

IAR SYSTEMS

Momentum hit pause

Softening macro has squeezed IT software spend and organic growth at IAR Systems and its peers. Short-term, we expect muted earnings momentum, but are optimistic for its SaaS launch in 2025e and note subscriptions represented 11% of net sales in 9M 2024, growing by 176% YOY. Having lowered our estimates, we reiterate our SEK160–240 fair value as we roll our valuation base to 2025e and see support from, among other things, further buybacks and recent insider activity.

Q3 was light, with 1% organic sales growth YOY (we expected 11%) as recurring revenues (~50% of sales) showed healthy 10% organic growth YOY, largely offset by -7% organic growth in upfront licences amid softening end-markets and a tough YOY comparable. Despite ~50% higher capitalisation of R&D than in recent quarters, the adj. drop through was 30% in Q3 versus 100%+ in previous quarters, which led to adj. EBIT 6% below our forecast (28.1% margin, down 0.1%-point YOY). 36% cash conversion (10.2% FCF margin) resulted in net cash of SEK115m at end-Q3; while IAR Systems has bought back shares worth SEK76m since Q3 2023 it has only utilised 7% of its current buyback mandate.

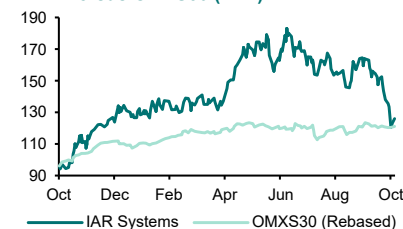
We have cut our 2024e adj. EBIT by 11%, 2025e by 6% and 2026e by 3% to factor in positive FX, the soft Q3 results and Q4 outlook. We await greater clarity on IAR Systems' SaaS launch in 2025e, although we expect an optical headwind to net sales growth, pressuring profitability. However, investors to ultimately appreciate the transition medium-term from: 1) more predictable (less lumpy = de-risked growth), recurring and ultimately profitable revenue streams; and 2) enabling faster customer expansion and user adoption by lowering the upfront cost of deployment.

SEK160–240 fair value reiterated corresponding to a 2025e EV/EBIT of 15–23x. We like IAR Systems' progress to becoming a platform business, profitable growth and solid adj. net cash position (10% of its 2024e market cap), offering prospects of generous capital allocations; the defensive qualities of c50% of revenues being recurring; the optionality in 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	471	513	555
EBITDA adj (SEKm)	133	238	128	443	174	204	226
EBIT adj (SEKm)	84	66	75	95	116	135	156
PTP (SEKm)	77	-69	74	-203	110	120	140
EPS rep (SEK)	4.36	-4.94	4.23	-16.85	8.60	6.82	8.05
EPS adj (SEK)	4.36	4.90	4.17	5.12	9.44	7.74	8.96
DPS (SEK)	0.00	0.00	1.50	1.50	3.30	2.71	3.14
Revenue growth (%)	-8.3	-3.8	18.1	9.0	2.2	8.9	8.2
EBITDA growth adj (%)	-9.0	79.4	-46.2	246.1	-60.9	17.4	11.1
EPS growth adj (%)	-26.8	12.5	-14.9	22.9	84.2	-18.0	15.8
EBITDA margin adj (%)	35.7	66.5	30.3	96.2	36.9	39.7	40.8
EV/Sales adj (x)	5.12	4.32	4.67	3.35	3.25	2.88	2.53
EV/EBITDA adj (x)	14.3	6.5	15.4	3.5	8.8	7.2	6.2
EV/EBIT adj (x)	22.7	23.6	26.4	16.2	13.2	10.9	9.0
P/E adj (x)	32.1	24.0	36.1	24.2	13.3	16.3	14.1
P/Book (x)	3.11	2.74	3.08	3.99	3.59	3.26	2.87
ROE (%)	9.9	nm	9.2	nm	26.0	18.5	19.5
ROCE (%)	12.4	9.9	10.9	15.8	23.7	26.3	27.7
Dividend yield (%)	0.0	0.0	1.0	1.2	2.6	2.1	2.5
FCF yield (%)	1.9	3.6	3.3	6.0	4.4	5.8	6.5

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

IARB versus OMXS30 (12m)



Source: FactSet

SUMMARY

Share price (SEK)	126
Tickers	IARB SS

CAPITAL STRUCTURE

No. of shares (m)	13.2
No. of shares fully dil. (m)	13.5
Market cap. (SEKm)	1,661
NIBD adj end-2024e (SEKm)	-132
Enterprise value adj (SEKm)	1,529
Net debt/EBITDA adj (x)	-0.76
Free float (%)	100

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q3 2024	24/10/2024
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ESTIMATE CHANGES (SEKm), (SEK)

Year-end Dec	2024e	2025e	2026e
Sales (old)	498.1	533.4	568.3
Sales (new)	471.0	512.9	554.8
Change (%)	-5.4	-3.8	-2.4
EPS adj (old)	10.96	8.20	9.20
EPS adj (new)	9.44	7.74	8.96
Change (%)	-13.9	-5.6	-2.6

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

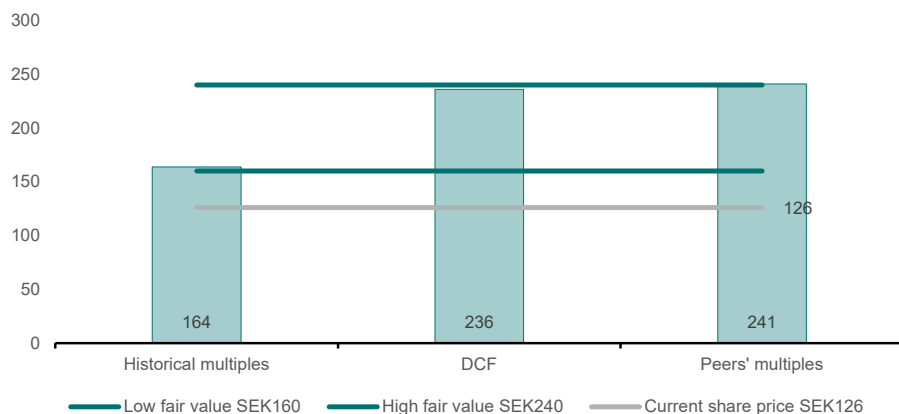
ANALYST

Joachim Gunell

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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 Systems' management team has taken the necessary steps to modernise the business over the past two years. We believe IAR Systems 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' multiples regression analysis (methodology unchanged).
- On our estimates, IAR Systems is trading at a 2025–2026e P/E of 16–14x, EV/EBIT of 11–9x, and EV/sales of 2.9–2.5x.

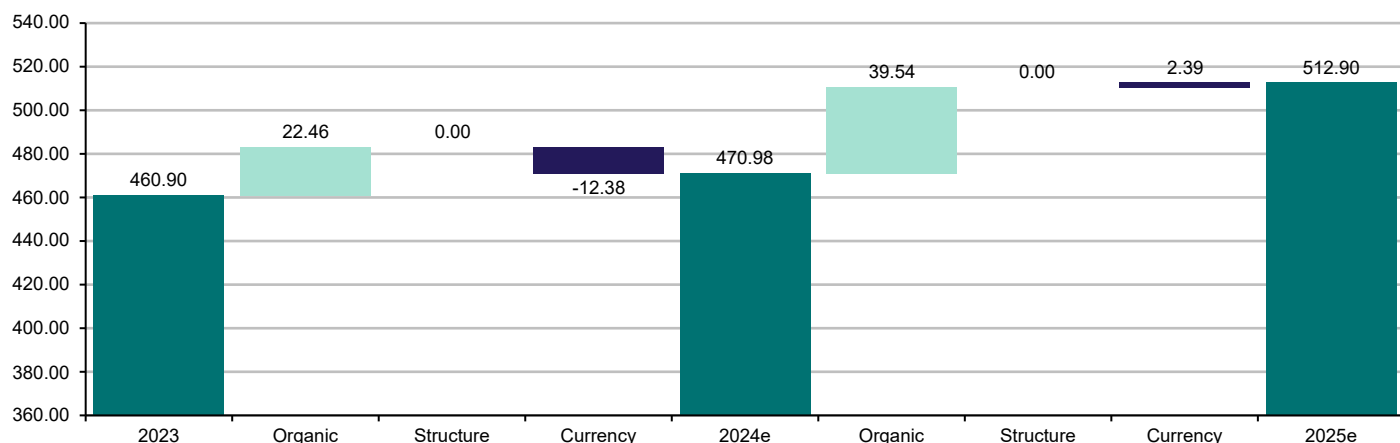
Source: DNB Markets

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)

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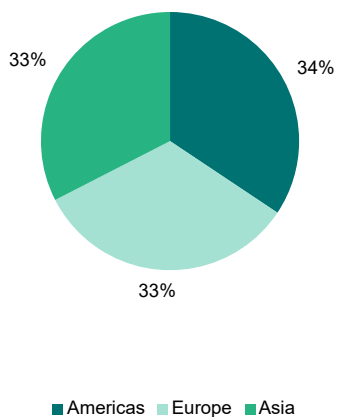
Company overview and SWOT analysis

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.

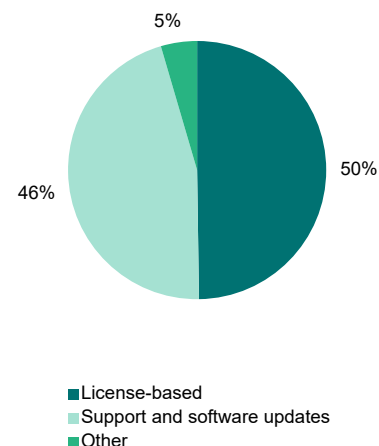
Source: DNB Markets

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 – 9.8%.
- Andra AP-fonden – 9.3%.
- Avanza Pension – 6.7%.
- IAR Systems – 6.2%.

Source: Company

SWOT analysis

Strengths

- Niche-market leader with ~40% market share for commercial tools through 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 Systems' 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 Systems 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.

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Q3 results

Figure 1: Q3 results versus expectations

Key highlights (SEKm, except per share data)	Q3'24		Deviation	Deviation	Q3'23	DNBe
	Actual	DNB	(%)	Absolute	Actual	2024e
Net sales	112.3	125.2	-10%	-13	116.3	471.0
Gross profit	109.7	121.8	-10%	-12	114.3	459.3
Gross margin	97.7%	97.3%	0.4pp		98.3%	97.5%
One-offs	-5.3	-2.5		-3	-3.9	-12.9
EBITDA adj.	39.9	48.7	-18%	-9	43.4	160.7
EBITDA adj. margin	35.5%	38.9%	-3.4pp		37.3%	34.1%
EBIT	26.3	31.1	-16%	-5	28.9	115.5
EBIT margin	23.4%	24.9%	-1.4pp		24.8%	24.5%
EBIT adj.	31.6	33.6	-6%	-2	32.8	115.5
EBIT adj. margin	28.1%	26.9%	1.3pp		28.2%	24.5%
EPS	1.04	2.00	-48%	-0.96	1.02	8.60
Adj. FCF (CFO - capex)	11.5	30.1	-62%	-19	39.9	73.2
Cash conversion	36%	89%	-53pp		122%	63%
Rule of 40 (EBIT)	24.7%	33.5%	-8.8pp		38.6%	26.7%
Revenue growth YOY	-3.4%	7.6%	-11.1pp		9.6%	2.2%
Organic	0.9%	11.0%	-10pp		5.9%	4.9%
Structural	0.0%	0.0%	0pp		0.0%	0.0%
FX	-4.4%	-3.4%	-1pp		3.7%	-2.7%
Segment (SEKm)	Q3'24		Deviation	Deviation	Q3'23	DNBe
	Actual	DNB	(%)	Absolute	Actual	2024e
Net sales						
License-based	44.1	61.9	-29%	-18	55.8	232.9
Support and softw are updates	58.2	59.3	-2%	-1	55.2	224.8
Other	10.0	4.0	150%	6	5.3	13.3
Total	112.3	125.2	-10%	-13	116.3	471.0
Net sales growth						
License-based	-21.0%	10.9%	-31.9pp		-1%	2%
Support and softw are updates	5.4%	7.5%	-2pp		24%	7%
Other					-4%	-27%
Total	-3.4%	7.7%	-11.1pp		10%	2%

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

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Estimate revisions

Figure 2: Estimate changes

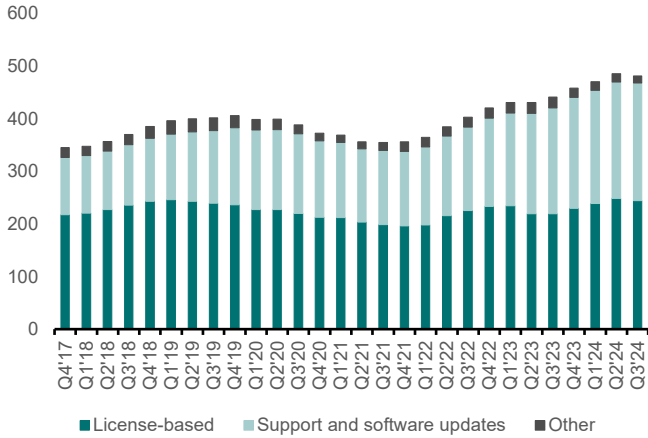
(SEKm, except per share data)	Old			New			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Net sales	498	533	568	471	513	555	-5%	-4%	-2%
Growth YOY, of which	8.1%	7.1%	6.5%	2.2%	8.9%	8.2%	-588bp	181bp	163bp
Organic	10.7%	7.8%	6.5%	4.9%	8.4%	8.2%	-582bp	56bp	163bp
Structural	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
FX	-2.6%	-0.7%	0.0%	-2.7%	0.5%	0.0%	-5bp	125bp	0bp
Gross profit	485	520	555	459	500	542	-5%	-4%	-2%
Gross margin	97.4%	97.4%	97.6%	97.5%	97.4%	97.6%	9bp	1bp	5bp
EBITDA	183	206	224	161	192	214	-12%	-7%	-4%
IAC	-10	-10	-10	-13	-12	-12	34%	20%	20%
Adj. EBITDA	192	216	234	174	204	226	-10%	-6%	-3%
Depreciation and amortisation	-58	-62	-63	-55	-57	-59	-5%	-8%	-6%
EBIT	120	134	151	103	123	144	-14%	-8%	-5%
Adj. EBIT	130	144	161	116	135	156	-11%	-6%	-3%
Adj. EBIT margin	26.0%	27.0%	28.4%	24.5%	26.3%	28.0%	-149bp	-72bp	-33bp
Capitalised development costs (CDC)	44	53	55	48	54	52	10%	2%	-6%
EBIT excl. CDC	17.2%	17.1%	18.7%	14.3%	15.7%	18.7%	-291bp	-131bp	5bp
Adj. Net profit	148	109	122	128	102	118	-14%	-7%	-4%
Adj. EPS (diluted)	10.96	8.20	9.20	9.44	7.74	8.96	-14%	-6%	-3%
DPS	3.84	2.87	3.22	3.30	2.71	3.14	-14%	-6%	-3%
Net sales by product type									
License-based	254	272	294	233	254	278	-8%	-7%	-6%
Support and software updates	229	242	254	225	244	261	-2%	1%	3%
Other	15	19	20	13	15	16	-13%	-20%	-19%
Total	498	533	568	471	513	555	-5%	-4%	-2%
Balance sheet and cash flow									
Adj. FCF	104	103	112	73	97	108	-29%	-6%	-4%
Cash	210	241	315	169	203	275	-19%	-16%	-13%
Net cash (-) / net debt (+)	-173	-225	-298	-132	-185	-257	-24%	-18%	-14%

Source: DNB Markets

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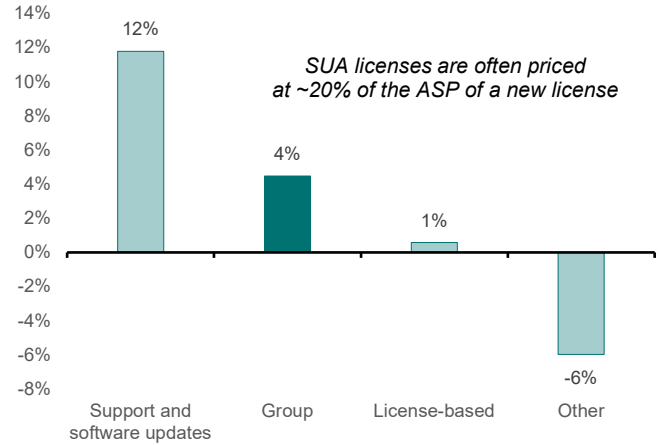
Key charts

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



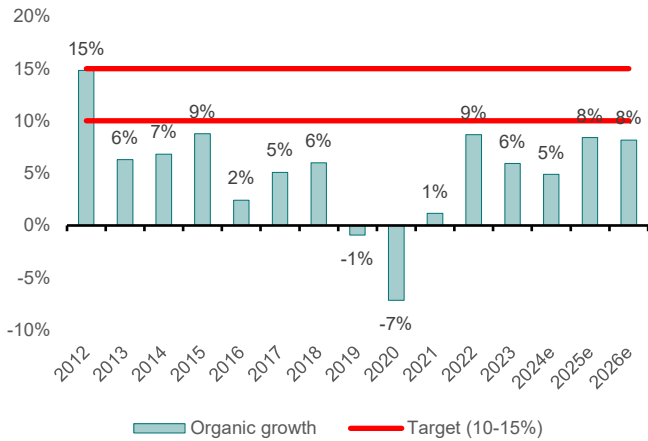
Source: Company (historical data), DNB Markets (further calculations)

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



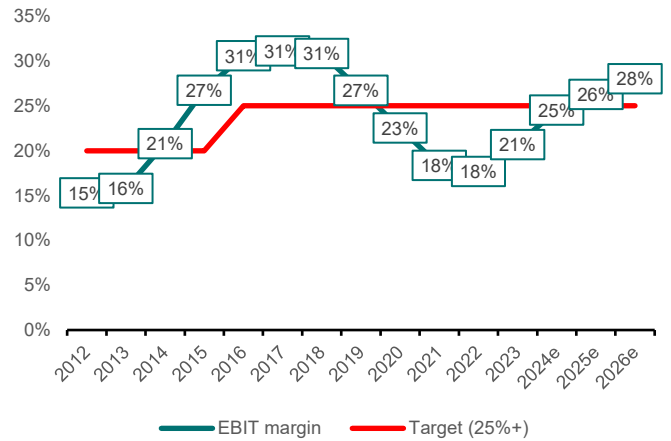
Source: Company (historical data), DNB Markets (further calculations)

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



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

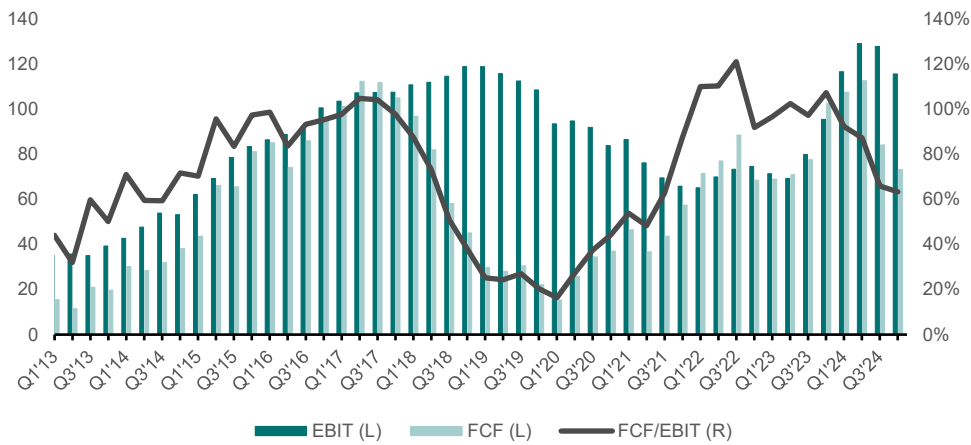
Figure 6: Financial goal 2 – EBIT margin >25%



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

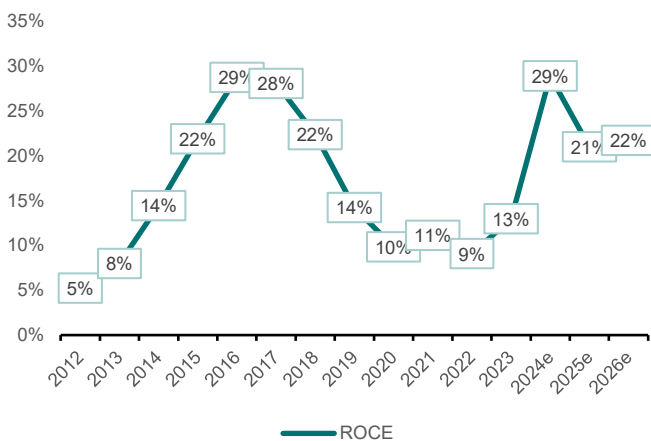
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Figure 7: LTM FCF versus LTM EBIT (2013–2024e) – coming out of an intense investment period to accelerate organic growth



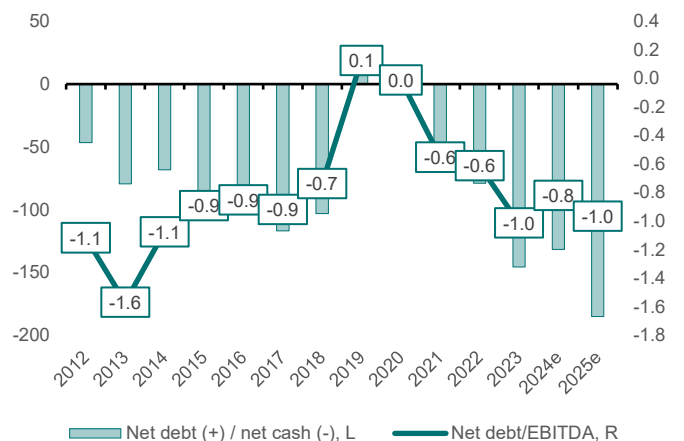
Source: DNB Markets (forecasts), company (historical data)

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)

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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	471.0	512.9	554.8	7%
Growth YOY, of which	5%	-8%	-4%	18%	10%	2%	9%	8%	
Organic	-1%	-7%	1%	9%	6%	5%	8%	8%	
Structural	0%	0%	0%	0%	0%	0%	0%	0%	
FX	6%	-1%	-6%	9%	4%	-3%	1%	0%	
COGS	-10.8	-14.1	-12.0	-12.8	-13.4	-11.7	-13.1	-13.1	
Gross profit	394.8	357.9	346.0	410.0	447.5	459.3	499.8	541.7	
Capitalised work	0.0	0.0	64.4	50.2	36.1	48.4	54.0	51.8	
Other external expenses	-63.7	-37.7	-48.3	-58.2	-54.4	-57.7	-58.0	-59.9	
Personnel costs	-185.3	-187.5	-258.2	-273.0	-285.5	-289.3	-304.0	-319.1	
EBITDA	145.8	132.7	103.9	129.0	143.7	160.7	191.8	214.4	
IAC	0.0	0.0	-134.2	0.9	-299.7	-12.9	-12.0	-12.0	
Adj. EBITDA	145.8	132.7	238.1	128.1	443.4	173.6	203.8	226.4	
Depreciation and amortisation	-37.4	-48.9	-172.4	-53.3	-348.0	-55.0	-57.1	-58.9	
EBIT	108.4	83.8	-68.5	75.7	-204.3	102.6	122.8	143.6	
Adj. EBIT	108.4	83.8	65.7	74.8	95.4	115.5	134.8	155.6	18%
Financial items	-1.4	-7.0	-0.1	-2.2	0.9	7.5	-3.2	-3.2	
Profit before tax	107.0	76.8	-68.6	73.5	-203.4	110.1	119.6	140.4	
Taxes paid	-25.8	-17.4	1.2	-15.7	-25.6	5.0	-29.6	-34.3	
Adj. Net profit	81.2	59.4	66.8	56.9	70.7	128.0	102.0	118.1	19%
EPS	5.96	4.36	-4.94	4.23	-16.85	8.60	6.82	8.05	
Adj. EPS (diluted)	5.96	4.36	4.90	4.17	5.12	9.44	7.74	8.96	
DPS	3.00	0.00	0.00	1.50	1.50	3.30	2.71	3.14	
Margins									
Gross	97.3%	96.2%	96.6%	97.0%	97.1%	97.5%	97.4%	97.6%	
EBITDA	35.9%	35.7%	29.0%	30.5%	31.2%	34.1%	37.4%	38.6%	
Adj. EBITDA	35.9%	35.7%	66.5%	30.3%	96.2%	36.9%	39.7%	40.8%	
EBIT	26.7%	22.5%	-19.1%	17.9%	-44.3%	21.8%	23.9%	25.9%	
Adj. EBIT	26.7%	22.5%	18.4%	17.7%	20.7%	24.5%	26.3%	28.0%	
FCF margin	5.4%	9.9%	16.1%	16.2%	22.2%	15.5%	18.9%	19.5%	
Rule of 40 (EBIT)	32.0%	14.2%	14.6%	35.8%	29.7%	26.7%	35.2%	36.2%	
ROCE	17.7%	12.4%	9.9%	10.9%	15.8%	23.7%	26.3%	27.7%	
Cash flow									
Cash flow from operating activities	105.7	118.4	131.6	128.0	144.0	127.1	157.9	167.5	
Capex	-83.6	-81.4	-74.1	-59.6	-42.2	-53.9	-60.9	-59.6	
Adj. FCF	22.1	37.0	57.5	68.4	101.8	73.2	97.0	108.0	2%
Cash conversion (FCF/EBIT)	20%	44%	88%	91%	107%	63%	72%	69%	
Balance sheet									
Cash	60.7	67.8	113.4	148.2	197.4	169.1	202.5	274.8	
Net cash (-) / net debt (+)	18.4	-1.5	-57.4	-78.9	-145.7	-131.8	-185.2	-257.5	
Net debt/EBITDA	0.1x	0.0x	-0.6x	-0.6x	-1.0x	-0.8x	-1.0x	-1.2x	

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

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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	470.4	511.8	553.3	7%
Security solutions	1.7	5.0	0.7	1.5	2.1	0.6	1.1	1.5	-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	471.0	512.9	554.8	6%
Net sales growth by segment									
Development tools	6%	-9%	-3%	18%	9%	3%	9%	8%	
Security solutions	-66%	194%	-86%	114%	40%	-72%	85%	37%	
Other									
Total	5%	-8%	-4%	18%	10%	2%	9%	8%	
Net sales by product									
License-based	236.3	212.4	196.1	233.0	229.4	232.9	254.1	278.1	7%
Support and softw are updates	146.3	145.2	141.6	167.9	210.6	224.8	243.9	260.9	7%
Other	23.0	14.4	18.1	19.0	18.1	13.3	14.9	15.8	-4%
Total	405.6	372.0	355.8	419.9	460.9	471.0	512.9	554.8	6%
Net sales growth by product									
License-based	-3%	-10%	-8%	19%	-2%	2%	9%	9%	
Support and softw are updates	23%	-1%	-2%	19%	25%	7%	9%	7%	
Other	0%	-37%	26%	5%	-5%	-27%	12%	6%	
Total	5%	-8%	-4%	18%	10%	2%	9%	8%	

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

Figure 12: Quarterly segment overview (SEKm, 2023–2025e)

(SEKm)	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24e	Q1'25e	Q2'25e	Q3'25e	Q4'25e
Net sales by segment										
Development tools	116.2	125.4	119.7	123.2	112.3	115.2	119.7	126.8	131.0	134.3
Security solutions	0.1	0.5	0.0	0.0	0.0	0.6	0.2	0.1	0.1	0.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	117.4	126.0	119.7	123.2	112.3	115.8	119.9	126.9	131.1	135.0
Net sales growth by segment										
Development tools	10%	15%	12%	15%	-3%	-8%	0%	3%	17%	17%
Security solutions	-80%	150%	-100%	-100%	-100%	18%				18%
Other										
Total	10%	15%	11%	14%	-3%	-8%	0%	3%	17%	17%
Net sales by product										
License-based	55.8	67.3	62.4	63.2	51.1	56.2	58.1	63.0	63.9	69.1
Support and softw are updates	55.2	55.0	54.2	56.3	58.2	56.1	58.3	60.2	63.5	62.0
Other	5.3	3.6	3.1	3.7	3.0	3.5	3.5	3.7	3.7	4.0
Total	117.4	126.0	119.7	123.2	112.3	115.8	119.9	126.9	131.1	135.0
Net sales growth by product										
License-based	-1%	18%	17%	19%	-8%	-17%	-7%	0%	25%	23%
Support and softw are updates	24%	21%	9%	11%	5%	2%	8%	7%	9%	10%
Other	-4%	-44%	-34%	-18%	-43%	-3%	13%	0%	23%	14%
Total	10%	15%	11%	14%	-3%	-8%	0%	3%	17%	17%

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

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

(SEKm)	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24e	Q1'25e	Q2'25e	Q3'25e	Q4'25e
Net sales	117.4	126.0	119.7	123.2	112.3	115.8	119.9	126.9	131.1	135.0
Grow th YOY, of w hich	10%	15%	11%	14%	-3%	-8%	0%	3%	17%	17%
Organic	6%	15%	14%	16%	1%	-6%	-1%	3%	16%	16%
Structural	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
FX	4%	1%	-3%	-2%	-4%	-2%	1%	0%	1%	1%
COGS	-3.1	-4.3	-3.1	-2.9	-2.6	-3.1	-3.2	-3.3	-3.3	-3.3
Gross profit	114.3	121.7	116.6	120.3	109.7	112.7	116.7	123.6	127.8	131.7
Capitalised work	7.2	9.1	10.3	10.8	14.8	12.5	13.5	13.5	13.5	13.5
Other external expenses	-11.9	-19.8	-10.8	-16.8	-14.1	-16.0	-13.0	-13.5	-14.5	-17.0
Personnel costs	-66.2	-66.5	-69.2	-73.6	-70.5	-76.0	-77.0	-78.0	-71.0	-78.0
EBITDA	43.4	44.5	46.9	40.7	39.9	33.2	40.2	45.6	55.8	50.2
IAC	-3.9	-287.9	-2.1	-2.5	-5.3	-3.0	-3.0	-3.0	-3.0	-3.0
Adj. EBITDA	47.3	332.4	49.0	43.2	45.2	36.2	43.2	48.6	58.8	53.2
Depreciation and amortisation	-14.5	-300.3	-14.8	-13.4	-13.6	-13.2	-13.5	-14.6	-14.4	-14.4
EBIT	28.9	-255.8	32.1	27.3	26.3	16.9	23.6	28.0	38.4	32.8
Adj. EBIT	32.8	32.1	34.2	29.8	31.6	19.9	26.6	31.0	41.4	35.8
Financial items	-4.0	1.8	5.3	-3.0	2.2	3.0	-0.8	-0.8	-0.8	-0.8
Profit before tax	24.9	-254.0	37.4	24.3	28.5	19.9	22.8	27.2	37.6	32.0
Taxes paid	-10.9	-1.5	31.6	-8.5	-14.7	-3.4	-5.8	-6.8	-9.1	-7.9
Adj. Net profit	17.9	32.4	71.1	18.3	19.1	19.5	20.0	23.4	31.4	27.1
EPS	1.02	-18.79	5.12	1.19	1.04	1.25	1.29	1.55	2.16	1.83
Adj. EPS (diluted)	1.29	2.35	5.19	1.35	1.42	1.48	1.52	1.77	2.38	2.06
DPS	0.00	0.00	0.00	1.50	0.00	0.00	0.00	3.30	0.00	0.00
Margins										
Gross	97.4%	96.6%	97.4%	97.6%	97.7%	97.3%	97.3%	97.4%	97.5%	97.6%
EBITDA	37.0%	35.3%	39.2%	33.0%	35.5%	28.7%	33.5%	35.9%	42.6%	37.2%
Adj. EBITDA	40.3%	263.8%	40.9%	35.1%	40.2%	31.2%	36.0%	38.3%	44.8%	39.4%
EBIT	24.6%	-203.0%	26.8%	22.2%	23.4%	14.6%	19.7%	22.0%	29.3%	24.3%
Adj. EBIT	27.9%	25.5%	28.6%	24.2%	28.1%	17.2%	22.2%	24.4%	31.5%	26.5%
FCF margin	34.0%	22.3%	17.5%	19.1%	10.2%	14.8%	17.5%	21.6%	20.9%	15.7%
Rule of 40 (EBIT)	38.6%	39.3%	38.8%	37.3%	23.8%	9.1%	22.4%	27.4%	48.3%	43.1%
ROCE	10.7%	14.1%	18.7%	23.1%	25.9%	23.1%	21.7%	22.0%	23.8%	26.6%
Cash flow										
Cash flow from operating activities	51.9	36.9	32.7	35.6	27.7	31.1	36.2	42.8	42.5	36.4
Capex	-12.0	-9.1	-11.7	-12.1	-16.2	-13.9	-15.3	-15.4	-15.2	-15.2
Adj. FCF	39.9	27.8	21.0	23.5	11.5	17.2	20.9	27.4	27.4	21.2
Cash conversion (FCF/EBIT)	122%	87%	61%	79%	36%	86%	79%	89%	66%	59%
Balance sheet										
Cash	186.0	197.4	195.8	160.5	156.9	169.1	185.0	163.9	186.3	202.5
Net cash (-) / net debt (+)	-127.8	-145.7	-143.9	-113.7	-114.6	-131.8	-152.7	-136.6	-164.0	-185.2
Net debt/EBITDA	-1.0x	-1.0x	-0.9x	-0.6x	-0.7x	-0.8x	-1.0x	-0.9x	-0.9x	-1.0x

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

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Valuation

Figure 14: Valuation approaches (SEKm, %)

	Peers regression	DCF	Historical average
Net sales (2025e)			513
Adj. EBIT (2025e)			135
Adj. EPS (2024e)			7.74
Sales CAGR (2023–2025e)	11.2		5.5
Adj. EBIT margin (2024e)	19.5		24.5
RO40 (2024e)	34.2		30.0
Target multiple	RO40, P/B, EV/S	9% WACC	15x EV/EBIT
Enterprise value	3,061	2,991	2,021
Net debt (+)/cash (-)	-185	-185	-185
Equity value	3,247	3,176	2,206
Shares outstanding	13.5	13.5	13.5
Implied fair value/share	241	236	164
Implied potential	91%	87%	30%

2025e valuation multiples

Implied EV/sales	6.5	6.4	4.3
Implied EV/EBIT	26.5	25.9	17.5
Implied P/E	25.4	24.8	17.2
Implied FCF yield	3.0%	3.1%	4.4%

Source: DNB Markets

Figure 15: Implied valuation multiples based on current share price

(SEKm)	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	385	406	372	356	420	458	471	513	555
Growth YOY	10.2%	5.2%	-8.3%	-4.4%	18.1%	9.8%	2.2%	8.9%	8.2%
Gross profit	376	395	358	346	410	448	459	500	542
Gross margin	97.7%	97.3%	96.2%	96.6%	97.0%	97.1%	97.5%	97.4%	97.6%
Adj. EBITDA	140	146	133	104	129	144	161	192	214
EBITDA margin	37.2%	35.9%	35.7%	66.5%	30.3%	96.2%	36.9%	39.7%	40.8%
Adj. EBIT	119	108	84	66	75	95	116	135	156
EBIT margin	30.8%	26.7%	22.5%	18.4%	17.7%	20.7%	24.5%	26.3%	28.0%
Adj. Net profit	94	81	59	67	57	71	128	102	118
Adj. FCF	46	22	37	58	68	102	73	97	108
FCF margin	11.9%	5.4%	9.9%	16.2%	16.3%	22.2%	15.5%	18.9%	19.5%
Cash conversion	39%	20%	44%	88%	91%	107%	63%	72%	69%
Rule of 40 (EBIT)	41.0%	31.9%	14.2%	14.0%	35.8%	30.5%	26.7%	35.2%	36.2%
ROCE	28.1%	17.7%	12.4%	9.9%	10.9%	15.8%	23.7%	26.3%	27.7%
ROIC	21.9%	13.8%	10.1%	10.4%	8.7%	11.5%	24.7%	20.5%	21.6%
Market cap	3,310	2,535	1,905	1,606	1,720	1,721	1,661	1,661	1,661
Net debt	-103	18	-1	-57	-79	-146	-132	-185	-257
Enterprise value	3,206	2,554	1,904	1,548	1,641	1,575	1,529	1,475	1,403
EV/Sales	8.3x	6.3x	5.1x	4.4x	3.9x	3.4x	3.2x	2.9x	2.5x
EV/EBIT	27.0x	23.6x	22.7x	23.6x	21.9x	16.5x	13.2x	10.9x	9.0x
P/E	35.2x	31.2x	32.1x	24.0x	30.2x	24.3x	13.0x	16.3x	14.1x
FCF yield	1.4%	0.9%	1.9%	3.6%	4.0%	5.9%	4.4%	5.8%	6.5%

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

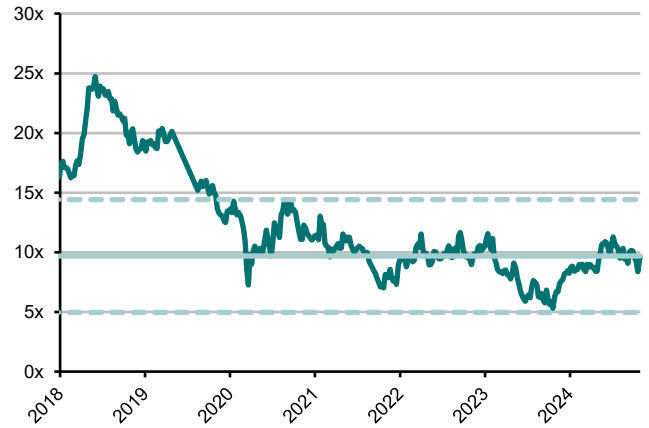
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Figure 16: EV/sales 12-month forward IAR Systems (2018–2024)



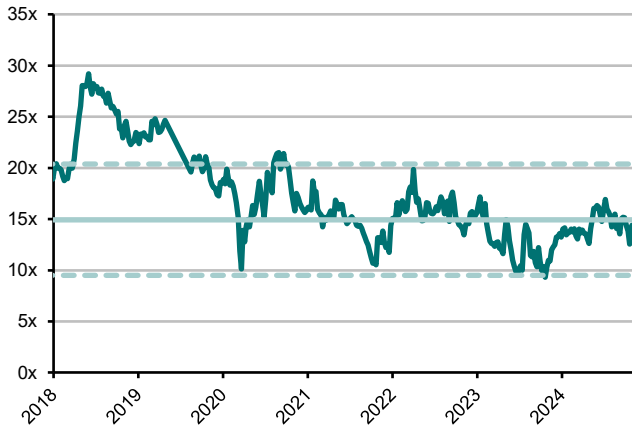
Source: Bloomberg

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



Source: Bloomberg

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



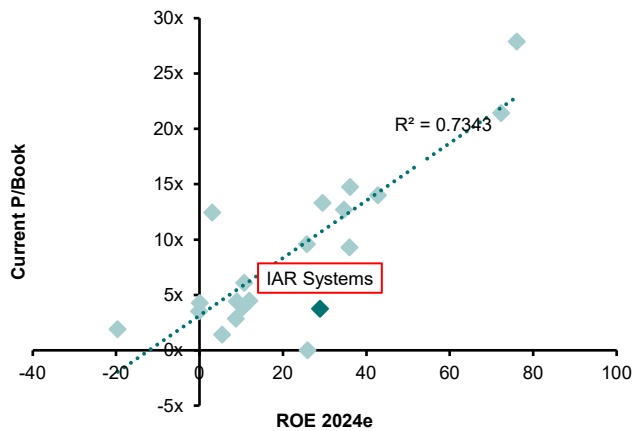
Source: Bloomberg

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



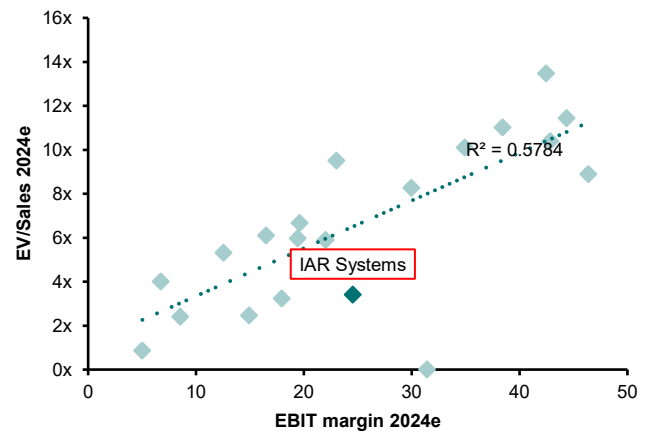
Source: Bloomberg

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. (SEKbn)	P/E (x)			EV/EBIT (x)			EV/EBITDA (x)			EV/Sales (x)			2024 yield (%)		ROE (%)		EBIT mg (%)		CAGR 2023–2025e (%)			
		2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	DPS	FCF	2024e	2025e	2024e	2025e	Sales	EBIT	EPS	
IAR Systems (DNBe)	1.7	15	19	16	14	11	9	10	8	7	3	3	3	2.6	4.3	29	21	24.5	26.3	5	19	23	
Premium/discount		-85%	-51%	-52%	-59%	-68%	-63%	-68%	-69%	-67%	-58%	-57%	-57%										
IAR Systems (Cons.)	1.7	12	15	14	12	10	9	8	7	6	3	3	3	3.0	6.0	30	19	26.1	27.0	9	36	44	
Premium/discount		-88%	-61%	-59%	-65%	-71%	-65%	-74%	-73%	-70%	-60%	-57%	-54%										
Nordic software																							
Enea	2.2	16	16	13	17	15	11	8	7	6	3	2	2		8.8	6	7	14.9	15.3	2		-4	
Formpipe	1.4	33	19	14	30	16	11	12	9		3	2	2	2.7	4.2	9	14	8.5	14.2	6	31	52	
HMS Networks	20.4	54	37	27	47	30	22	33	23	18	8	6	5	1.1		11	14	16.5	20.3	11	2	-6	
Invisio	12.4	51	39	32	37	28	23	31	24	20	7	7	6	0.7	1.4	29	31	19.6	23.5	21	31	33	
Karnov	8.6	25	18	15	63		18	17	13	11	4	4	4	0.0		0	7	6.7	14.2	5	52	28	
Lime Technologies	4.4	45	35	28	35	28	22	22	19	16	7	6	5	1.1	1.8	33	36	19.4	21.2	16	19	22	
QT	26.0	43	32	25	33	24	18	28	22	17	10	8	7	0.0	2.3	35	31	30.0	32.6	21	38	38	
Upsales	0.6	27	22	20	20	17	15	15	12	11	4	3	3	4.5	3.2	72	97	17.9	18.4	3	-3	-1	
Vitec	19.4	44	38	33	30	26	24	17	15	14	6	6	6	0.7	2.4	10	10	22.0	23.0	11	13	14	
WithSecure	1.7			119			56	52	16	10	1	1	1	0.0		-20	-4	-6.8	-1.2	5	-76	-77	
Engineering software																							
Adobe	2,269.4	27	24	21	21	19	17	20	18	16	10	9	8	0.0	3.6	43	48	46.4	46.3	11	11	14	
Altium																26	30	31.4	34.0	21	23	24	
Andes	6.8	939	98	32		112	34	124	36	26	13	10	8	0.0	1.0	0	6	-21.4	8.8	36		193	
ANSYS	298.8	33	30	27	27	26	24	28	25	23	11	10	10	0.0	2.5	12	12	42.8	41.8	9	9	12	
Atlassian	523.7	66	60	46	48	43	32	45	40	30	11	10	8	0.0	2.5	76	39	23.0	21.5	20	27	33	
Autodesk	658.3	38	35	31	33	29	26	31	29	26	11	10	9	0.0	2.0	113	68	34.9	35.6	11	10	12	
Cadence	736.9	43	37	31	35	29	25	33	28	23	15	13	12	0.0	1.5	36	34	42.5	44.0	13	16	16	
Gitlab	92.7	421	115	83		135	75		122	72	13	10	8		0.1	3	12	-1.5	7.6	33			
Jfrog	34.5	53	45	36	49	36	26	41	31	23	6	5	4		2.3	9	10	12.5	14.1	20	46	21	
Materialise	4.0	28	21	15	21	13	8	8	6	5	1	1	1	0.0	1.1	5	6	5.0	6.7	7	60	57	
Microsoft	33,881.6	36	33	28	29	26	22	24	21	18	13	11	10	0.7	2.2	36	32	44.4	43.8	15	18	17	
Synopsys	815.8	38	34	29	31	27	24	31	27	24	12	11	10		1.5	26	23	38.4	39.2	9	15	16	
Average	1,877.1	103	39	34	34	36	25	31	26	20	8	7	6	0.7	2.5	26	26	20.3	23.9	14	18	25	
Median	20.4	41	34	28	32	27	23	28	22	18	8	7	6	0.0	2.2	19	18	19.5	21.3	11	18	17	

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

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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.

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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 and another SEK290m in Q4 2023.

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 2025e 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.

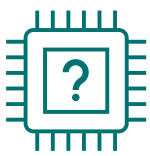
Business overview

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.

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

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.

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



Before a processor can be used in a product, it needs to be programmed with the correct instructions.



Product developers use IAR Embedded Workbench to program the processor and give it the correct instructions to control the finished product.



Once the processor has been programmed, it is ready for the finished product.

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

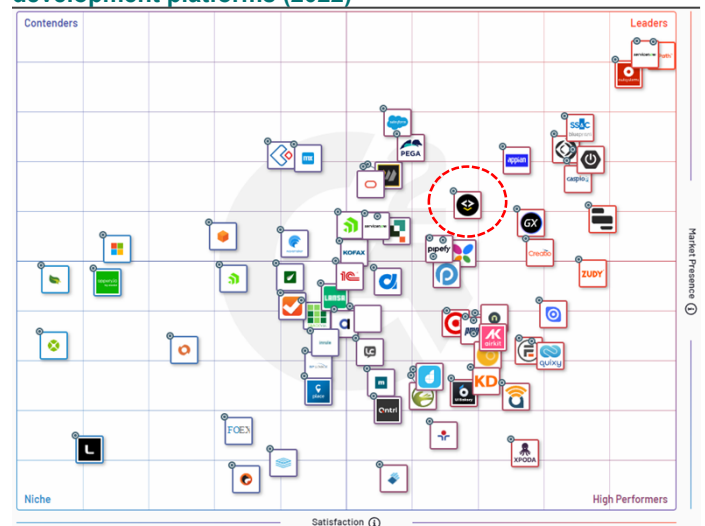
Headquartered in Uppsala, Sweden, IAR Systems has 200+ employees in 15 offices on three continents with technical support teams in its customers’ local time zones in 10+ languages. Its independent software supports more than 14,000 processors from more than 70 vendors, more than any other supplier, meaning 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

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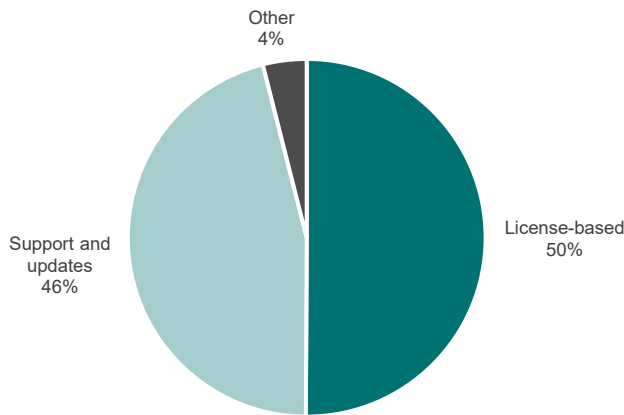
companies, etc.); and 4) suppliers of integrated programmes (real-time operating systems, graphics development, etc.).

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

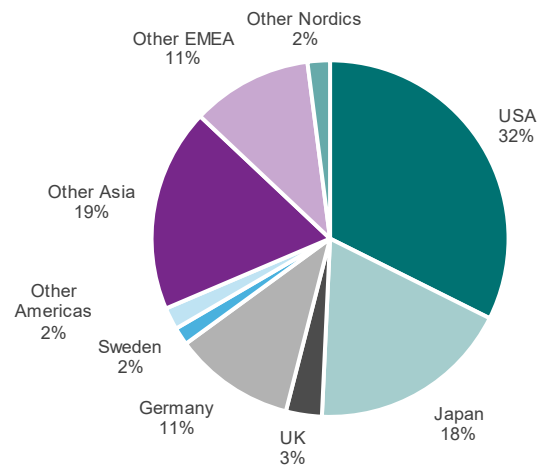
- **Development tools (~99% of 2023 net sales)** consist of IAR Embedded Workbench (8- to 64-bit) with world-leading code-optimisation technology, compiler, debugger probes and analysis tools (ensuring code quality and coding standards), functional safety certifications (pre-certified build tools), RISV-V 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

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Revenues	471	513	555	498	533	568	-27	-20	-13
Cost of sales	-12	-13	-13	-13	-14	-14	1	1	1
Gross profit	459	500	542	485	520	555	-26	-20	-13
Operating expenses	-347	-362	-379	-347	-367	-386	0	5	7
EBITDA	161	192	214	183	206	224	-22	-14	-10
EBITDA adj	174	204	226	192	216	234	-19	-12	-8
EBITDA margin (%)	34.1	37.4	38.6	36.7	38.6	39.4	-2.6	-1.2	-0.8
Depreciation	-29	-26	-27	-29	-26	-27	0	0	0
Amortisation	-26	-31	-32	-29	-36	-36	3	5	4
EBIT	103	123	144	120	134	151	-17	-11	-8
EBIT adj	116	135	156	130	144	161	-14	-9	-6
Net financial items	8	-3	-3	9	-3	-3	-2	0	0
PBT	110	120	140	129	131	148	-19	-11	-8
Taxes	5	-30	-34	9	-32	-36	-4	2	1
Net profit	115	90	106	139	99	112	-24	-9	-6
Adjustments to net profit	13	12	12	10	10	10	3	2	2
Net profit adj	128	102	118	148	109	122	-20	-7	-4
<i>Per share data (SEK)</i>									
EPS	8.60	6.82	8.05	10.36	7.45	8.45	-1.76	-0.62	-0.40
EPS adj	9.44	7.74	8.96	10.96	8.20	9.20	-1.53	-0.46	-0.24
DPS ordinary	3.30	2.71	3.14	3.84	2.87	3.22	-0.53	-0.16	-0.08
DPS	3.30	2.71	3.14	3.84	2.87	3.22	-0.53	-0.16	-0.08
<i>Other key metrics (%)</i>									
Revenue growth	2.2	8.9	8.2	8.1	7.1	6.5	-5.9	1.8	1.6
EBIT adj growth	21.1	16.6	15.5	35.8	11.1	12.0	-14.7	5.5	3.5
EPS adj growth	84.2	-18.0	15.8	114.0	-25.2	12.2	-29.8	7.2	3.6
Avg. number of shares (m)	13	13	13	14	14	14	0	0	0
Capex	-54	-61	-60	-50	-60	-63	-4	0	4
OpFCF	120	143	167	142	155	170	-23	-13	-4
Working capital	-42	-53	-55	-46	-48	-48	4	-5	-7
NIBD adj	-132	-185	-257	-173	-225	-298	41	39	41

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Assumptions									
Revenue org. % YOY	4.87	8.39	8.17	10.70	7.83	6.54	-5.82	0.56	1.63
Currency impact % YOY	-2.69	0.51	0.00	-2.63	-0.74	0.00	-0.05	1.25	0.00

Source: DNB Markets

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Quarterly numbers

(SEKm)	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024e	Q1 2025e	Q2 2025e	Q3 2025e	Q4 2025e
Revenues	109	117	126	120	123	112	116	120	127	131	135
Cost of sales	-3	-3	-4	-3	-3	-3	-3	-3	-3	-3	-3
Gross profit	106	114	122	117	120	110	113	117	124	128	132
Operating expenses	-86	-78	-86	-80	-90	-85	-92	-90	-92	-86	-95
EBITDA	31	43	45	47	41	40	33	40	46	56	50
Depreciation	-7	-7	-7	-10	-7	-7	-6	-7	-7	-6	-6
Amortisation	-13	-8	-294	-5	-7	-7	-7	-7	-8	-8	-8
EBIT	11	29	-256	32	27	26	17	24	28	38	33
Net financial items	3	-4	2	5	-3	2	3	-1	-1	-1	-1
PBT	14	25	-254	37	24	29	20	23	27	38	32
Taxes	-8	-11	-2	32	-9	-15	-3	-6	-7	-9	-8
Net profit	6	14	-256	69	16	14	17	17	20	28	24
Adjustments to net profit	6	4	288	2	3	5	3	3	3	3	3
Net profit adj	12	18	32	71	18	19	20	20	23	31	27
Dividend paid	-21	0	0	0	-20	0	0	0	-44	0	0
Avg. number of shares (m)	14	14	14	14	14	13	13	13	13	13	13
<i>Per share data (SEK)</i>											
EPS	0.45	1.02	-18.79	5.12	1.19	1.04	1.25	1.29	1.55	2.16	1.83
EPS adj	0.89	1.29	2.35	5.19	1.35	1.42	1.48	1.52	1.77	2.38	2.06
DPS ordinary	1.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00	3.30	0.00	0.00
DPS	1.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00	3.30	0.00	0.00
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	0.3	7.8	7.3	-5.0	2.9	-8.8	3.1	3.5	5.8	3.3	3.0
Revenues, YOY growth	1.2	10.7	13.8	10.2	13.1	-4.3	-8.1	0.2	3.0	16.7	16.6
EPS adj, YOY growth	-14.7	5.2	119.5	781.6	51.2	9.6	-37.0	-70.7	31.2	68.2	39.0
Gross margin	97.4	97.4	96.6	97.4	97.6	97.7	97.3	97.3	97.4	97.5	97.6
EBITDA adj margin	33.7	40.3	263.8	40.9	35.1	40.2	31.2	36.0	38.3	44.8	39.4
Depreciation/revenues	-6.0	-5.8	-5.2	-8.2	-5.3	-6.0	-5.4	-5.5	-5.2	-4.9	-4.8
EBIT adj margin	16.0	27.9	25.5	28.6	24.2	28.1	17.2	22.2	24.4	31.5	26.5
Net profit margin	5.6	11.9	nm	57.6	12.8	12.3	14.3	14.2	16.1	21.7	17.9

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

Adjustments to quarterly numbers

(SEKm)	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024e	Q1 2025e	Q2 2025e	Q3 2025e	Q4 2025e
EBITDA	31	43	45	47	41	40	33	40	46	56	50
EBITDA adj	37	47	332	49	43	45	36	43	49	59	53
EBIT	11	29	-256	32	27	26	17	24	28	38	33
Other EBIT adjustments	-6	-4	-288	-2	-3	-5	-3	-3	-3	-3	-3
EBIT adj	17	33	32	34	30	32	20	27	31	41	36
Net profit	6	14	-256	69	16	14	17	17	20	28	24
Other EBIT adjustments	-6	-4	-288	-2	-3	-5	-3	-3	-3	-3	-3
Net profit adj	12	18	32	71	18	19	20	20	23	31	27

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

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Quarterly numbers by segment and assumptions

(SEKm)	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024e	Q1 2025e	Q2 2025e	Q3 2025e	Q4 2025e
Assumptions											
Revenue org. % YOY	-4.46	5.94	14.65	14.06	15.51	0.90	-6.38	-0.95	3.25	16.19	15.96
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Currency impact % YOY	5.02	3.68	0.80	-3.01	-1.73	-4.30	-1.65	1.10	-0.25	0.54	0.66

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	471	513	555
Cost of sales	-9	-9	-11	-14	-12	-13	-13	-12	-13	-13
Gross profit	337	376	395	358	346	410	448	459	500	542
Operating expenses	-209	-236	-249	-225	-307	-331	-340	-347	-362	-379
EBITDA	127	140	146	133	104	129	144	161	192	214
Depreciation	-2	-3	-13	-20	-20	-26	-26	-29	-26	-27
Amortisation	-17	-22	-25	-29	-152	-28	-322	-26	-31	-32
EBIT	107	116	108	84	-69	76	-204	103	123	144
Net financial items	-2	-2	-1	-7	0	-2	1	8	-3	-3
PBT	106	117	107	77	-69	74	-203	110	120	140
Taxes	-26	-26	-26	-17	1	-16	-26	5	-30	-34
Effective tax rate (%)	24	22	24	23	2	21	-13	-5	25	24
Net profit	80	91	81	59	-67	58	-229	115	90	106
Adjustments to net profit	0	3	0	0	134	-1	300	13	12	12
Net profit adj	80	94	81	59	67	57	71	128	102	118
Dividend paid	-63	-68	-68	0	0	0	-21	-20	-44	-36
Avg. number of shares	13	14	14	14	14	14	14	13	13	13
<i>Per share data (SEK)</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	8.60	6.82	8.05
EPS adj	6.33	6.67	5.96	4.36	4.90	4.17	5.12	9.44	7.74	8.96
DPS ordinary	5.00	5.00	3.00	0.00	0.00	1.50	1.50	3.30	2.71	3.14
DPS	5.00	5.00	3.00	0.00	0.00	1.50	1.50	3.30	2.71	3.14
<i>Growth and margins (%)</i>										
Revenue growth	5.1	11.7	5.3	-8.3	-3.8	18.1	9.0	2.2	8.9	8.2
EPS adj growth	2.6	5.3	-10.6	-26.8	12.5	-14.9	22.9	84.2	-18.0	15.8
Gross margin	97.5	97.7	97.3	96.2	96.6	97.0	97.1	97.5	97.4	97.6
EBITDA margin	36.9	36.4	35.9	35.7	29.0	30.5	31.2	34.1	37.4	38.6
EBITDA adj margin	36.9	37.2	35.9	35.7	66.5	30.3	96.2	36.9	39.7	40.8
Depreciation/revenues	-0.7	-0.7	-3.2	-5.5	-5.7	-6.0	-5.7	-6.2	-5.1	-4.8
EBIT margin	31.1	30.0	26.7	22.5	nm	17.9	nm	21.8	23.9	25.9
EBIT adj margin	31.1	30.8	26.7	22.5	18.4	17.7	20.7	24.5	26.3	28.0
PBT margin	30.6	30.4	26.4	20.6	nm	17.4	nm	23.4	23.3	25.3
Net profit margin	23.2	23.6	20.0	16.0	nm	13.7	nm	24.4	17.5	19.1

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

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Adjustments to annual P&L

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBITDA	127	140	146	133	104	129	144	161	192	214
EBITDA adj	127	143	146	133	238	128	443	174	204	226
EBIT	107	116	108	84	-69	76	-204	103	123	144
Other EBIT adjustments	0	-3	0	0	-134	1	-300	-13	-12	-12
EBIT adj	107	119	108	84	66	75	95	116	135	156
Net profit	80	91	81	59	-67	58	-229	115	90	106
Other EBIT adjustments	0	-3	0	0	-134	1	-300	-13	-12	-12
Net profit adj	80	94	81	59	67	57	71	128	102	118
<i>Per share data (SEK)</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	8.60	6.82	8.05
Recommended adjustment	0.00	0.00	0.00	0.00	9.85	-0.07	21.97	0.84	0.91	0.91
EPS adj	6.33	6.67	5.96	4.36	4.90	4.17	5.12	9.44	7.74	8.96

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	115	90	106
Depreciation and amortisation	20	25	37	49	172	53	348	55	57	59
Cash flow from operations (CFO)	124	93	106	118	132	128	144	127	158	168
Capital expenditure	-19	-47	-84	-81	-74	-60	-42	-54	-61	-60
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	-54	-61	-60
Free cash flow (FCF)	86	-125	4	37	58	68	101	73	97	108
Net change in debt	0	0	30	6	1	1	0	0	0	0
Dividends paid	-63	-68	-68	0	0	0	-21	-20	-44	-36
Share issue (repurchase)	0	172	0	0	0	0	0	0	0	0
Other	0	4	-14	-30	-16	-40	-29	-82	-20	0
Cash flow from financing (CFF)	-63	108	-52	-25	-15	-40	-49	-102	-64	-36
Total cash flow (CFO+CFI+CFF)	23	-17	-49	12	42	29	52	-29	33	72
<i>FCFF calculation</i>										
Free cash flow	86	-125	4	37	58	68	101	73	97	108
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	-11.7	24.2	6.1
CFI	-98.9	-478.5	53.0	20.4	9.0	19.6	28.7	-26.9	-13.0	2.2
FCF	-9.4	-244.7	102.8	957.1	55.4	19.0	48.4	-27.9	32.6	11.3
CFF	28.5	270.4	-148.3	52.7	38.6	-162.3	-24.0	-107.5	37.6	43.8

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

28 October 2024

Balance sheet

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Assets	410	722	825	834	813	922	700	689	710	775
Inventories	5	7	7	6	10	11	10	9	10	9
Trade receivables	51	63	67	59	59	67	78	75	62	58
Other receivables	12	38	52	64	44	34	40	35	30	28
Cash and cash equivalents	120	106	61	68	113	148	197	169	203	275
Current assets	187	214	186	196	226	260	325	289	305	370
Property, plant and equipment	6	9	7	8	15	17	16	14	14	15
Other intangible assets	194	484	624	624	567	639	348	355	358	358
Deferred tax assets	3	13	5	4	3	3	7	29	29	29
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	405	405
Total assets	410	722	825	834	813	922	700	689	710	775
Equity and liabilities	410	722	825	834	813	922	700	689	710	775
Total equity	290	550	592	613	585	667	423	462	509	579
Trade payables	6	7	9	5	9	8	7	8	7	6
Other payables and accruals	86	131	117	111	133	146	174	153	148	144
Short-term debt	1	0	25	18	18	0	0	0	0	0
Total current liabilities	102	140	164	150	179	173	198	180	174	169
Long-term debt	2	1	41	32	20	50	35	19	-1	-1
Deferred tax liabilities	14	30	27	37	28	30	43	27	27	27
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	47	27	27
Total liabilities	120	172	233	220	228	255	277	227	201	196
Total equity and liabilities	410	722	825	834	813	922	700	689	710	775
<i>Key metrics</i>										
Net interest bearing debt	-117	-103	18	-2	-57	-79	-146	-132	-185	-257

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

28 October 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	126.00	126.00	126.00
Number of shares (m)	12.63	13.62	13.63	13.63	13.63	13.65	13.66	13.18	13.18	13.18
Market capitalisation	2,387	3,310	2,535	1,905	1,606	2,053	1,691	1,661	1,661	1,661
Net interest bearing debt	-117	-103	18	-2	-57	-79	-146	-132	-185	-257
Net interest bearing debt adj	-117	-103	18	-2	-57	-79	-146	-132	-185	-257
EV	2,270	3,206	2,554	1,904	1,548	1,974	1,545	1,529	1,475	1,403
EV adj	2,270	3,206	2,554	1,904	1,548	1,974	1,545	1,529	1,475	1,403
<i>Valuation</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	8.60	6.82	8.05
EPS adj	6.33	6.67	5.96	4.36	4.90	4.17	5.12	9.44	7.74	8.96
DPS ordinary	5.00	5.00	3.00	0.00	0.00	1.50	1.50	3.30	2.71	3.14
DPS	5.00	5.00	3.00	0.00	0.00	1.50	1.50	3.30	2.71	3.14
P/E	29.8	36.4	31.2	32.1	-23.8	35.5	-7.3	14.6	18.5	15.7
P/E adj	29.8	36.4	31.2	32.1	24.0	36.1	24.2	13.3	16.3	14.1
P/B	8.22	6.02	4.28	3.11	2.74	3.08	3.99	3.59	3.26	2.87
Average ROE	28.1%	21.6%	14.2%	9.9%	-11.2%	9.2%	-42.0%	26.0%	18.5%	19.5%
Earnings yield adj	3.4%	2.7%	3.2%	3.1%	4.2%	2.8%	4.1%	7.5%	6.1%	7.1%
Dividend yield	2.6%	2.1%	1.6%	0.0%	0.0%	1.0%	1.2%	2.6%	2.1%	2.5%
Free cash flow yield	3.6%	-3.8%	0.1%	1.9%	3.6%	3.3%	6.0%	4.4%	5.8%	6.5%
EV/SALES	6.58	8.32	6.30	5.12	4.32	4.67	3.35	3.25	2.88	2.53
EV/SALES adj	6.58	8.32	6.30	5.12	4.32	4.67	3.35	3.25	2.88	2.53
EV/EBITDA	17.8	22.9	17.5	14.3	14.9	15.3	10.8	9.5	7.7	6.5
EV/EBITDA adj	17.8	22.4	17.5	14.3	6.5	15.4	3.5	8.8	7.2	6.2
EV/EBIT	21.1	27.7	23.6	22.7	-22.6	26.1	-7.6	14.9	12.0	9.8
EV/EBIT adj	21.1	27.0	23.6	22.7	23.6	26.4	16.2	13.2	10.9	9.0
EV/capital employed	7.8	5.8	3.8	2.8	2.4	2.7	3.3	3.1	2.8	2.4
EV/NOPLAT	27.1	35.6	30.2	29.1	-29.0	33.4	-9.7	19.1	15.4	12.5
EV/OpFCF (taxed)	26.8	45.6	66.6	57.9	10.4	37.9	4.1	16.2	13.0	10.6

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

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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	16.6	12.9	14.3
ROCE	37.4	28.1	17.7	12.4	9.9	10.9	15.8	23.7	26.3	27.7
ROCE after tax	29.1	21.9	13.8	9.7	7.8	8.5	12.3	18.5	20.5	21.6
<i>Return on invested capital (%)</i>										
Net PPE/revenues	1.8	2.3	1.8	2.0	4.1	3.9	3.4	2.9	2.8	2.7
Working capital/revenues	-6.9	-7.8	-0.2	3.4	-8.3	-10.1	-11.5	-8.8	-10.2	-9.9
<i>Cash flow ratios (%)</i>										
FCF/revenues	25.0	-32.4	0.9	9.9	16.1	16.2	22.0	15.5	18.9	19.5
FCF yield (%)	3.6	1.4	0.9	1.9	3.6	3.3	6.0	4.4	5.8	6.5
CFO/revenues	35.9	24.0	26.1	31.8	36.8	30.3	31.2	27.0	30.8	30.2
CFO/market capitalisation	5.2	2.8	4.2	6.2	8.2	6.2	8.5	7.7	9.5	10.1
CFO/capex	652.1	197.9	126.4	145.5	177.6	214.8	341.2	235.7	259.2	281.3
CFO/current liabilities	121.1	66.2	64.4	78.9	73.7	73.9	72.9	70.7	91.0	99.1
Cash conversion ratio	107.9	-137.6	4.3	62.3	-85.3	118.3	-44.3	63.6	107.8	101.8
Capex/revenues	5.5	12.1	20.6	21.9	20.7	14.1	9.2	11.5	11.9	10.7
Capex/depreciation	791.7	1800.0	648.1	401.0	363.2	233.7	159.8	184.5	233.9	221.8
OpFCF margin	31.4	25.1	15.3	13.8	45.8	16.2	87.0	25.4	27.9	30.1
Total payout ratio	78.9	75.0	50.4	0.0	0.0	35.4	-8.9	38.4	39.7	39.0
<i>Leverage and solvency (x)</i>										
Net debt/EBITDA	-0.92	-0.74	0.13	-0.01	-0.55	-0.61	-1.01	-0.82	-0.97	-1.20
Total debt/total capital (BV)	0.01	0.00	0.08	0.06	0.05	0.05	0.05	0.03	0.00	0.00
LTD / (LTD + equity (MV))	0.00	0.00	0.02	0.02	0.01	0.02	0.02	0.01	0.00	0.00
<i>Cash conversion cycle</i>										
Inventory turnover days	223.3	267.7	223.1	147.6	289.0	322.2	264.2	294.2	281.7	261.9
Receivables turnover days	66.2	96.1	106.8	120.2	104.7	86.5	93.6	85.3	65.7	56.5
Credit period	244.8	296.1	310.9	129.4	279.8	239.5	182.5	245.2	187.8	174.6
Cash conversion cycle	44.8	67.7	18.9	138.3	113.8	169.2	175.3	134.3	159.6	143.8

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

28 October 2024

Important Information

Company: IAR Systems
 Coverage by Analyst: Joachim Gunell
 Date: 28/10/2024

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