

This report was completed and disseminated at 5:33 CET on 26 April 2024



IAR SYSTEMS

Establishing 'RO40' credentials

In its fourth consecutive 30%+ EBIT beat quarter, IAR took yet another step to establish 'deep tech' leadership 'rule of 40' credentials. We believe IAR is in its best operating shape in the six years we have covered it. We have raised our fair value to SEK170–240 (150–220).

Fourth consecutive double-digit (34%) adj. EBIT beat to our forecast. Q1 organic sales growth was 14% YOY (we expected 12% YOY), where the main source of strength was EMEA (+29% organic YOY as IAR is showing success on new large multi-year enterprise deals with its repackaged offering), with 11% YOY growth in deferred revenues setting up net sales 1% above our forecast. IAR Embedded Workbench remains the anchor where IAR's suite solves developers' productivity pain points. Strong organic growth, 97% gross margin, cost savings and improved efficiency (net sales/employee up 18% YOY) translated in a 190% adj. EBIT drop-through, and 161% adj. EBIT growth YOY led to adj. EBIT 34% above our forecast (28.6% margin, up 16.4%-points YOY). 61% cash conversion (17.5% FCF margin) resulted in net cash of SEK144m at end-Q1. Since August 2023, IAR has bought back shares for SEK36m (utilising ~21% of its mandate) and we note that it has a renewed buyback mandate for 10% of the shares outstanding.

2024–2025e adj. EBIT raised by 11–7%, of which 7–2%-points is underlying based and 4–5%-points from FX tailwinds. We have also calibrated our tax assumptions based on tax-loss carry-forwards from Secure Thingz, which has resulted in us raising our adj. FCF by 25–10% for 2024–2025e. We have taken what we believe to be a conservative view but note IAR see no signs of slowdown in 2024, with incremental growth potential from new product launches.

Fair value raised to SEK170–240, corresponding to a 2024e EV/EBIT of 15–22x. We see IAR making progress to become a platform business, having cleaned up its balance sheet as well as: its profitable growth and solid net cash position (12% of its current market cap), offering prospects of generous capital allocations and even bolt-on M&A; the defensive qualities of c50% of revenues being recurring; the optionality in embedded security, RISC-V; and the ambition to expand its embedded systems market.

Year-end Dec	2020	2021	2022	2023	2024e	2025e	2026e
Revenue (SEKm)	372	358	423	461	500	540	575
EBITDA adj (SEKm)	133	238	128	443	205	226	242
EBIT adj (SEKm)	84	66	75	95	139	154	169
PTP (SEKm)	77	-69	74	-203	148	143	158
EPS rep (SEK)	4.36	-4.94	4.23	-16.85	11.52	7.97	8.84
EPS adj (SEK)	4.36	4.90	4.17	5.12	12.03	8.56	9.42
DPS (SEK)	0.00	0.00	1.50	1.50	4.21	2.99	3.30
Revenue growth (%)	-8.3	-3.8	18.1	9.0	8.5	8.0	6.5
EBITDA growth adj (%)	-9.0	79.4	-46.2	246.1	-53.8	10.0	7.1
EPS growth adj (%)	-26.8	12.5	-14.9	22.9	134.7	-28.9	10.1
EBITDA margin adj (%)	35.7	66.5	30.3	96.2	41.0	41.8	42.0
EV/Sales adj (x)	5.12	4.32	4.67	3.35	3.31	2.98	2.66
EV/EBITDA adj (x)	14.3	6.5	15.4	3.5	8.1	7.1	6.3
EV/EBIT adj (x)	22.7	23.6	26.4	16.2	11.9	10.4	9.0
P/E adj (x)	32.1	24.0	36.1	24.2	11.4	16.0	14.5
P/Book (x)	3.11	2.74	3.08	3.99	3.47	3.17	2.79
ROE (%)	9.9	nm	9.2	nm	32.5	19.3	19.1
ROCE (%)	12.4	9.9	10.9	15.8	26.4	26.0	26.5
Dividend yield (%)	0.0	0.0	1.0	1.2	3.1	2.2	2.4
FCF yield (%)	1.9	3.6	3.3	6.0	6.0	5.7	6.3

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

IARB versus OMXS30 (12m)



Source: FactSet

SUMMARY

Share price (SEK)	137
Tickers	IARB SS

CAPITAL STRUCTURE

No. of shares (m)	13.7
No. of shares fully dil. (m)	13.7
Market cap. (SEKm)	1,871
NIBD adj end-2024e (SEKm)	-215
Enterprise value adj (SEKm)	1,656
Net debt/EBITDA adj (x)	-1.05
Free float (%)	100

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q2 2024	15/08/2024
---------	------------

ESTIMATE CHANGES (SEKm), (SEK)

Year-end Dec	2024e	2025e	2026e
Sales (old)	494.2	529.9	564.8
Sales (new)	499.9	540.0	574.9
Change (%)	1.1	1.9	1.8
EPS adj (old)	7.15	7.98	8.84
EPS adj (new)	12.03	8.56	9.42
Change (%)	68.2	7.2	6.6

Source: DNB Markets.

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

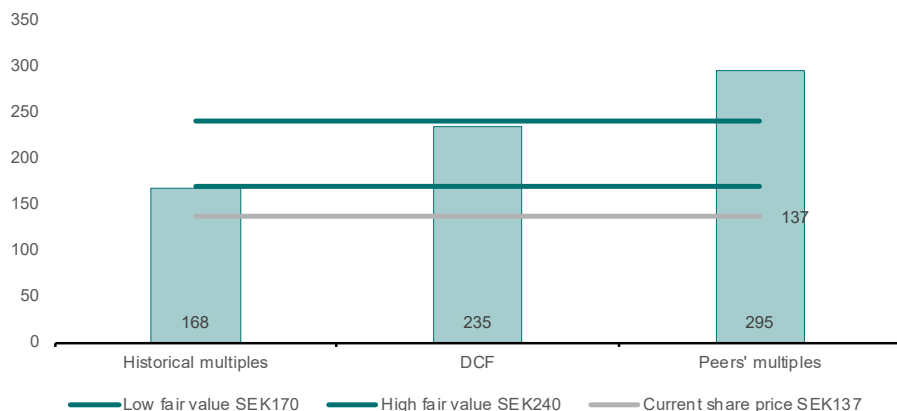
ANALYST

Joachim Gunell

Please see the last two pages for important information. This research report was not produced in the US. Analysts employed by non-US affiliates are not registered/qualified research analysts with FINRA in the United States.

Overview

Valuation (SEK)



Source: FactSet, DNB Markets

Downside risks to our fair value

- Weakening of the embedded systems developer community (C/C++ language difficulty, cultural shifts in the workforce, low-level code abstraction, etc.).
- Competitive advantages disrupted by open-source alternatives or stronger commercial technologies.
- New product developments are too costly and might not translate into sales, which could make investors lose trust in the company's ability to resurrect its organic growth profile.
- 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 view IAR Systems as a market leader in a niche industry (ensuring high code quality in embedded software and programming secure devices for the Internet of tomorrow) with the potential to accelerate organic growth to above its targeted 10–15% from new product launches (for which SEK500m+ of R&D investment has already been taken, and SEK400m+ has been written-down).
- IAR's management team has taken the necessary steps to modernise the business over the past two years. We believe IAR is in the best shape operationally in the six years we have covered the company.

Source: DNB Markets

Valuation methodology

- We continue to base our fair value on a DCF, IAR Systems' historical valuation multiples, and a peers' multiple regression analysis (methodology unchanged).
- On our estimates, IAR Systems is trading at a 2024e P/E of 11x, EV/EBIT of 12x, and EV/sales of 3x.

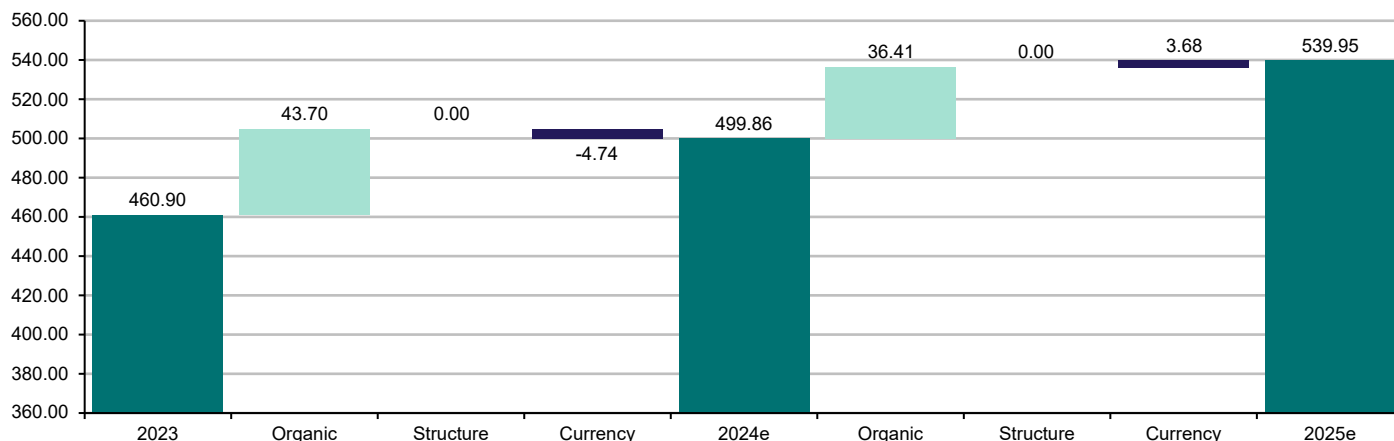
Source: DNB Markets

Upside risks to our fair value

- The company over-achieving on its financial targets (particularly 10–15% organic growth).
- Successful traction of its new offerings (IoT security, RISC-V, 64-bit, etc.) could offer potential shareholder value creation beyond our fair value.
- IoT security legislation that requires identity to be built into microcontrollers.
- SaaS transition would support the revenue mix, lessen the cyclical, and enhance the investment profile.
- Participation in industry consolidation owing to the strategic importance of development tools.

Source: DNB Markets

Sales bridge 2023–2025e (SEKm)



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

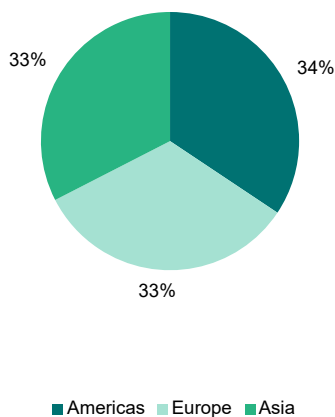
Company overview and SWOT analysis

Company description

- IAR Systems is a world-leading provider of commercial software tools and services for programming processors in embedded systems (computer hardware and software designed for a specific function) that enable the development and ensure the code quality of digital products. Its solutions support 15,000+ processors from 200+ chip vendors globally.
- Its professional customers are mainly developers (22,000 active users) at OEMs building these systems for products going into fields such as industrial automation, medical technology, telecommunication, consumer electronics, and the automotive industry.

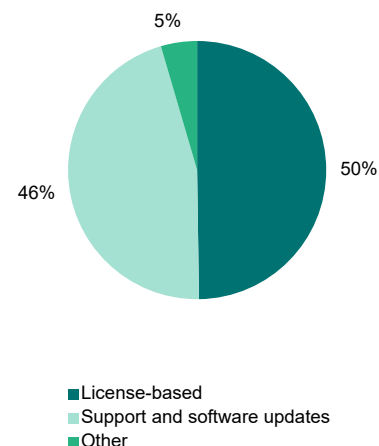
Source: DNB Markets

Sales by geography (2023)



Source: Company

Sales by mix (2023)



Source: Company

Financial targets

Through-the-cycle:

- 10–15% annual sales growth in local currencies (organic).
- EBIT margin of 25%+.

Source: Company

Key management

- CEO – Richard Lind (since 2021).
- CFO – Ann Zetterberg (since 2021).

Source: Company

Largest shareholders

- Alcur – 10.6%
- Andra AP-fonden – 9.3%
- Avanza Pension – 8.2%
- Aktia – 6.2%

Source: Company

SWOT analysis

Strengths

- Niche-market leader with ~40% market share for commercial tools via its integrated development environment (IDE).
- Key competitive advantages are: 1) complete toolchain for developers regardless of processor/architecture and independent market position; and 2) superior industrial-quality, as its commercial customers cannot compromise on tools' code performance, reliability (industry standards compliance etc.), user-friendliness, access to support, or time-to-market.

Opportunities

- Early leader in two of the embedded industry's most prominent themes (embedded IoT security and RISC-V).
- Perpetual licences still make up 50%+ of IAR's sales. We prefer subscription-based revenue models versus traditional perpetual licence delivery models, since the SaaS model generates more predictable near-term revenue and cash flow, with, we believe, the potential to become more profitable longer-term (limited further customer acquisition costs).

Source: DNB Markets

Weaknesses

- IAR has yet to undergo a SaaS transition, which could optically dent revenue growth and profitability.
- History of bad capital allocation in search of growth opportunities outside its core Embedded Workbench (~SEK200m Secure Thingz acquisition in 2018).

Threats

- Competitive shift as open-source-based alternatives could gain popularity, as younger generations of developers could be unwilling to pay for licences or be restricted to a single technology from one vendor.
- OEMs and processor manufacturers might prefer high-level tools that can abstract out the lower-level hardware and software in product development.

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> ■ IAR Systems’ software-development tools are market-leading in terms of code quality, analysis, functional safety, and security. Its software ensures that the code is in line with industry standards, thereby guaranteeing its reliability when applied. ■ Increased IoT security legislation drives demand for its products, as its OEM customers must comply with new security design requirements. 	<ul style="list-style-type: none"> ■ Data loss or security bugs in the software code could trigger regulatory scrutiny as well as legal costs and reputational damage, hampering its growth prospects. ■ IAR Systems’ competitiveness relies greatly on its ability to continuously innovate. For this, its highly skilled workforce is a key resource. Failure to attract and retain such professionals could lead to delays in innovation and a loss of market share.
Actions being taken by company	<ul style="list-style-type: none"> ■ Embedded programmers need to protect their code from IP theft and illegal copying, as IoT security issues are becoming increasingly prevalent. Following the acquisition of Secure Thingz, IAR Systems’ tools are increasingly linked to sustainability, as they help developers take control of security from inception in the IP throughout the lifecycle of a digital product. 	<ul style="list-style-type: none"> ■ IAR Systems’ development tools are the most used in the embedded industry, owing to its leading optimisation technology, comprehensive debugger quality, and renowned technical support. This is confirmed by its loyal customer base (~5% annual customer churn). It has 46,000+ OEM customers and 150,000+ technology users, 95% of which recurring customers, we believe.

Key ESG drivers

Short-term

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

Long-term

- Regulators are likely to play an active role in the long-term uptake of secure development tools. This should have an impact on programmers’ designs, as applications need to remain secure across the entire lifecycle to comply with new legislation. We note legislative initiatives in Europe (UK government, ETSI, ENISA) and the US (California and Oregon IoT Security law, IoT Cybersecurity Improvement Act), and government initiatives across Singapore, Japan, South Korea, China, etc.
- Considering its offering of software development tools to over 150,000+ technology users as well as the sensitive nature of the data it handles, IAR Systems is exposed to possible hacking attempts and misappropriation of technological data.

26 April 2024

Q1 results

Figure 1: Q1 results versus expectations

Key highlights (SEKm, except per share data)	Q1'24		Deviation		Q1'23	DNBe
	Actual	DNB	(%)	Absolute	Actual	2024e
Net sales	119.7	118.9	1%	1	107.7	499.9
Gross profit	116.6	115.4	1%	1	105.4	486.6
Gross margin	97.4%	97.1%	0.4pp		97.9%	97.3%
One-offs	-2.1	-2.0		0	-1.7	-8.1
EBITDA adj.	49.0	40.4	21%	9	25.3	196.9
EBITDA adj. margin	40.9%	34.0%	7pp		23.5%	39.4%
EBIT	32.1	23.5	37%	9	11.4	138.8
EBIT margin	26.8%	21.4%	5.4pp		10.6%	27.8%
EBIT adj.	34.2	25.5	34%	9	13.1	138.8
EBIT adj. margin	28.6%	21.4%	7.2pp		12.2%	27.8%
EPS	5.03	1.26	299%	3.77	0.47	11.52
Adj. FCF (CFO - capex)	21.0	20.7	1%	0	15.7	112.6
Cash conversion	61%	81%	-19.9pp		120%	81%
Rule of 40 (EBIT)	39.7%	30.9%	8.9pp		22.5%	36.2%
Revenue growth YOY	11.1%	10.3%	0.9pp		10.5%	8.5%
Organic	14.3%	12.3%	2pp		4.5%	9.5%
Structural	0.0%	0.0%	0pp		0.0%	0.0%
FX	-3.2%	-2.1%	-1.1pp		5.9%	-1.0%
Segment (SEKm)	Q1'24		Deviation		Q1'23	DNBe
	Actual	DNB	(%)	Absolute	Actual	2024e
Net sales						
Development tools	n.a.	118.4	n.a.	n.a.	107.3	497.9
Security solutions	n.a.	0.5	n.a.	n.a.	0.4	2.0
Other	n.a.	0.0	n.a.	n.a.	0.0	0.0
Total	119.7	118.9	1%	1	107.7	499.9
Net sales growth						
Development tools		10.3%			10.6%	9.2%
Security solutions		22.9%			0.0%	-4.9%
Other						
Total	11.1%	10.3%	0.9pp		10.5%	8.5%
Net sales						
License-based	62.4	58.2	7%	4	53.3	254.4
Support and softw are updates	54.2	55.7	-3%	-1	49.7	227.4
Other	3.1	5.0	-38%	-2	4.7	18.1
Total	119.7	118.9	1%	1	107.7	499.9

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

26 April 2024

Estimate revisions

Figure 2: Estimate changes

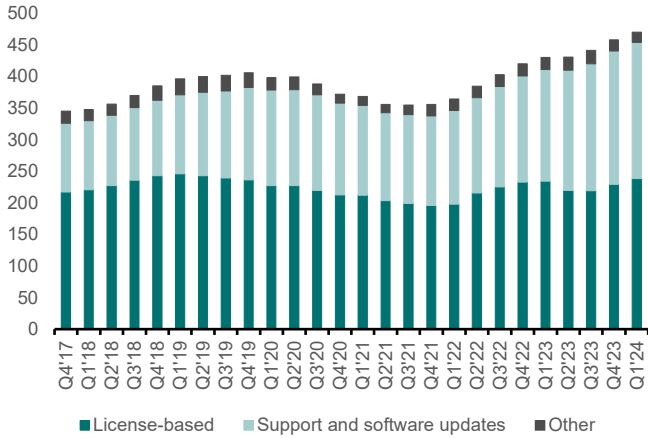
(SEKm, except per share data)	Old			New			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Net sales	494	530	565	500	540	575	1%	2%	2%
Growth YOY, of which	7.2%	7.2%	6.6%	8.5%	8.0%	6.5%	123bp	80bp	-12bp
Organic	9.1%	7.0%	6.6%	9.5%	7.3%	6.5%	36bp	29bp	-12bp
Structural	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
FX	-1.9%	0.2%	0.0%	-1.0%	0.7%	0.0%	86bp	50bp	0bp
Gross profit	481	516	551	487	526	561	1%	2%	2%
<i>Gross margin</i>	97.2%	97.4%	97.6%	97.3%	97.5%	97.6%	11bp	5bp	4bp
EBITDA	186	208	224	197	218	234	6%	5%	5%
IAC	-8	-8	-8	-8	-8	-8	1%	0%	0%
Adj. EBITDA	194	216	232	205	226	242	6%	5%	4%
Depreciation and amortisation	-60	-64	-65	-60	-64	-64	0%	0%	0%
EBIT	117	136	151	131	146	161	11%	7%	7%
Adj. EBIT	125	144	159	139	154	169	11%	7%	6%
<i>Adj. EBIT margin</i>	25.4%	27.1%	28.2%	27.8%	28.5%	29.4%	242bp	138bp	130bp
Capitalised development costs (CDC)	54	56	56	52	56	56	-3%	0%	0%
EBIT excl. CDC	14.4%	16.5%	18.2%	17.3%	18.1%	19.6%	289bp	157bp	147bp
Adj. Net profit	98	109	121	164	117	129	68%	7%	7%
Adj. EPS (diluted)	7.15	7.98	8.84	12.03	8.56	9.42	68%	7%	7%
DPS	2.50	2.79	3.09	4.21	2.99	3.30	68%	7%	7%
Net sales by product type									
License-based	246	266	288	254	276	298	4%	4%	3%
Support and software updates	229	243	255	227	243	255	-1%	0%	0%
Other	20	21	22	18	21	22	-10%	0%	0%
Total	494	530	565	500	540	575	1%	2%	2%
Balance sheet and cash flow									
Adj. FCF	90	97	109	113	107	117	25%	10%	7%
Cash	247	290	340	252	281	337	2%	-3%	-1%
Net cash (-) / net debt (+)	-215	-278	-349	-215	-264	-341	0%	-5%	-2%

Source: DNB Markets

26 April 2024

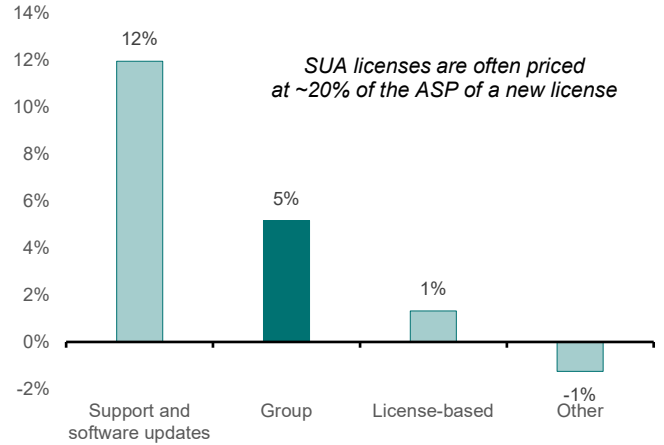
Key charts

Figure 3: Net sales mix by product type (LTM, 2017–2024)



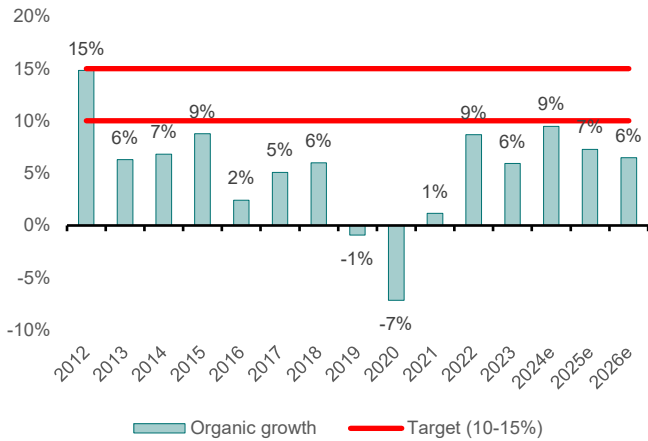
Source: Company (historical data), DNB Markets (further calculations)

Figure 4: Net sales CAGR by processor type (2017–2024)



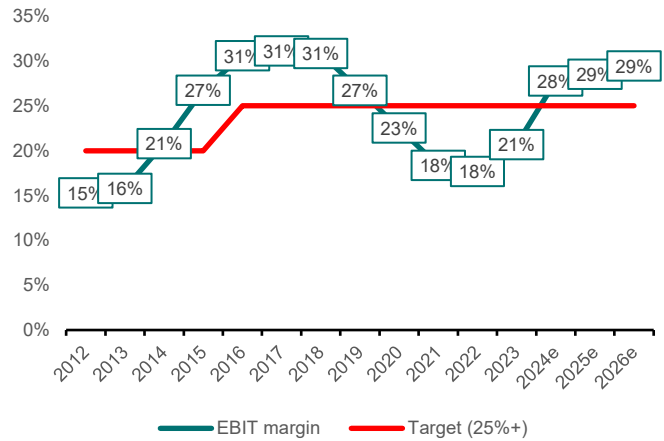
Source: Company (historical data), DNB Markets (further calculations)

Figure 5: Financial goal 1 – organic sales growth of 10–15%



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

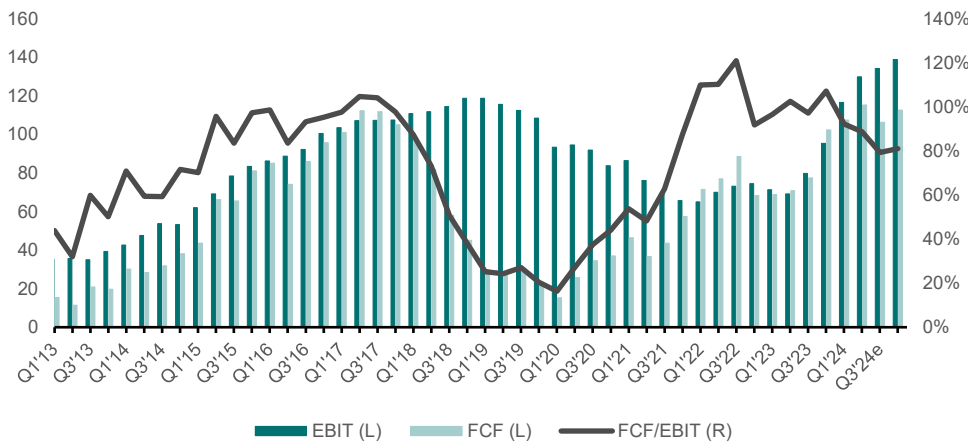
Figure 6: Financial goal 2 – EBIT margin >25%



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

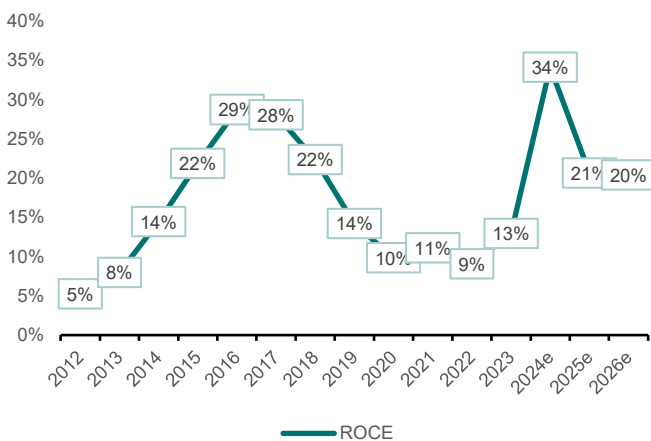
26 April 2024

Figure 7: LTM FCF versus LTM EBIT (2013–2024e) – coming out of an intense investment period to accelerate organic growth



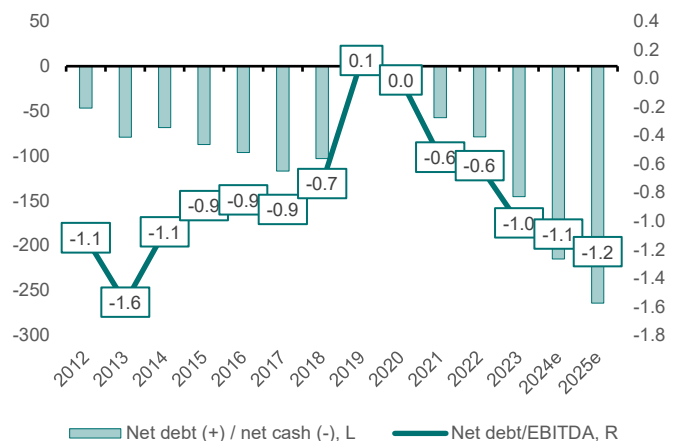
Source: DNB Markets (forecasts), company (historical data)

Figure 8: Return on capital employed (2012–2026e)



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

Figure 9: Net debt to EBITDA (x, SEKm)



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

26 April 2024

Forecasts

Figure 10: Annual income statement and key items (SEKm, 2019–2026e)

(SEKm)	2019	2020	2021	2022	2023	2024e	2025e	2026e	23-26e CAGR
Net sales	405.6	372.0	355.8	419.9	458.1	499.9	540.0	574.9	8%
Growth YOY, of which	5%	-8%	-4%	18%	10%	8%	8%	6%	
Organic	-1%	-7%	1%	9%	6%	9%	7%	6%	
Structural	0%	0%	0%	0%	0%	0%	0%	0%	
FX	6%	-1%	-6%	9%	4%	-1%	1%	0%	
COGS	-10.8	-14.1	-12.0	-12.8	-13.4	-13.3	-13.7	-13.7	
Gross profit	394.8	357.9	346.0	410.0	447.5	486.6	526.3	561.2	
Capitalised work	0.0	0.0	64.4	50.2	36.1	52.3	56.4	56.4	
Other external expenses	-63.7	-37.7	-48.3	-58.2	-54.4	-53.7	-58.9	-59.8	
Personnel costs	-185.3	-187.5	-258.2	-273.0	-285.5	-288.2	-306.2	-324.1	
EBITDA	145.8	132.7	103.9	129.0	143.7	196.9	217.6	233.7	
IAC	0.0	0.0	-134.2	0.9	-299.7	-8.1	-8.0	-8.0	
Adj. EBITDA	145.8	132.7	238.1	128.1	443.4	205.0	225.6	241.7	
Depreciation and amortisation	-37.4	-48.9	-172.4	-53.3	-348.0	-60.2	-63.6	-64.4	
EBIT	108.4	83.8	-68.5	75.7	-204.3	130.7	146.0	161.3	
Adj. EBIT	108.4	83.8	65.7	74.8	95.4	138.8	154.0	169.3	21%
Financial items	-1.4	-7.0	-0.1	-2.2	0.9	17.3	-3.2	-3.2	
Profit before tax	107.0	76.8	-68.6	73.5	-203.4	148.0	142.8	158.1	
Taxes paid	-25.8	-17.4	1.2	-15.7	-25.6	8.3	-33.9	-37.4	
Adj. Net profit	81.2	59.4	66.8	56.9	70.7	164.5	116.9	128.7	22%
EPS	5.96	4.36	-4.94	4.23	-16.85	11.52	7.97	8.84	
Adj. EPS (diluted)	5.96	4.36	4.90	4.17	5.12	12.03	8.56	9.42	
DPS	3.00	0.00	0.00	1.50	1.50	4.21	2.99	3.30	
Margins									
Gross	97.3%	96.2%	96.6%	97.0%	97.1%	97.3%	97.5%	97.6%	
EBITDA	35.9%	35.7%	29.0%	30.5%	31.2%	39.4%	40.3%	40.7%	
Adj. EBITDA	35.9%	35.7%	66.5%	30.3%	96.2%	41.0%	41.8%	42.0%	
EBIT	26.7%	22.5%	-19.1%	17.9%	-44.3%	26.2%	27.0%	28.1%	
Adj. EBIT	26.7%	22.5%	18.4%	17.7%	20.7%	27.8%	28.5%	29.4%	
FCF margin	5.4%	9.9%	16.1%	16.2%	22.2%	22.5%	19.8%	20.4%	
Rule of 40 (EBIT)	32.0%	14.2%	14.6%	35.8%	29.7%	36.2%	36.5%	35.9%	
ROCE	17.7%	12.4%	9.9%	10.9%	15.8%	26.4%	26.0%	26.5%	
Cash flow									
Cash flow from operating activities	105.7	118.4	131.6	128.0	144.0	171.8	171.3	182.2	
Capex	-83.6	-81.4	-74.1	-59.6	-42.2	-59.2	-64.3	-65.2	
Adj. FCF	22.1	37.0	57.5	68.4	101.8	112.6	106.9	117.0	5%
Cash conversion (FCF/EBIT)	20%	44%	88%	91%	107%	81%	69%	69%	
Balance sheet									
Cash	60.7	67.8	113.4	148.2	197.4	251.9	281.3	337.4	
Net cash (-) / net debt (+)	18.4	-1.5	-57.4	-78.9	-145.7	-215.0	-264.4	-340.5	
Net debt/EBITDA	0.1x	0.0x	-0.6x	-0.6x	-1.0x	-1.1x	-1.2x	-1.5x	

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

26 April 2024

Figure 11: Annual segment overview (SEKm, 2019–2026e)

(SEKm)	2019	2020	2021	2022	2023	2024e	2025e	2026e	23-26e CAGR
Net sales by segment									
Development tools	403.9	367.0	355.1	418.4	456.0	497.9	537.4	571.9	8%
Security solutions	1.7	5.0	0.7	1.5	2.1	2.0	2.5	2.9	11%
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total	405.6	372.0	355.8	419.9	460.9	499.9	540.0	574.9	8%
Net sales growth by segment									
Development tools	6%	-9%	-3%	18%	9%	9%	8%	6%	
Security solutions	-66%	194%	-86%	114%	40%	-5%	25%	16%	
Other									
Total	5%	-8%	-4%	18%	10%	8%	8%	6%	
Net sales by product									
License-based	236.3	212.4	196.1	233.0	229.4	254.4	276.3	298.3	9%
Support and softw are updates	146.3	145.2	141.6	167.9	210.6	227.4	243.1	255.1	7%
Other	23.0	14.4	18.1	19.0	18.1	18.1	20.6	21.5	6%
Total	405.6	372.0	355.8	419.9	460.9	499.9	540.0	574.9	8%
Net sales growth by product									
License-based	-3%	-10%	-8%	19%	-2%	11%	9%	8%	
Support and softw are updates	23%	-1%	-2%	19%	25%	8%	7%	5%	
Other	0%	-37%	26%	5%	-5%	0%	14%	4%	
Total	5%	-8%	-4%	18%	10%	8%	8%	6%	

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

Figure 12: Quarterly segment overview (SEKm, 2022–2024e)

(SEKm)	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24e	Q3'24e	Q4'24e
Net sales by segment										
Development tools	105.6	108.6	107.3	107.1	116.2	125.4	119.7	120.1	125.6	132.5
Security solutions	0.5	0.2	0.4	1.1	0.1	0.5	0.0	1.2	0.2	0.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	106.1	110.7	108.6	108.9	117.4	126.0	119.7	121.3	125.8	133.1
Net sales growth by segment										
Development tools	20%	19%	11%	0%	10%	15%	12%	12%	8%	6%
Security solutions	400%	100%	0%	175%	-80%	150%	-100%	9%	98%	21%
Other										
Total	20%	19%	10%	1%	10%	15%	11%	12%	8%	6%
Net sales by product										
License-based	56.2	57.0	53.3	53.0	55.8	67.3	62.4	60.8	62.4	68.7
Support and softw are updates	44.4	45.4	49.7	50.7	55.2	55.0	54.2	55.5	58.3	59.4
Other	5.5	6.4	4.7	4.5	5.3	3.6	3.1	5.0	5.0	5.0
Total	106.1	110.7	108.6	108.9	117.4	126.0	119.7	121.3	125.8	133.1
Net sales growth by product										
License-based	22%	15%	2%	-22%	-1%	18%	17%	15%	12%	2%
Support and softw are updates	20%	26%	21%	37%	24%	21%	9%	9%	6%	8%
Other	15%	5%	12%	55%	-4%	-44%	-34%	11%	-6%	39%
Total	20%	19%	10%	1%	10%	15%	11%	12%	8%	6%

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

26 April 2024

Figure 13: Quarterly income statement and key items (SEKm, 2022–2024e)

(SEKm)	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24e	Q3'24e	Q4'24e
Net sales	106.1	110.7	108.6	108.9	117.4	126.0	119.7	121.3	125.8	133.1
Grow th YOY, of w hich	20%	19%	10%	1%	10%	15%	11%	12%	8%	6%
Organic	11%	7%	5%	-4%	6%	15%	14%	12%	10%	5%
Structural	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
FX	9%	12%	6%	5%	4%	1%	-3%	0%	-2%	1%
COGS	-3.1	-3.8	-3.2	-2.8	-3.1	-4.3	-3.1	-3.4	-3.4	-3.4
Gross profit	103.0	106.9	105.4	106.1	114.3	121.7	116.6	117.9	122.4	129.7
Capitalised work	11.3	16.2	9.4	10.4	7.2	9.1	10.3	14.0	14.0	14.0
Other external expenses	-18.8	-16.1	-12.7	-10.0	-11.9	-19.8	-10.8	-10.8	-15.1	-17.0
Personnel costs	-61.3	-74.6	-76.8	-76.0	-66.2	-66.5	-69.2	-75.0	-69.0	-75.0
EBITDA	34.2	32.4	25.3	30.5	43.4	44.5	46.9	46.1	52.3	51.7
IAC	0.0	0.0	-1.7	-6.2	-3.9	-287.9	-2.1	-2.0	-2.0	-2.0
Adj. EBITDA	34.2	32.4	27.0	36.7	47.3	332.4	49.0	48.1	54.3	53.7
Depreciation and amortisation	-12.1	-15.9	-13.9	-19.3	-14.5	-300.3	-14.8	-15.3	-15.2	-14.9
EBIT	22.1	16.5	11.4	11.2	28.9	-255.8	32.1	28.8	35.1	34.8
Adj. EBIT	22.1	16.5	13.1	17.4	32.8	32.1	34.2	30.8	37.1	36.8
Financial items	1.1	-1.9	0.3	2.8	-4.0	1.8	5.3	5.0	4.0	3.0
Profit before tax	23.2	14.6	11.7	14.0	24.9	-254.0	37.4	33.8	39.1	37.8
Taxes paid	-6.4	0.0	-5.3	-7.9	-10.9	-1.5	31.6	-8.0	-9.2	-6.0
Adj. Net profit	16.8	14.6	8.1	12.3	17.9	32.4	71.1	27.7	31.8	33.8
EPS	1.04	1.07	0.47	0.45	1.02	-18.79	5.12	1.88	2.18	2.33
Adj. EPS (diluted)	1.23	1.07	0.59	0.89	1.29	2.35	5.19	2.03	2.33	2.48
DPS	0.00	0.00	0.00	1.50	0.00	0.00	0.00	1.50	0.00	0.00
Margins										
Gross	97.1%	96.6%	97.1%	97.4%	97.4%	96.6%	97.4%	97.2%	97.3%	97.4%
EBITDA	32.2%	29.3%	23.3%	28.0%	37.0%	35.3%	39.2%	38.0%	41.6%	38.8%
Adj. EBITDA	32.2%	29.3%	24.9%	33.7%	40.3%	263.8%	40.9%	39.6%	43.1%	40.4%
EBIT	20.8%	14.9%	10.5%	10.3%	24.6%	-203.0%	26.8%	23.7%	27.9%	26.1%
Adj. EBIT	20.8%	14.9%	12.1%	16.0%	27.9%	25.5%	28.6%	25.4%	29.5%	27.7%
FCF margin	31.3%	3.0%	14.6%	16.9%	34.0%	22.3%	17.5%	21.6%	24.7%	25.8%
Rule of 40 (EBIT)	38.7%	35.8%	22.5%	17.2%	38.6%	39.3%	38.8%	36.7%	36.6%	33.3%
ROCE	11.1%	10.9%	10.1%	9.5%	10.7%	14.1%	18.7%	22.9%	25.9%	25.5%
Cash flow										
Cash flow from operating activities	47.4	25.8	26.1	29.1	51.9	36.9	32.7	42.3	47.0	49.7
Capex	-14.2	-22.5	-10.4	-10.7	-12.0	-9.1	-11.7	-16.1	-16.0	-15.4
Adj. FCF	33.2	3.3	15.7	18.4	39.9	27.8	21.0	26.2	31.0	34.3
Cash conversion (FCF/EBIT)	150%	20%	120%	106%	122%	87%	61%	85%	84%	93%
Balance sheet										
Cash	158.8	148.2	158.1	153.8	186.0	197.4	195.8	196.5	222.6	251.9
Net cash (-) / net debt (+)	-131.1	-78.9	-92.6	-94.7	-127.8	-145.7	-143.9	-149.6	-180.7	-215.0
Net debt/EBITDA	-1.2x	-0.6x	-0.7x	-0.8x	-1.0x	-1.0x	-0.9x	-0.8x	-1.0x	-1.1x

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

26 April 2024

Valuation

Figure 14: Valuation approaches (SEKm, %)

	Peers regression	DCF	Historical average
Net sales (2024e)			500
Adj. EBIT (2024e)			139
Adj. EPS (2024e)			12.03
Sales CAGR (2022–2024e)	12.2		8.2
Adj. EBIT margin (2023e)	19.8		27.8
RO40 (2023e)	35.4		36.0
Target multiple	<i>RO40, P/B, EV/S</i>	<i>9% WACC</i>	<i>15x EV/EBIT</i>
Enterprise value	3 824	2 998	2 083
Net debt (+)/cash (-)	-215	-215	-215
Equity value	4 039	3 213	2 297
Shares outstanding	13.7	13.7	13.7
Implied fair value/share	295	235	168
Implied potential	115%	71%	22%

2024e valuation multiples

Implied EV/sales	7.7	6.0	4.2
Implied EV/EBIT	27.5	21.6	15.0
Implied P/E	24.6	19.5	14.0

Source: DNB Markets

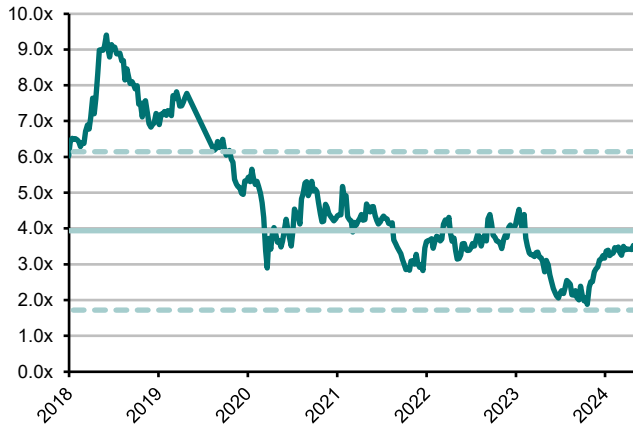
Figure 15: Implied valuation multiples based on current share price

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	328	345	385	406	372	356	420	458	500	540	575
Growth YOY	5.4%	5.1%	10.2%	5.2%	-8.3%	-4.4%	18.1%	9.8%	8.5%	8.0%	6.5%
Gross profit	316	337	376	395	358	346	410	448	487	526	561
Gross margin	96.3%	97.5%	97.7%	97.3%	96.2%	96.6%	97.0%	97.1%	97.3%	97.5%	97.6%
Adj. EBITDA	117	127	140	146	133	104	129	144	197	218	234
EBITDA margin	36.9%	36.9%	37.2%	35.9%	35.7%	66.5%	30.3%	96.2%	41.0%	41.8%	42.0%
Adj. EBIT	101	107	119	108	84	66	75	95	139	154	169
EBIT margin	30.6%	31.1%	30.8%	26.7%	22.5%	18.4%	17.7%	20.7%	27.8%	28.5%	29.4%
Adj. Net profit	82	80	94	81	59	67	57	71	164	117	129
Adj. FCF	95	105	46	22	37	58	68	102	113	107	117
FCF margin	29.0%	30.4%	11.9%	5.4%	9.9%	16.2%	16.3%	22.2%	22.5%	19.8%	20.4%
Cash conversion	95%	98%	39%	20%	44%	88%	91%	107%	81%	69%	69%
Rule of 40 (EBIT)	36.0%	36.2%	41.0%	31.9%	14.2%	14.0%	35.8%	30.5%	36.2%	36.5%	35.9%
ROCE	35.0%	37.4%	28.1%	17.7%	12.4%	9.9%	10.9%	15.8%	26.4%	26.0%	26.5%
ROIC	27.4%	28.5%	21.9%	13.8%	10.1%	10.4%	8.7%	11.5%	28.0%	20.3%	20.7%
Market cap	2 602	2 387	3 310	2 535	1 905	1 606	1 870	1 871	1 871	1 871	1 871
Net debt	-97	-117	-103	18	-1	-57	-79	-146	-215	-264	-341
Enterprise value	2 505	2 270	3 206	2 554	1 904	1 548	1 791	1 726	1 656	1 607	1 531
EV/Sales	7.6x	6.6x	8.3x	6.3x	5.1x	4.4x	4.3x	3.8x	3.3x	3.0x	2.7x
EV/EBIT	24.9x	21.1x	27.0x	23.6x	22.7x	23.6x	23.9x	18.1x	11.9x	10.4x	9.0x
P/E	31.7x	29.8x	35.2x	31.2x	32.1x	24.0x	32.9x	26.5x	11.4x	16.0x	14.5x
FCF yield	3.7%	4.4%	1.4%	0.9%	1.9%	3.6%	3.7%	5.4%	6.0%	5.7%	6.3%

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

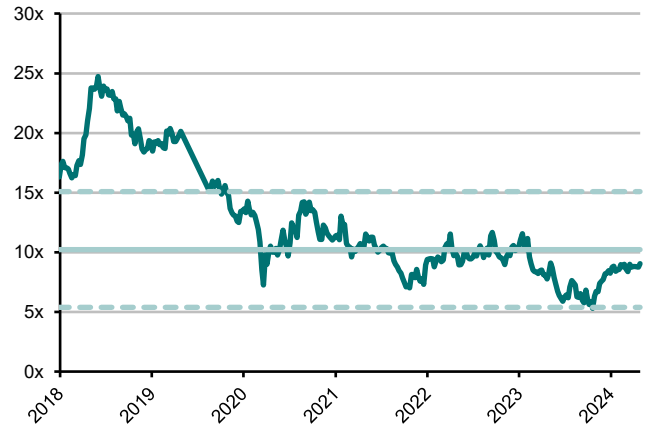
26 April 2024

Figure 16: EV/sales 12-month forward IAR Systems (2018–2024)



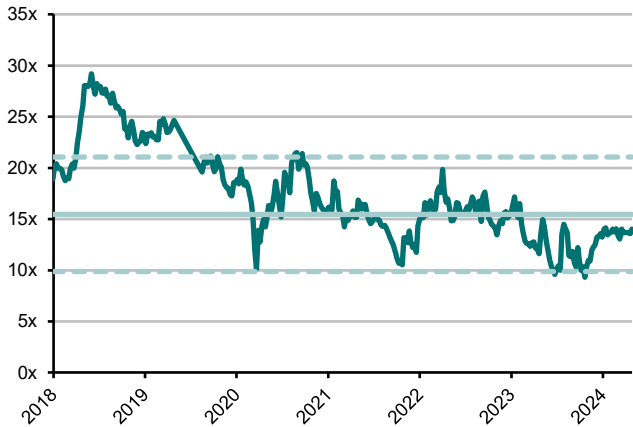
Source: Bloomberg

Figure 17: EV/EBITDA 12-month forward IAR Systems (2018–2024)



Source: Bloomberg

Figure 18: EV/EBIT 12-month forward IAR Systems (2018–2024)



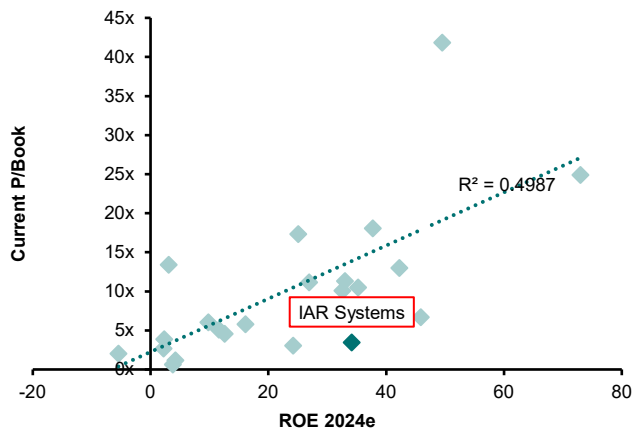
Source: Bloomberg

Figure 19: P/E 12-month forward IAR Systems (2018–2024)



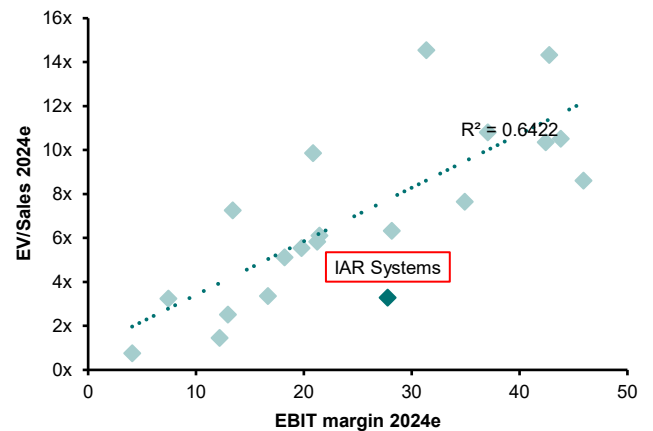
Source: Bloomberg

Figure 20: Current P/book versus ROE 2024e



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

Figure 21: EV/sales versus EBIT margin (2024e)



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

Figure 22: IAR Systems' valuation versus listed peers

	Mkt. cap.	P/E (x)			EV/EBIT (x)			EV/EBITDA (x)			EV/Sales (x)			2024 yield (%)		ROE (%)		EBIT margin		CAGR 2023-2025e (%)			
	(SEKbn)	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	DPS	FCF	2024e	2025e	2024e	2025e	Sales	EBIT	EPS	
IAR Systems (DNBe)	1.9	12	17	16	12	10	9	8	7	7	3	3	3	3.1	6.0	34	21	27.8	28.5	8	27		
Premium/discount		-81%	-62%	-49%	-62%	-86%	-64%	-68%	-84%	-69%	-58%	-57%	-55%										
IAR Systems (Cons.)	1.9	19	17	15	14	11	10	9	8	7	3	3	3	1.8	4.8	20	19	24.5	26.4	9	34	42	
Premium/discount		-69%	-62%	-49%	-56%	-85%	-61%	-67%	-84%	-68%	-56%	-53%	-48%										
Nordic software																							
Enea	1.1	11	10	8	12		7	4		3	2	1	1		13.2	4	5	12.2	13.3	1		-14	
Formpipe	1.6	26	17	14	21	14	10	11	9	7	3	3	2	2.4	4.4	24	17	13.0	17.4	8	49	68	
HMS Networks	19.7	41	29	25	33	26	22	26	21	18	6	5	5	1.1		16	17	18.2	21.1	14	6	4	
Invisio	10.9	39	34	28	29	24	20	25	21	18	6	6	5	0.9	1.8	33	31	21.4	24.2	20	31	34	
Karnov	6.6	17	14	13	43		15	13	10	8	3	3	3	0.8	4.7	2	8	7.4	13.8	3	47	27	
Lime Technologies	4.3	38	31	25	32	26	21	21	18	15	6	5	5	1.2	1.1	35	35	19.8	20.9	18	20	28	
Micro Systemation	0.9	16	13	11	11	9	7	9	7	6	2	2	2	4.5	7.3	46	45	16.8	18.2	9	19	16	
QT	20.1	36	26	20	27	20	15	23	17	13	8	6	5	0.0	2.9	33	32	28.4	30.8	21	34	34	
Upsales	0.6	32	26	21	24	19	15	16	14	12	4	3	3	3.9	2.9	73	98	16.7	17.8	7	-2	-1	
Vitec	18.7	45	39	33	31	28	25	17	16	15	6	6	5	0.7		12	12	21.3	21.7	12	10	14	
WithSecure	2.2		151	41		115	24	27	14	10	1	1	1	0.0		-5	0	-3.2	0.9	7			
Engineering software																							
Adobe	2 308.7	26	23	20	21	19	17	21	19	17	10	9	8	0.0	3.8	42	46	45.9	45.7	11	11	13	
Altium	61.3	73	56	45	56	43	34	50	39	32	17	15	12	1.3	0.8	25	30	31.4	34.0	20	23	23	
Andes	6.4	172	44	25		50	22	58	23	18	12	9	7	0.1	1.6	2	9	-1.8	18.3	34		321	
ANSYS	310.8	34	31	28	28			27			11	11	10	0.0	2.8	13	13	42.4	42.9	10	11	12	
Atlassian	560.2	76	63	49	55	44	32	51	41	31	12	10	8	0.0	2.1	50	50	21.1	21.8	20	28	32	
Autodesk	503.9	29	27	24	24	22	20	23	23	20	9	8	7	0.0	2.7	113	69	34.9	35.3	10	9	10	
Cadence	820.8	47	40	33	38	32	26	38	31	25	16	14	13	0.0	1.7	37	35	42.8	44.4	13	16	16	
Gitlab	96.8	434	235	121		898	134		557	122	14	11	9		0.1	3	7	-1.5	1.2	32			
Jfrog	47.7	68	57	48	66	47	34	55	60	27	9	7	6		1.9	10	12	13.4	15.2	22	53	26	
Materialise	3.3	32	20	13	18	10	6	6	4	3	1	1	1	0.0	2.9	4	6	4.1	6.2	7	54	46	
Microsoft	32 282.9	34	30	25	27	24	20	23	20	16	12	11	9	0.7	2.3	35	32	43.8	43.9	15	18	18	
Synopsys	880.2	39	34	29	33	27	24	34	29	24	12	11	9		1.6	27	25	37.1	38.5	12	18	18	
Average	1 650.9	62	46	30	31	75	25	26	47	21	8	7	6	0.9	3.1	28	28	21.1	23.8	14	24	35	
Median	19.7	37	31	25	28	26	20	23	20	17	8	6	5	0.7	2.5	25	25	19.8	21.1	12	19	18	

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

26 April 2024

Summary of positives

Attractive position in a structural growth niche

Sweden-based IAR Systems is a world-leading provider of commercial software tools and services for programming processors in embedded systems (computer hardware and software designed for a specific function) that enable the development and ensure the code quality of digital products. Its professional customers are mainly developers (22,000+ active technology users) at OEMs building these systems for products going into fields such as industrial automation, medical technology, telecommunication, consumer electronics, and the automotive industry. Although the niche for IAR Systems' addressable market is largely undefined, it has said it captures a ~40% market share for commercial tools. We note several prospects for the market to show a mid-to-high single-digit CAGR over the medium term: 1) a continued increase in the number (and complexity) of embedded systems driven by the growth of IoT; 2) demand for reliable and advanced software tools that offer faster time-to-market and a complete development platform; and 3) a lack of software developers, which increases demand for more powerful software-development tools.

Market dynamics benefiting the market leader

In our view, IAR Systems' key competitive advantages stem from: 1) its complete toolchain for product developers across 8-, 16-, 32-, and 64-bit processors; 2) its independence, which enables it to support a wide range of design architecture – customers can choose the programming environment and tools according to their own needs, regardless of processor or project, which avoids locking customers into one technical platform (a factor amplified by the global semiconductor shortage); and 3) superior industrial-quality, as its commercial customers cannot compromise on tools' code performance, reliability, user-friendliness, or time-to-market by using inferior technologies, such as open-source alternatives. IAR Systems' solutions create codes that are compact, fast, and stable.

96%+ gross margins ensure high level of scalability

Although IAR Systems' organic growth has averaged 1% in the past five years, we believe the company has a diversified set of growth opportunities that could support its 10–15%+ organic sales growth target in the medium term and an acceleration of its most promising new product launches: 1) migrating its existing 32-bit customers (~80% of 2021 sales) to 64-bit; 2) broader RISC-V adoption; and 3) IoT security taking off. With ~95% customer retention, we believe it could scale up with its existing customer base, which, in combination with 96%+ gross margins, could provide a highly scalable cost structure over the coming years that could add a tailwind to significant margin expansion with high cash conversion.

Early leader in two of the embedded industry's most prominent themes

In 2018, IAR Systems acquired Cambridge-based start-up Secure Thingz, which offers advanced security solutions focusing on IoT. Although we share the company's view about the potential to emerge as an early leader in the embedded systems security market, it has taken IAR Systems several years to find a way to commercially package its award-winning security technology (which led to a SEK116m write-down of intangible assets in 2021, and a SEK262m write-down in 2023). We expect broader adoption in the coming years from secure IP being seen as a business imperative and increasingly stringent security legislation. We are cautiously optimistic about recent customer agreements to provide secure coding in the manufacturing of IoT devices for Secure Thingz. Moreover, the RISC-V ecosystem is maturing (RISC-V foundation members have expanded fivefold since IAR Systems joined in 2018), setting the scene for a potential breakout. Semico and Tractica forecast a ~100% CAGR of RISC-V cores, reaching an estimated 62bn units in 2025 and a ~USD70m–80m RISC-V tools market for a 40%+ CAGR to 2025, of which IAR should gain a sizeable share.

26 April 2024

Summary of negatives

Possible shift in the competitive landscape

IAR Systems holds leading positions across most processor types, but it still faces a highly competitive environment, particularly from the independent supplier Green Hills Software and Arm's development tool, Kiel, we believe. In addition, the increasingly strategic nature of development tools for many industries could attract competition from disruptive innovators or free, open-source-based alternatives, which are gaining popularity, as younger generations of developers could be unwilling to pay for licences or be restricted to a single technology from one vendor.

Potential weakening of the Embedded Workbench community

According to Slashdata, there were 7.5m active software developers writing in the C/C++ language of the ~27m active developers globally in 2021. However, C++ is relatively hard to master. As developers often understand all aspects of a programming language, the difficulty of the language may affect the future number of C++ developers. We view this as a challenge, especially if we see a wider push from processor manufacturers and OEMs to provide developers with high-level tools that can abstract out the lower-level hardware and software in product development.

Product development could prove too costly and not materialise in sales growth

We believe IAR Systems was underinvested from 2015, which drove a considerable EBIT margin and ROCE expansion up to 30%+ given the inherent scalability of the business model. However, as organic growth abated, IAR Systems underwent the most comprehensive investment phase in its nearly 40-year history, investing SEK500m+ over the past five years in its security offering, 64-bit support, and RISC-V tools. We believe these investments have been the appropriate approach to provide building blocks to take the company to the next level. The pandemic has delayed project designs and, thus, customers committing to new investment decisions, but we have still seen few proof-points indicating that IAR Systems stands to reap the fruit of these investments. Its new management team made a SEK116m impairment of intangible development assets in Q4 2021.

One of the most FX-sensitive stocks on the OMX Stockholm exchange

Although >98% of sales are from markets outside Sweden, we estimate ~40% of the fixed-cost base is denominated in SEK; thus, the company is sensitive to fluctuations in this currency. If the SEK were to strengthen by ~10% against its most important currencies (USD, EUR and JPY) as well as the GBP and KRW, we estimate a ~10% FX headwind to sales and a ~40% headwind to 2024e EBIT.

SaaS transition still ahead for IAR Systems

We prefer subscription-based revenue models to traditional on-premises perpetual licence delivery models, as the SaaS models generates more predictable near-term revenue and cash flow, with, we believe, the potential to become more profitable longer-term. We believe it would make sense for IAR Systems to undergo such a transition in revenue mix to add visibility while potentially opening up for new customers that would not typically pay for its high-end licence products. However, such a transition would probably come at the expense of a short-term moderation in revenue growth and profitability (cloud revenue recognised over time versus perpetual upfront, in combination with increased investments to support cloud infrastructure).

Continued market consolidation among processor vendors

The ongoing consolidation trend among processor vendors could last longer than IAR Systems expects, which could continue to create market uncertainty and disrupt IAR Systems' partner network. We believe that a certain level of market fragmentation has been central to IAR Systems' competitiveness, as it has the broadest support in the market for different processor vendors and design architectures.

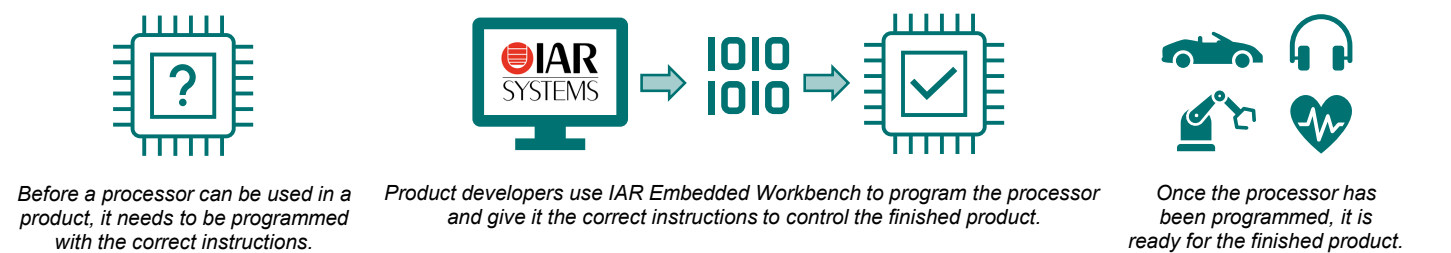
Business overview

Founded in 1983 by engineer Anders Rundgren, IAR Systems provides world-leading software for programming processors in embedded systems (computer systems designed to perform a dedicated function in a mechanical or electrical system). Its leading software tool chain – the IAR Embedded Workbench – facilitates, quality-assures, and improves the time-to-market of programming instructions in 8-, 16-, 32-, and 64-bit processors.

According to the company, individuals interact 30+ times a day with a product that is programmed by one of its loyal 46,000+ OEM customers (~95% recurring customers), or 150,000+ technology users found mainly in the automotive, industrial automation, medical technology, and consumer electronics industries such as Denso, Bosch, ABB, Continental, or Miele.

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

Figure 23: IAR Embedded Workbench in the customer's product development



Source: Company (underlying data), DNB Markets (graph structuring)

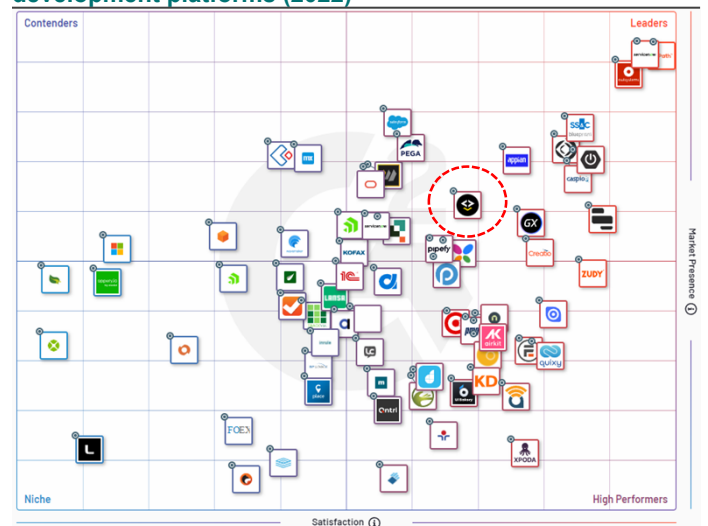
Headquartered in Uppsala, Sweden, IAR Systems has 200+ employees in 15 offices on three continents with technical support teams in its customers' local time zones in 10+ languages. Its independent software supports more than 14,000 processors from more than 70 vendors, more than any other supplier, meaning customers can choose the programming environment and tools according to their own needs regardless of processor or project. This avoids locking customers into one technical platform. Moreover, it can re-use 70–80% of previously developed code instead of rewriting it (saving time and resources).

Figure 24: Example of customers



Source: Company

Figure 25: Users view IAR Systems as a leader for low-code development platforms (2022)



Source: G2 Grid
Note: G2 scores products and sellers based on reviews gathered from its user community, as well as data aggregated from online sources and social networks; score is based on market presence and user satisfaction

With almost 40 years' experience in the embedded industry, IAR Systems has built long-standing relationships and an extensive partner network, including: 1) suppliers of processors and architectures (Arm, RISC-V, Renesas, STMicroelectronics, etc.); 2) industry organisations for coding standards, certification, security compliance (TÜV SÜD, CERT C, MISRA, IoT Security Foundation, etc.); 3) services vendors (cloud services vendors, programming

Long-standing embedded industry partnerships

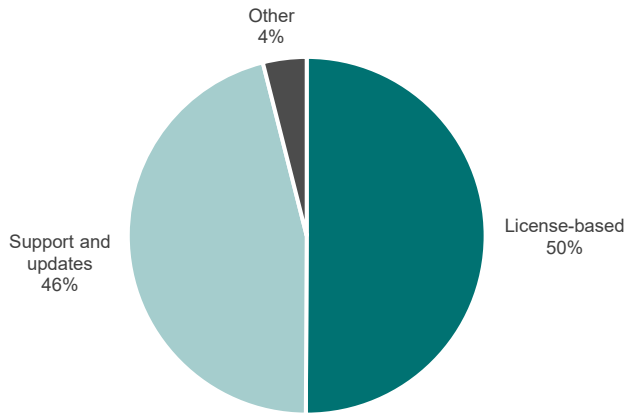
companies, etc.); and 4) suppliers of integrated programmes (real-time operating systems, graphics development, etc.).

IAR Systems' business model is primarily licence- and transaction-based, where customers (users, developers) pay upfront for a right-to-use licences (perpetual software keys) to access the software, while the customer can add support and updates for an annual cost of ~20% of the licence price. This means IAR Systems depends on selling new licences to facilitate growing net sales, we believe.

Perpetual licence-based business model with ~40% recurring revenues

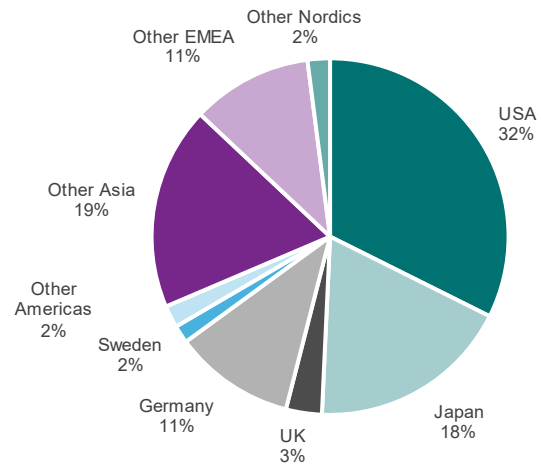
- **Development tools (~99% of 2023 net sales)** consist of IAR Embedded Workbench (8- to 64-bit) with world-leading code-optimisation technology, compiler, debugger probes and analysis tools (ensuring code quality and coding standards), functional safety certifications (pre-certified build tools), RISV-V architecture, and a Linux offering for continuous integration.
- **Security solutions (~1% of 2023 net sales)** consist of: 1) Embedded Trust, which enables the security specialist in an organisation to set security guidelines in accordance with company policy; 2) C-Trust, which makes it possible for developers to prepare encrypted code that automatically follows the prevailing security guidelines; and 3) Secure Desktop Provisioner, which helps OEM customers to securely programme products by giving each device a unique identity. The medium-term embedded security market opportunity with an 'out of the box' solution for mainstream MCUs appears likely to be beneficial for IAR, especially in device production as opposed to product development (royalty-based instead of licences). However, it will probably take time for security regulations and standards to significantly affect the marketplace.

Figure 26: Net sales by revenue stream (2023)



Source: Company

Figure 27: Geographical net sales split (2023)



Source: Company

26 April 2024

Forecast changes – P&L

(SEKm)	New			Old			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Revenues	500	540	575	494	530	565	6	10	10
Cost of sales	-13	-14	-14	-14	-14	-14	0	0	0
Gross profit	487	526	561	481	516	551	6	10	10
Operating expenses	-342	-365	-384	-349	-365	-384	7	0	0
EBITDA	197	218	234	186	208	224	11	10	10
EBITDA adj	205	226	242	194	216	232	11	10	10
EBITDA margin (%)	39.4	40.3	40.7	37.6	39.2	39.6	1.8	1.1	1.1
Depreciation	-30	-28	-28	-26	-28	-29	-3	0	0
Amortisation	-31	-36	-36	-34	-36	-36	4	0	0
EBIT	131	146	161	117	136	151	13	10	10
EBIT adj	139	154	169	125	144	159	14	10	10
Net financial items	17	-3	-3	-3	-3	-3	20	0	0
PBT	148	143	158	115	133	148	33	10	10
Taxes	8	-34	-37	-25	-32	-35	33	-2	-2
Net profit	156	109	121	90	101	113	67	8	8
Adjustments to net profit	8	8	8	8	8	8	0	0	0
Net profit adj	164	117	129	98	109	121	67	8	8
<i>Per share data (SEK)</i>									
EPS	11.52	7.97	8.84	6.56	7.39	8.25	4.95	0.58	0.58
EPS adj	12.03	8.56	9.42	7.15	7.98	8.84	4.88	0.58	0.58
DPS ordinary	4.21	2.99	3.30	2.50	2.79	3.09	1.71	0.20	0.20
DPS	4.21	2.99	3.30	2.50	2.79	3.09	1.71	0.20	0.20
<i>Other key metrics (%)</i>									
Revenue growth	8.5	8.0	6.5	7.2	7.2	6.6	1.2	0.8	-0.1
EBIT adj growth	45.5	10.9	9.9	31.3	14.8	10.5	14.2	-3.9	-0.6
EPS adj growth	134.7	-28.9	10.1	39.5	11.6	10.8	95.2	-40.5	-0.6
Avg. number of shares (m)	14	14	14	14	14	14	0	0	0
Capex	-59	-64	-65	-61	-64	-65	2	0	0
OpFCF	146	161	176	132	151	166	13	10	10
Working capital	-51	-50	-47	-54	-51	-48	3	1	1
NIBD adj	-215	-264	-341	-215	-278	-349	0	14	8

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Revenue									
Assumptions									
Revenue org. % YOY	9.48	7.28	6.46	9.12	6.99	6.59	0.36	0.29	-0.12
Currency impact % YOY	-1.03	0.74	0.00	-1.89	0.23	0.00	0.86	0.50	0.00

Source: DNB Markets

26 April 2024

Quarterly numbers

(SEKm)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024e	Q3 2024e	Q4 2024e	Q1 2025e	Q2 2025e
Revenues	111	109	109	117	126	120	121	126	133	133	130
Cost of sales	-4	-3	-3	-3	-4	-3	-3	-3	-3	-4	-3
Gross profit	107	105	106	114	122	117	118	122	130	130	127
Operating expenses	-91	-90	-86	-78	-86	-80	-86	-84	-92	-92	-90
EBITDA	32	25	31	43	45	47	46	52	52	51	51
Depreciation	-9	-7	-7	-7	-7	-10	-7	-7	-6	-7	-7
Amortisation	-7	-7	-13	-8	-294	-5	-9	-9	-9	-9	-9
EBIT	17	11	11	29	-256	32	29	35	35	34	33
Net financial items	-2	0	3	-4	2	5	5	4	3	-1	-1
PBT	15	12	14	25	-254	37	34	39	38	33	32
Taxes	0	-5	-8	-11	-2	32	-8	-9	-6	-8	-8
Net profit	15	6	6	14	-256	69	26	30	32	25	24
Adjustments to net profit	0	2	6	4	288	2	2	2	2	2	2
Net profit adj	15	8	12	18	32	71	28	32	34	27	26
Dividend paid	0	0	-21	0	0	0	-20	0	0	0	-57
Avg. number of shares (m)	14	14	14	14	14	14	14	14	14	14	14
<i>Per share data (SEK)</i>											
EPS	1.07	0.47	0.45	1.02	-18.79	5.12	1.88	2.18	2.33	1.84	1.78
EPS adj	1.07	0.59	0.89	1.29	2.35	5.19	2.03	2.33	2.48	1.99	1.92
DPS ordinary	0.00	0.00	1.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00	4.21
DPS	0.00	0.00	1.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00	4.21
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	4.3	-1.9	0.3	7.8	7.3	-5.0	1.3	3.7	5.8	0.2	-2.3
Revenues, YOY growth	20.9	10.5	1.2	10.7	13.8	10.2	11.4	7.1	5.6	11.4	7.4
EPS adj, YOY growth	-49.3	-26.9	-14.7	5.2	119.5	781.6	127.0	80.0	5.5	-61.7	-5.3
Gross margin	96.6	97.1	97.4	97.4	96.6	97.4	97.2	97.3	97.4	97.4	97.4
EBITDA adj margin	29.3	24.9	33.7	40.3	263.8	40.9	39.6	43.1	40.4	40.1	40.6
Depreciation/revenues	-7.9	-6.1	-6.0	-5.8	-5.2	-8.2	-5.6	-5.3	-4.8	-5.0	-5.5
EBIT adj margin	14.9	12.1	16.0	27.9	25.5	28.6	25.4	29.5	27.7	26.8	26.6
Net profit margin	13.2	5.9	5.6	11.9	nm	57.6	21.2	23.7	23.9	18.8	18.6

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

Adjustments to quarterly numbers

(SEKm)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024e	Q3 2024e	Q4 2024e	Q1 2025e	Q2 2025e
EBITDA	32	25	31	43	45	47	46	52	52	51	51
EBITDA adj	32	27	37	47	332	49	48	54	54	53	53
EBIT	17	11	11	29	-256	32	29	35	35	34	33
Other EBIT adjustments	0	-2	-6	-4	-288	-2	-2	-2	-2	-2	-2
EBIT adj	17	13	17	33	32	34	31	37	37	36	35
Net profit	15	6	6	14	-256	69	26	30	32	25	24
Other EBIT adjustments	0	-2	-6	-4	-288	-2	-2	-2	-2	-2	-2
Net profit adj	15	8	12	18	32	71	28	32	34	27	26

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

26 April 2024

Quarterly numbers by segment and assumptions

(SEKm)	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024e	Q3 2024e	Q4 2024e	Q1 2025e	Q2 2025e
Assumptions											
Revenue org. % YOY	6.88	4.53	-4.46	5.94	14.65	14.06	12.41	9.61	5.06	8.62	7.17
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	11.90	5.95	5.02	3.68	0.80	-3.01	-0.41	-1.54	0.66	2.80	0.27

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

Annual P&L

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenues	345	385	406	372	358	423	461	500	540	575
Cost of sales	-9	-9	-11	-14	-12	-13	-13	-13	-14	-14
Gross profit	337	376	395	358	346	410	448	487	526	561
Operating expenses	-209	-236	-249	-225	-307	-331	-340	-342	-365	-384
EBITDA	127	140	146	133	104	129	144	197	218	234
Depreciation	-2	-3	-13	-20	-20	-26	-26	-30	-28	-28
Amortisation	-17	-22	-25	-29	-152	-28	-322	-31	-36	-36
EBIT	107	116	108	84	-69	76	-204	131	146	161
Net financial items	-2	-2	-1	-7	0	-2	1	17	-3	-3
PBT	106	117	107	77	-69	74	-203	148	143	158
Taxes	-26	-26	-26	-17	1	-16	-26	8	-34	-37
Effective tax rate (%)	24	22	24	23	2	21	-13	-6	24	24
Net profit	80	91	81	59	-67	58	-229	156	109	121
Adjustments to net profit	0	3	0	0	134	-1	300	8	8	8
Net profit adj	80	94	81	59	67	57	71	164	117	129
Dividend paid	-63	-68	-68	0	0	0	-21	-20	-57	-41
Avg. number of shares	13	14	14	14	14	14	14	14	14	14
<i>Per share data (SEK)</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	11.52	7.97	8.84
EPS adj	6.33	6.67	5.96	4.36	4.90	4.17	5.12	12.03	8.56	9.42
DPS ordinary	5.00	5.00	3.00	0.00	0.00	1.50	1.50	4.21	2.99	3.30
DPS	5.00	5.00	3.00	0.00	0.00	1.50	1.50	4.21	2.99	3.30
<i>Growth and margins (%)</i>										
Revenue growth	5.1	11.7	5.3	-8.3	-3.8	18.1	9.0	8.5	8.0	6.5
EPS adj growth	2.6	5.3	-10.6	-26.8	12.5	-14.9	22.9	134.7	-28.9	10.1
Gross margin	97.5	97.7	97.3	96.2	96.6	97.0	97.1	97.3	97.5	97.6
EBITDA margin	36.9	36.4	35.9	35.7	29.0	30.5	31.2	39.4	40.3	40.7
EBITDA adj margin	36.9	37.2	35.9	35.7	66.5	30.3	96.2	41.0	41.8	42.0
Depreciation/revenues	-0.7	-0.7	-3.2	-5.5	-5.7	-6.0	-5.7	-5.9	-5.1	-4.9
EBIT margin	31.1	30.0	26.7	22.5	nm	17.9	nm	26.2	27.0	28.1
EBIT adj margin	31.1	30.8	26.7	22.5	18.4	17.7	20.7	27.8	28.5	29.4
PBT margin	30.6	30.4	26.4	20.6	nm	17.4	nm	29.6	26.4	27.5
Net profit margin	23.2	23.6	20.0	16.0	nm	13.7	nm	31.3	20.2	21.0

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

26 April 2024

Adjustments to annual P&L

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBITDA	127	140	146	133	104	129	144	197	218	234
EBITDA adj	127	143	146	133	238	128	443	205	226	242
EBIT	107	116	108	84	-69	76	-204	131	146	161
Other EBIT adjustments	0	-3	0	0	-134	1	-300	-8	-8	-8
EBIT adj	107	119	108	84	66	75	95	139	154	169
Net profit	80	91	81	59	-67	58	-229	156	109	121
Other EBIT adjustments	0	-3	0	0	-134	1	-300	-8	-8	-8
Net profit adj	80	94	81	59	67	57	71	164	117	129
<i>Per share data (SEK)</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	11.52	7.97	8.84
Recommended adjustment	0.00	0.00	0.00	0.00	9.85	-0.07	21.97	0.51	0.59	0.59
EPS adj	6.33	6.67	5.96	4.36	4.90	4.17	5.12	12.03	8.56	9.42

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

Cash flow

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net profit	80	91	81	59	-67	58	-229	156	109	121
Depreciation and amortisation	20	25	37	49	172	53	348	60	64	64
Cash flow from operations (CFO)	124	93	106	118	132	128	144	172	171	182
Capital expenditure	-19	-47	-84	-81	-74	-60	-42	-59	-64	-65
Acquisitions/Investments	0	-171	-19	0	0	0	0	0	0	0
Divestments	0	0	0	0	0	0	1	0	0	0
Cash flow from investing (CFI)	-38	-218	-102	-81	-74	-60	-43	-59	-64	-65
Free cash flow (FCF)	86	-125	4	37	58	68	101	113	107	117
Net change in debt	0	0	30	6	1	1	0	0	0	0
Dividends paid	-63	-68	-68	0	0	0	-21	-20	-57	-41
Share issue (repurchase)	0	172	0	0	0	0	0	0	0	0
Other	0	4	-14	-30	-16	-40	-29	-40	-20	-20
Cash flow from financing (CFF)	-63	108	-52	-25	-15	-40	-49	-60	-77	-61
Total cash flow (CFO+CFI+CFF)	23	-17	-49	12	42	29	52	52	29	56
<i>FCFF calculation</i>										
Free cash flow	86	-125	4	37	58	68	101	113	107	117
Less: acquisitions	0	171	19	0	0	0	0	0	0	0
Less: divestments	0	0	0	0	0	0	-1	0	0	0
Growth (%)										
CFO	8.5	-25.3	14.1	12.0	11.1	-2.7	12.5	19.3	-0.3	6.4
CFI	-98.9	-478.5	53.0	20.4	9.0	19.6	28.7	-39.3	-8.7	-1.4
FCF	-9.4	-244.7	102.8	957.1	55.4	19.0	48.4	10.9	-5.0	9.4
CFF	28.5	270.4	-148.3	52.7	38.6	-162.3	-24.0	-22.4	-29.0	21.4

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

26 April 2024

Balance sheet

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Assets	410	722	825	834	813	922	700	758	780	831
Inventories	5	7	7	6	10	11	10	10	10	9
Trade receivables	51	63	67	59	59	67	78	65	59	56
Other receivables	12	38	52	64	44	34	40	31	29	27
Cash and cash equivalents	120	106	61	68	113	148	197	252	281	337
Current assets	187	214	186	196	226	260	325	358	379	429
Property, plant and equipment	6	9	7	8	15	17	16	16	17	17
Other intangible assets	194	484	624	624	567	639	348	353	353	353
Deferred tax assets	3	13	5	4	3	3	7	28	28	28
Non-current financial assets	20	2	2	3	3	4	3	3	3	3
Non-current assets	223	508	639	638	587	663	375	401	401	402
Total assets	410	722	825	834	813	922	700	758	780	831
Equity and liabilities	410	722	825	834	813	922	700	758	780	831
Total equity	290	550	592	613	585	667	423	539	591	671
Trade payables	6	7	9	5	9	8	7	7	6	6
Other payables and accruals	86	131	117	111	133	146	174	150	141	133
Short-term debt	1	0	25	18	18	0	0	0	0	0
Total current liabilities	102	140	164	150	179	173	198	177	167	159
Long-term debt	2	1	41	32	20	50	35	17	-3	-23
Deferred tax liabilities	14	30	27	37	28	30	43	23	23	23
Other non-current liabilities	2	2	1	1	1	2	2	2	2	2
Total non-current liabilities	17	32	69	70	49	82	79	42	22	2
Total liabilities	120	172	233	220	228	255	277	219	189	161
Total equity and liabilities	410	722	825	834	813	922	700	758	780	831
<i>Key metrics</i>										
Net interest bearing debt	-117	-103	18	-2	-57	-79	-146	-215	-264	-341

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

26 April 2024

Valuation ratios

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<i>Enterprise value</i>										
Share price (SEK)	189.00	243.00	186.00	139.80	117.80	150.40	123.80	137.00	137.00	137.00
Number of shares (m)	12.63	13.62	13.63	13.63	13.63	13.65	13.66	13.66	13.66	13.66
Market capitalisation	2,387	3,310	2,535	1,905	1,606	2,053	1,691	1,871	1,871	1,871
Net interest bearing debt	-117	-103	18	-2	-57	-79	-146	-215	-264	-341
Net interest bearing debt adj	-117	-103	18	-2	-57	-79	-146	-215	-264	-341
EV	2,270	3,206	2,554	1,904	1,548	1,974	1,545	1,656	1,607	1,531
EV adj	2,270	3,206	2,554	1,904	1,548	1,974	1,545	1,656	1,607	1,531
<i>Valuation</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	11.52	7.97	8.84
EPS adj	6.33	6.67	5.96	4.36	4.90	4.17	5.12	12.03	8.56	9.42
DPS ordinary	5.00	5.00	3.00	0.00	0.00	1.50	1.50	4.21	2.99	3.30
DPS	5.00	5.00	3.00	0.00	0.00	1.50	1.50	4.21	2.99	3.30
P/E	29.8	36.4	31.2	32.1	-23.8	35.5	-7.3	11.9	17.2	15.5
P/E adj	29.8	36.4	31.2	32.1	24.0	36.1	24.2	11.4	16.0	14.5
P/B	8.22	6.02	4.28	3.11	2.74	3.08	3.99	3.47	3.17	2.79
Average ROE	28.1%	21.6%	14.2%	9.9%	-11.2%	9.2%	-42.0%	32.5%	19.3%	19.1%
Earnings yield adj	3.4%	2.7%	3.2%	3.1%	4.2%	2.8%	4.1%	8.8%	6.2%	6.9%
Dividend yield	2.6%	2.1%	1.6%	0.0%	0.0%	1.0%	1.2%	3.1%	2.2%	2.4%
Free cash flow yield	3.6%	-3.8%	0.1%	1.9%	3.6%	3.3%	6.0%	6.0%	5.7%	6.3%
EV/SALES	6.58	8.32	6.30	5.12	4.32	4.67	3.35	3.31	2.98	2.66
EV/SALES adj	6.58	8.32	6.30	5.12	4.32	4.67	3.35	3.31	2.98	2.66
EV/EBITDA	17.8	22.9	17.5	14.3	14.9	15.3	10.8	8.4	7.4	6.6
EV/EBITDA adj	17.8	22.4	17.5	14.3	6.5	15.4	3.5	8.1	7.1	6.3
EV/EBIT	21.1	27.7	23.6	22.7	-22.6	26.1	-7.6	12.7	11.0	9.5
EV/EBIT adj	21.1	27.0	23.6	22.7	23.6	26.4	16.2	11.9	10.4	9.0
EV/capital employed	7.8	5.8	3.8	2.8	2.4	2.7	3.3	2.9	2.6	2.3
EV/NOPLAT	27.1	35.6	30.2	29.1	-29.0	33.4	-9.7	16.2	14.1	12.2
EV/OpFCF (taxed)	26.8	45.6	66.6	57.9	10.4	37.9	4.1	14.4	12.6	11.0

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

26 April 2024

Key accounting ratios

	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<i>Profitability (%)</i>										
ROA	19.9	16.0	10.5	7.2	-8.2	6.7	-28.2	21.4	14.2	15.0
ROCE	37.4	28.1	17.7	12.4	9.9	10.9	15.8	26.4	26.0	26.5
ROCE after tax	29.1	21.9	13.8	9.7	7.8	8.5	12.3	20.6	20.3	20.7
<i>Return on invested capital (%)</i>										
Net PPE/revenues	1.8	2.3	1.8	2.0	4.1	3.9	3.4	3.2	3.1	3.0
Working capital/revenues	-6.9	-7.8	-0.2	3.4	-8.3	-10.1	-11.5	-10.3	-9.3	-8.2
<i>Cash flow ratios (%)</i>										
FCF/revenues	25.0	-32.4	0.9	9.9	16.1	16.2	22.0	22.5	19.8	20.4
FCF yield (%)	3.6	1.4	0.9	1.9	3.6	3.3	6.0	6.0	5.7	6.3
CFO/revenues	35.9	24.0	26.1	31.8	36.8	30.3	31.2	34.4	31.7	31.7
CFO/market capitalisation	5.2	2.8	4.2	6.2	8.2	6.2	8.5	9.2	9.2	9.7
CFO/capex	652.1	197.9	126.4	145.5	177.6	214.8	341.2	290.1	266.2	279.4
CFO/current liabilities	121.1	66.2	64.4	78.9	73.7	73.9	72.9	97.2	102.5	114.9
Cash conversion ratio	107.9	-137.6	4.3	62.3	-85.3	118.3	-44.3	72.0	98.2	96.9
Capex/revenues	5.5	12.1	20.6	21.9	20.7	14.1	9.2	11.8	11.9	11.3
Capex/depreciation	791.7	1800.0	648.1	401.0	363.2	233.7	159.8	199.3	233.0	229.5
OpFCF margin	31.4	25.1	15.3	13.8	45.8	16.2	87.0	29.2	29.9	30.7
Total payout ratio	78.9	75.0	50.4	0.0	0.0	35.4	-8.9	36.5	37.6	37.3
<i>Leverage and solvency (x)</i>										
Net debt/EBITDA	-0.92	-0.74	0.13	-0.01	-0.55	-0.61	-1.01	-1.09	-1.21	-1.46
Total debt/total capital (BV)	0.01	0.00	0.08	0.06	0.05	0.05	0.05	0.02	0.00	-0.03
LTD / (LTD + equity (MV))	0.00	0.00	0.02	0.02	0.01	0.02	0.02	0.01	0.00	-0.01
<i>Cash conversion cycle</i>										
Inventory turnover days	223.3	267.7	223.1	147.6	289.0	322.2	264.2	281.4	256.4	241.6
Receivables turnover days	66.2	96.1	106.8	120.2	104.7	86.5	93.6	69.9	59.4	52.6
Credit period	244.8	296.1	310.9	129.4	279.8	239.5	182.5	187.6	171.0	161.1
Cash conversion cycle	44.8	67.7	18.9	138.3	113.8	169.2	175.3	163.7	144.9	133.1

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

26 April 2024

Important Information

Company: IAR Systems
 Coverage by Analyst: Joachim Gunell
 Date: 26/04/2024

This report has been prepared by DNB Markets, a division of DNB Bank ASA. DNB Bank ASA is a part of the DNB Group. This report is based on information obtained from public sources that DNB Markets believes to be reliable but which DNB Markets has not independently verified, and DNB Markets makes no guarantee, representation or warranty as to its accuracy or completeness. This report does not, and does not attempt to, contain everything material which there is to be said about the Company. Any opinions expressed herein reflect DNB Markets' judgement at the time the report was prepared and are subject to change without notice. The report is planned updated minimum every quarter.

Any use of non-DNB logos in this report is solely for the purpose of assisting in identifying the relevant issuer. DNB is not affiliated with any such issuer.

This report is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets, a division of DNB Bank ASA.

This report is the property of DNB Markets. DNB Markets retains all intellectual property rights (including, but not limited to, copyright) relating to the report. Sell-side investment firms are not allowed any commercial use (including, but not limited to, reproduction and redistribution) of the report contents, either partially or in full, without DNB Markets' explicit and prior written consent. However, buy-side investment firms may use the report when making investment decisions, and may also base investment advice given to clients on the report. Such use is dependent on the buy-side investment firm citing DNB Markets as the source.

Risk warning – generally high risk

The risk of investing in financial instruments is generally high. Past performance is not a reliable indicator of future performance, and estimates of future performance are based on assumptions that may not be realised. When investing in financial instruments, the value of the investment may increase or decrease, and the investor may lose all or part of their investment. Careful consideration of possible financial distress should be made before investing in any financial instrument.

Conflict of interest

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.

Readers should assume that DNB Markets may currently or may in the coming three months and beyond be providing or seeking to provide confidential investment banking services or other services to the company, and may receive compensation for these services.

Share positions in the company:	Analyst*	Employees**	DNB***
Number of shares	0	0	0

*The analyst or any close associates. **Share positions include people involved in the production of credit and equity research, including people that could reasonably be expected to have access to it before distribution.

***Share positions as part of DNB Group. Holdings as part of DNB Markets investment services activity are not included.

Recommendation distribution and corporate clients for the last 12 months

	Buy	Hold	Sell	No_rec	Total
Number	207	87	26	35	355
% of total	58%	25%	7%	10%	
DNB Markets client	28%	10%	3%	3%	153

26 April 2024

Legal statement

This Report is a research report within the meaning of Regulation (EU) NO 596/2014 on market abuse (Market Abuse Regulation), and has been prepared in accordance with rules set out in relevant industry standards issued by The Norwegian Securities Dealers Association. This Report has been prepared as general information and is therefore not intended as a personal recommendation of particular financial instruments or strategies, and does not constitute personal investment advice as defined in the Norwegian securities trading act (Norwegian verdipapirhandeloven).

The analyst hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report. DNB Markets employees, including research analysts, may receive compensation that is generated by overall firm profitability. Confidentiality rules and internal rules restricting the exchange of information between different parts of DNB Markets/DNB Bank ASA or the DNB Group are in place to prevent employees of DNB Markets who are preparing this report from utilizing or being aware of information available in the DNB Group that may be relevant to the recipients' decisions. DNB Markets and the DNB Group have incorporated internal rules and regulations in order to avoid any potential conflicts of interest.

The Report has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway and under supervision by the Norwegian Financial Supervisory Authority, The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request.

It is issued subject to the General Business Terms for DNB Markets and information about the terms is available at www.dnb.no. For requests regarding the General Business Terms of the Singapore Branch of DNB Bank ASA, please contact +65 6212 6144. Information about the DNB Group can be found at www.dnb.no. DNB Markets is a member of The Norwegian Securities Dealers Association, which has issued recommendations and market standards for securities companies. The Association's Internet address where the recommendations and market standards can be found is: www.vpff.no. This report is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. No liability whatsoever is accepted for any direct or indirect (including consequential) loss or expense arising from the use of this report. Distribution of research reports is in certain jurisdictions restricted by law. Persons in possession of this report should seek further guidance regarding such restrictions before distributing this report. Please contact DNB Markets at 08940 (+47 915 08940) for further information and inquiries regarding this report.

Additional information for clients in Singapore

The report has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the report, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product. You have received a copy of the report because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities. Please contact the Singapore branch of DNB Bank ASA at +65 6212 6144 in respect of any matters arising from, or in connection with, the report. The report is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144. We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the report by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the report.

In the United States

Each research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report; and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

The research analyst(s) named on this report are foreign research analysts as defined by FINRA Rule 1050. The only affiliate contributing to this research report is DNB Bank through its DNB Markets division ("DNB Markets/DNB Bank"); the foreign research analysts employed by DNB Markets/DNB Bank are named on the first page; the foreign research analysts are not registered/qualified as research analysts with FINRA; foreign research analysts are not associated persons of DNB Markets, Inc. and therefore are not subject to the restrictions set forth in FINRA Rules 2241 and 2242 regarding restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

This is a Third Party Research Report as defined by FINRA Rules 2241 and 2242. Any material conflict of interest that can reasonably be expected to have influenced the choice of DNB Markets/DNB Bank as a research provider or the subject company of a DNB Markets/DNB Bank research report, including the disclosures required by FINRA Rules 2241 and 2242 can be found above.

This report is being furnished solely to Major U.S. Institutional Investors within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934 and to such other U.S. Institutional Investors as DNB Markets, Inc. may determine. Distribution to non-Major U.S. Institutional Investors will be made only by DNB Markets, Inc., a separately incorporated subsidiary of DNB Bank that is a U.S. broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

Any U.S. recipient of this report seeking to obtain additional information or to effect any transaction in any security discussed herein or any related instrument or investment should contact DNB Markets, Inc., 30 Hudson Yards, 81st Floor, New York, NY 10001, telephone number +1 212-551-9800.

In Canada

The Information has been distributed in reliance on the International Dealer Exemption pursuant to NI 31-103 section 8.18. Please be advised that: 1) DNB Bank ASA (DNB Markets) and DNB Markets, Inc. are not registered as a dealer in the local jurisdiction to make the trade. We provide our services in Canada as an exempt international dealer. 2) The jurisdiction of DNB Bank ASA (DNB Markets) and DNB Markets, Inc.'s head office is Norway. 3) There may be difficulty enforcing legal rights against DNB Bank ASA (DNB Markets) and DNB Markets, Inc. because all or substantially all of their assets may be situated outside of Canada. 4) The name and address of the agent for service of process for DNB Bank ASA (DNB Markets) and DNB Markets, Inc. in the local jurisdiction is: Alberta: Blake, Cassels & Graydon LLP, 855 - 2nd Street S.W., Suite 3500, Bankers Hall East Tower, Calgary, AB T2P 4J8. British Columbia: Blakes Vancouver Services Inc., 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3. Manitoba: MLT Aikins, 30th Floor, Commodity Exchange Tower, 360 Main Street, Winnipeg, MB R3C 4G1. New Brunswick: Stewart McKelvey, Suite 1000, Brunswick House, 44 Chipman Hill, PO Box 7289, Station A, Saint John, NB E2L 2A9. Newfoundland and Labrador: Stewart McKelvey, Suite 1100, Cabot Place, 100 New Gower Street, P.O. Box 5038, St. John's, NL A1C 5V3. Nova Scotia: Stewart McKelvey, Purdy's Wharf Tower One, 1959 Upper Water Street, Suite 900, P.O. Box 997, Halifax, NS B3J 2X2. Northwest Territories: Field LLP, 601, 4920 52nd Street, Yellowknife, NT X1A 3T1. Nunavut: Field LLP, P.O. Box 1734, House 2436, Iqaluit, NU X0A 0H0. Ontario: Blakes Extra-Provincial Services Inc., Suite 4000, 199 Bay Street, Toronto, ON M5L 1A9. Prince Edward Island: Stewart McKelvey, 65 Grafton Street, Charlottetown, PE C1A 1K8. Québec: Services Blakes Québec Inc., 1 Place Ville Marie, Suite 3000, Montréal, QC H3B 4N8. Saskatchewan: MLT Aikins, 1500 Hill Centre I, 1874 Scarth Street, Regina, SK S4P 4E9. Yukon: Macdonald & Company, Suite 200, Financial Plaza, 204 Lambert Street, Whitehorse, YK Y1A 3T2.

In Brazil

The analyst or any close associates do not hold nor do they have any direct/indirect involvement in the acquisition, sale, or intermediation of the securities discussed herein. Any financial interests, not disclosed above, that the analyst or any close associates holds in the issuer discussed in the report is limited to investment funds that do not mainly invest in the issuer or industry discussed in the report and the management of which these persons cannot influence.