>224</b>	<b>226</b>	<b>235</b>	<b>251</b>	<b>241</b>	<b>224</b>	<b>223</b>	<b>502</b>	<b>515</b>	<b>531</b>
<b>Total assets</b>	<b>309</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>732</b>	<b>767</b>	<b>822</b>
<b>Equity and liabilities</b>	<b>309</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>732</b>	<b>767</b>	<b>822</b>
<b>Total equity</b>	<b>241</b>	<b>254</b>	<b>295</b>	<b>289</b>	<b>291</b>	<b>280</b>	<b>290</b>	<b>553</b>	<b>588</b>	<b>641</b>
Trade payables	11	6	6	5	5	5	6	9	8	10
Other payables and accruals	52	53	54	65	84	92	96	141	141	141
Short-term debt	1	1	1	1	1	1	1	1	1	1
<b>Total current liabilities</b>	<b>63</b>	<b>61</b>	<b>61</b>	<b>71</b>	<b>90</b>	<b>99</b>	<b>102</b>	<b>151</b>	<b>151</b>	<b>152</b>
Long-term debt	2	1	1	2	1	2	2	2	2	2
Deferred tax liabilities	4	9	13	15	17	15	14	25	25	25
Other non-current liabilities	0	0	0	0	1	1	2	2	2	2
<b>Total non-current liabilities</b>	<b>5</b>	<b>10</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>17</b>	<b>28</b>	<b>28</b>	<b>28</b>
<b>Total liabilities</b>	<b>68</b>	<b>70</b>	<b>75</b>	<b>87</b>	<b>108</b>	<b>116</b>	<b>120</b>	<b>179</b>	<b>179</b>	<b>180</b>
<b>Total equity and liabilities</b>	<b>309</b>	<b>324</b>	<b>370</b>	<b>375</b>	<b>399</b>	<b>396</b>	<b>410</b>	<b>732</b>	<b>767</b>	<b>822</b>
<i>Key metrics</i>										
Net interest bearing debt	-28	-47	-79	-68	-88	-97	-117	-124	-136	-163

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

16 August 2018

### Valuation ratios

(SEKm)	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
<i>Enterprise value</i>										
Share price (SEK)			39.77	74.75	150.00	206.00	189.00	260.00	260.00	260.00
Net interest bearing debt	-28	-47	-79	-68	-88	-97	-117	-124	-136	-163
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	-28	-47	-79	-68	-88	-97	-117	-124	-136	-163
<i>Valuation</i>										
EPS	2.44	1.14	2.10	3.34	5.02	6.18	6.33	6.37	8.06	9.92
<b>EPS adj</b>	<b>2.44</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>6.46</b>	<b>8.06</b>	<b>9.92</b>
DPS ordinary	0.00	0.98	1.85	0.00	5.00	7.00	5.00	5.00	5.50	6.00
DPS	0.00	0.98	1.85	0.00	5.00	7.00	5.00	5.00	5.50	6.00
P/E			18.9	22.4	29.9	33.4	29.8	40.8	32.3	26.2
P/E adj			18.9	22.4	29.9	33.4	29.8	40.2	32.3	26.2
P/B			1.66	3.27	6.51	9.31	8.22	6.40	6.02	5.52
Average ROE	6.4%	5.3%	9.4%	14.5%	21.9%	27.3%	28.1%	20.9%	19.2%	22.0%
Dividend yield			4.6%	0.0%	3.3%	3.4%	2.6%	1.9%	2.1%	2.3%

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

### Key accounting ratios

	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
<i>Profitability (%)</i>										
ROA	5.1	4.1	7.5	11.3	16.4	19.6	19.9	15.4	14.6	17.0
ROCE	5.2	14.0	13.4	18.1	28.5	34.9	36.7	27.8	26.4	30.3
ROCE after tax	3.8	10.4	9.9	13.4	21.1	25.8	27.2	20.5	19.5	22.4
<i>Return on invested capital (%)</i>										
Net PPE/revenues	2.9	2.7	2.6	3.1	2.1	1.9	1.8	2.4	3.3	4.3
Working capital/revenues	10.9	16.4	31.2	20.9	22.0	22.4	24.6	20.5	22.2	26.3
<i>Cash flow ratios (%)</i>										
FCF/revenues	4.4	8.8	9.1	15.1	25.8	29.0	25.0	-26.8	19.2	20.7
CFO/revenues	17.4	16.6	17.2	27.5	31.7	34.8	35.9	26.2	29.0	31.2
CFO/capex	316.4	171.0	192.9	217.6	508.8	614.0	652.1	282.4	295.3	296.7
CFO/current liabilities	55.4	63.3	66.8	99.4	110.2	115.8	121.1	67.3	87.7	107.6
Cash conversion ratio	33.0	155.4	83.4	91.5	126.8	122.2	107.9	-118.5	79.6	80.5
Capex/revenues	5.5	9.7	8.9	12.6	6.2	5.7	5.5	9.3	9.8	10.5
Capex/depreciation	647.1	973.9	959.1	1404.3	776.0	744.0	791.7	1506.0	1777.9	2153.1
OpFCF margin	-5.5	-9.7	-8.9	-12.6	-6.2	-5.7	-5.5	-9.3	-9.8	-10.5
Total payout ratio	0.0	85.4	88.0	0.0	99.7	113.3	79.0	78.4	68.3	60.5
<i>Leverage and solvency (x)</i>										
Net debt/EBITDA	-0.94	-1.12	-1.57	-1.08	-0.89	-0.85	-0.92	-0.88	-0.74	-0.72
Total debt/total capital (BV)	0.01	0.01	0.01	0.01	0.00	0.01	0.01	0.00	0.00	0.00
<i>Cash conversion cycle</i>										
Inventory turnover days	88.4	61.1	83.1	104.7	180.7	167.5	223.3	247.3	233.3	230.5
Receivables turnover days	79.2	67.7	75.3	70.9	74.5	74.7	66.2	91.6	84.2	80.6
Credit period	205.6	95.6	143.5	147.1	170.1	158.6	244.8	319.7	249.2	266.1
Cash conversion cycle	-38.0	33.3	14.8	28.5	85.1	83.7	44.8	19.1	68.3	45.1

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

16 August 2018

## Important Information

Company: IAR Systems  
 Coverage by Analyst: Joachim Gunell  
 Date: 16/08/2018

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16 August 2018

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