

## IAR SYSTEMS

### Hat-trick in 50%+ EBIT beats

The Q4 results marked the third consecutive 'beat and raise quarter' and in our view the SEK290m impairment marks the end of 'old IAR', after which we believe investors can look forward to a streamlined 'new IAR' where we forecast 31% adj. EBIT growth YOY for 2024e at a 25% ROCE (from the low teens in recent years) at 13x EV/EBIT. We further believe IAR is in its best shape operationally in the six years we have covered it, and have raised our fair value to SEK150–220 (140–210).

**Third consecutive double-digit (53%) adj. EBIT beat to our forecast.** Q4 organic sales growth was 15% YOY on broad-based strength (we expected 4% YOY), with all regions back in double-digit organic growth, recurring revenues up 21% YOY, and 12% upfront licences YOY set up net sales 9% above our forecast. IAR Embedded Workbench remains the anchor, while its C-tools series and functional safety products allow it to expand its customer share of wallet. The sales beat, 96.6% gross margin, cost savings and improved efficiency (net sales/employee up 15% YOY) translated in a 103% adj. EBIT drop-through, and 95% adj. EBIT growth YOY led to adj. EBIT 53% above our forecast (25.5% margin, up 10.3%-points YOY). 87% cash conversion (22% FCF margin) resulted in net cash of SEK146m at end-Q4 while IAR proposed a SEK1.5 DPS (flat YOY, 1.1% yield, and reiterated ambitions to continue with share buybacks).

**2024–2025e adj. EBIT raised by 4–2%,** despite 12–10% FX headwind as this marks the third consecutive beat and raise quarter and strong demand (easy comparables in H1), while the SEK50 full run-rate cost-savings allows for meaningful operating leverage. We forecast 9–31% YOY organic sales and adj. EBIT growth YOY for 2024.

**Fair value raised to SEK150–220 (140–210)** corresponding to a 2024e EV/EBIT of 15–23x. We like IAR's progress to becoming a platform business, having cleaned up its balance sheet, as well as: its profitable growth and solid net cash position (12% of its market cap 2024e), offering prospects of generous capital allocations and even bolt-on M&A; the defensive qualities of c45% 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	494	530	565
EBITDA adj (SEKm)	133	238	128	443	194	216	232
EBIT adj (SEKm)	84	66	75	95	125	144	159
PTP (SEKm)	77	-69	74	-203	115	133	148
EPS rep (SEK)	4.36	-4.94	4.23	-16.85	6.56	7.39	8.25
EPS adj (SEK)	4.36	4.90	4.17	5.12	7.15	7.98	8.84
DPS (SEK)	0.00	0.00	1.50	1.50	2.50	2.79	3.09
Revenue growth (%)	-8.3	-3.8	18.1	9.0	7.2	7.2	6.6
EBITDA growth adj (%)	-9.0	79.4	-46.2	246.1	-56.3	11.4	7.4
EPS growth adj (%)	-26.8	12.5	-14.9	22.9	39.5	11.6	10.8
EBITDA margin adj (%)	35.7	66.5	30.3	96.2	39.2	40.7	41.0
EV/Sales adj (x)	5.12	4.32	4.67	3.35	3.35	3.01	2.70
EV/EBITDA adj (x)	14.3	6.5	15.4	3.5	8.6	7.4	6.6
EV/EBIT adj (x)	22.7	23.6	26.4	16.2	13.2	11.1	9.6
P/E adj (x)	32.1	24.0	36.1	24.2	19.2	17.2	15.5
P/Book (x)	3.11	2.74	3.08	3.99	3.80	3.35	2.95
ROE (%)	9.9	nm	9.2	nm	19.6	19.2	18.9
ROCE (%)	12.4	9.9	10.9	15.8	25.1	26.3	26.6
Dividend yield (%)	0.0	0.0	1.0	1.2	1.8	2.0	2.3
FCF yield (%)	1.9	3.6	3.3	6.0	4.8	5.2	5.8

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)	13.8
Market cap. (SEKm)	1,871
NIBD adj end-2024e (SEKm)	-215
Enterprise value adj (SEKm)	1,656
Net debt/EBITDA adj (x)	-1.11
Free float (%)	100

Source: Company, DNB Markets (estimates)

#### NEXT EVENT

Q1 2024	25/04/2024
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#### ESTIMATE CHANGES (SEKm), (SEK)

Year-end Dec	2024e	2025e	2026e
Sales (old)	487.4	520.3	
Sales (new)	494.2	529.9	564.8
Change (%)	1.4	1.8	nm
EPS adj (old)	6.67	7.82	
EPS adj (new)	7.15	7.98	8.84
Change (%)	7.2	2.0	nm

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

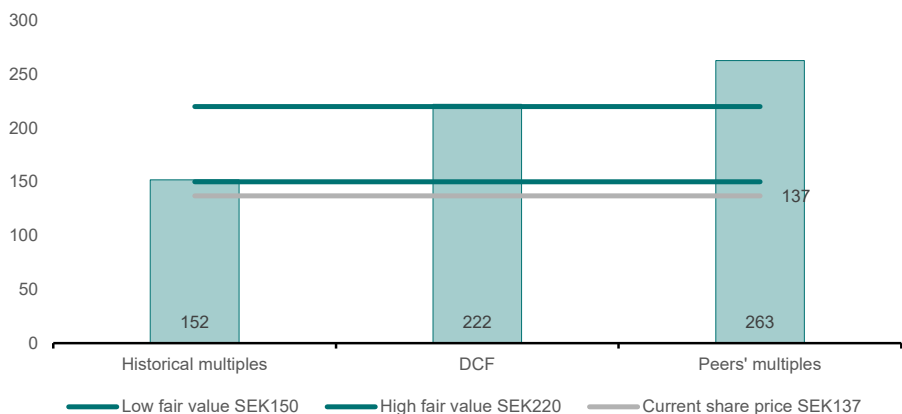
#### ANALYST

Joachim Gunell

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# Overview

## Valuation (SEK)



Source: FactSet, DNB Markets

## 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 19x, EV/EBIT of 13x, and EV/sales of 3x.

Source: 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).
- IAR's management team has taken the necessary steps to modernise the business over the past two years and we believe IAR is in the best shape operationally in the six years we have covered the stock.

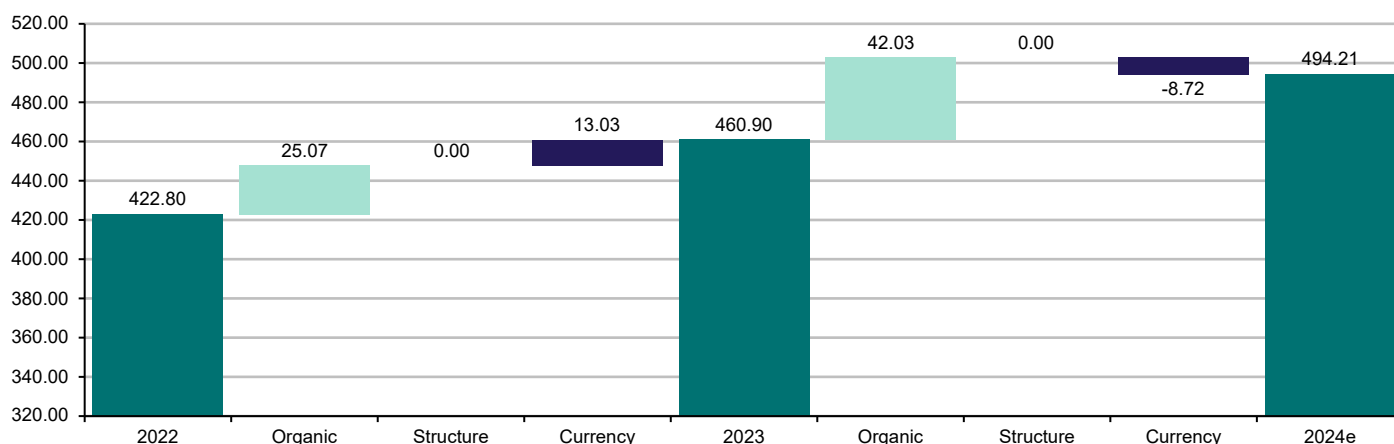
Source: DNB Markets

## 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 cyclicality, and enhance the investment profile.
- Participation in industry consolidation owing to the strategic importance of development tools.

Source: DNB Markets

## Sales bridge 2022–2024e (SEKm)



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

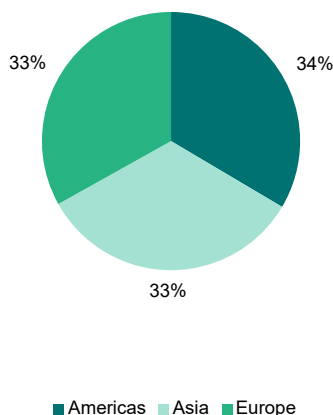
# Company overview and SWOT analysis

## 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.

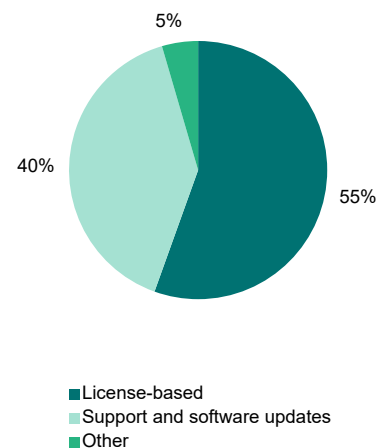
Source: DNB Markets

## Sales by geography (2022)



Source: Company

## Sales by mix (2022)



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	<p>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.</p> <ul style="list-style-type: none"> <li>■ Increased IoT security legislation drives demand for its products, as its OEM customers must comply with new security design requirements.</li> </ul>	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ 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.</li> </ul>
Actions being taken by company	<ul style="list-style-type: none"> <li>■ 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.</li> </ul>	<ul style="list-style-type: none"> <li>■ 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.</li> </ul>

### 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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## Q4 results

Figure 1: Q4 results versus expectations

Key highlights (SEKm, except per share data)	Q4 2023		Deviation	Deviation	Q4 2022	DNBe
	Actual	DNB	(%)	Absolute	Actual	2023
<b>Net sales</b>	<b>125.9</b>	<b>115.8</b>	<b>9%</b>	10	<b>108.8</b>	<b>458.1</b>
Gross profit	121.6	112.6	<b>8%</b>	9	106.9	447.5
Gross margin	96.6%	97.2%	-0.7pp		98.3%	97.7%
One-offs	-223.7	-1.7		-222	0.0	-299.7
EBITDA adj.	44.5	36.1	23%	8	32.4	143.7
EBITDA adj. margin	35.3%	31.2%	4.2pp		29.8%	31.4%
EBIT	-255.8	21.0	-1318%	-277	16.5	95.4
EBIT margin	-203.2%	18.1%	-221.3pp		15.2%	20.8%
<b>EBIT adj.</b>	<b>32.1</b>	<b>21.0</b>	<b>53%</b>	11	<b>16.5</b>	<b>95.4</b>
EBIT adj. margin	25.5%	18.1%	7.4pp		15.2%	20.8%
<b>EPS</b>	<b>-18.79</b>	<b>1.04</b>	<b>-1908%</b>	-19.83	<b>1.07</b>	<b>-16.85</b>
Adj. FCF (CFO - capex)	27.8	14.1	97%	14	3.3	101.8
Cash conversion	87%	67%	19.6pp		20%	107%
Rule of 40 (EBIT)	41.2%	22.7%	18.5pp		35.8%	29.7%
<b>Revenue growth YOY</b>	15.7%	6.3%	9.4pp		18.8%	9.8%
Organic	14.9%	4.0%	10.9pp		6.9%	5.9%
Structural	0.0%	0.0%	0pp		0.0%	0.0%
FX	0.8%	2.3%	-1.4pp		11.9%	3.8%
<b>Segment</b> (SEKm)	<b>Q4 2023</b>		<b>Deviation</b>	<b>Deviation</b>	<b>Q4 2022</b>	<b>DNBe</b>
	<b>Actual</b>	<b>DNB</b>	<b>(%)</b>	<b>Absolute</b>	<b>Actual</b>	<b>2023</b>
<b>Net sales</b>						
Development tools	125.4	114.6	9%	11	108.6	456.0
Security solutions	0.5	1.2	-58%	-1	0.2	2.1
Other	0.0	0.0	n.a.	0	0.0	0.0
<b>Total</b>	<b>125.9</b>	<b>115.8</b>	<b>9%</b>	<b>10</b>	<b>108.8</b>	<b>458.1</b>
<b>Net sales growth</b>						
Development tools	15.5%	5.5%	10pp		18.7%	9.0%
Security solutions	150.0%	502.3%	-352.3pp		100.0%	40.0%
Other						
<b>Total</b>	<b>15.7%</b>	<b>6.3%</b>	<b>9.4pp</b>		<b>18.8%</b>	<b>9.8%</b>
<b>Net sales</b>						
License-based	67.3	56.3	20%	11	57.0	229.4
Support and softw are updates	55.0	53.4	3%	2	45.4	210.6
Other	3.6	6.0	-40%	-2	6.4	18.1
<b>Total</b>	<b>125.9</b>	<b>115.8</b>	<b>9%</b>	<b>10</b>	<b>108.8</b>	<b>458.1</b>

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

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## Estimate revisions

Figure 2: Estimate changes

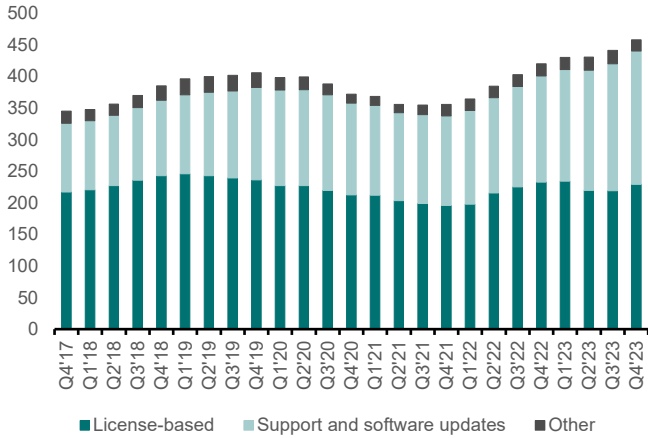
(SEKm, except per share data)	Old			New			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
<b>Net sales</b>	<b>487</b>	<b>520</b>		<b>494</b>	<b>530</b>	<b>565</b>	<b>1%</b>	<b>2%</b>	
Growth YOY, of which	8.2%	6.7%		7.2%	7.2%	6.6%	-93bp	48bp	
Organic	7.3%	6.7%		9.1%	7.0%	6.6%	185bp	24bp	
Structural	0.0%	0.0%		0.0%	0.0%	0.0%	0bp	0bp	
FX	0.9%	0.0%		-1.9%	0.2%	0.0%	-277bp	23bp	
<b>Gross profit</b>	<b>474</b>	<b>507</b>		<b>481</b>	<b>516</b>	<b>551</b>	<b>1%</b>	<b>2%</b>	
<i>Gross margin</i>	97.3%	97.5%		97.2%	97.4%	97.6%	-10bp	-9bp	
EBITDA	184	208		186	208	224	1%	0%	
IAC	-7	-7		-8	-8	-8	18%	18%	
<b>Adj. EBITDA</b>	<b>190</b>	<b>215</b>		<b>194</b>	<b>216</b>	<b>232</b>	<b>2%</b>	<b>0%</b>	
Depreciation and amortisation	-63	-67		-60	-64	-65	-5%	-5%	
EBIT	113	134		117	136	151	3%	1%	
<b>Adj. EBIT</b>	<b>120</b>	<b>141</b>		<b>125</b>	<b>144</b>	<b>159</b>	<b>4%</b>	<b>2%</b>	
<i>Adj. EBIT margin</i>	24.6%	27.1%		25.4%	27.1%	28.2%	70bp	3bp	
Capitalised development costs (CDC)	54	59		54	56	56	0%	-5%	
EBIT excl. CDC	13.6%	15.7%		14.4%	16.5%	18.2%	86bp	75bp	
<b>Adj. Net profit</b>	<b>91</b>	<b>107</b>		<b>98</b>	<b>109</b>	<b>121</b>	<b>7%</b>	<b>2%</b>	
Adj. EPS (diluted)	6.67	7.82		7.15	7.98	8.84	7%	2%	
DPS	2.33	2.74		2.50	2.79	3.09	7%	2%	
<b>Net sales by segment</b>									
Development tools	473	489		492	527	562	4%	8%	
Security solutions	15	31		2	3	3	-83%	-91%	
Other	0	0		0	0	0			
<b>Total</b>	<b>487</b>	<b>520</b>		<b>494</b>	<b>530</b>	<b>565</b>	<b>1%</b>	<b>2%</b>	
<b>Net sales by product type</b>									
License-based	242	262		246	266	288	2%	2%	
Support and software updates	225	237		229	243	255	2%	3%	
Other	21	22		20	21	22	-3%	-5%	
<b>Total</b>	<b>487</b>	<b>520</b>		<b>494</b>	<b>530</b>	<b>565</b>	<b>1%</b>	<b>2%</b>	
<b>Balance sheet and cash flow</b>									
Adj. FCF	87	96		90	97	109	3%	1%	
Cash	259	315		247	290	340	-5%	-8%	
Net cash (-) / net debt (+)	-210	-274		-215	-278	-349	2%	1%	

Source: DNB Markets

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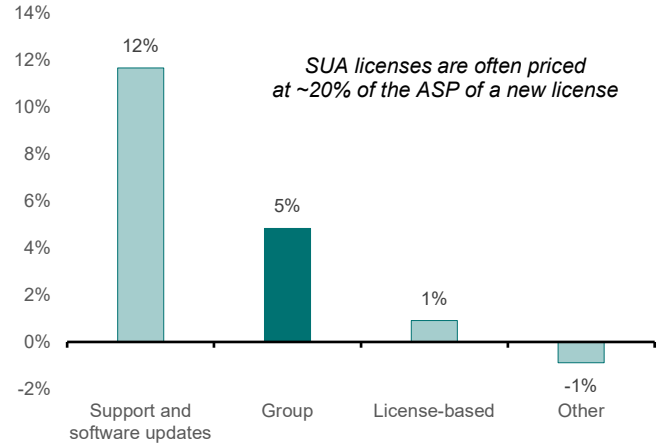
## Key charts

**Figure 3: Net sales mix by product type (LTM, 2017–2023)**



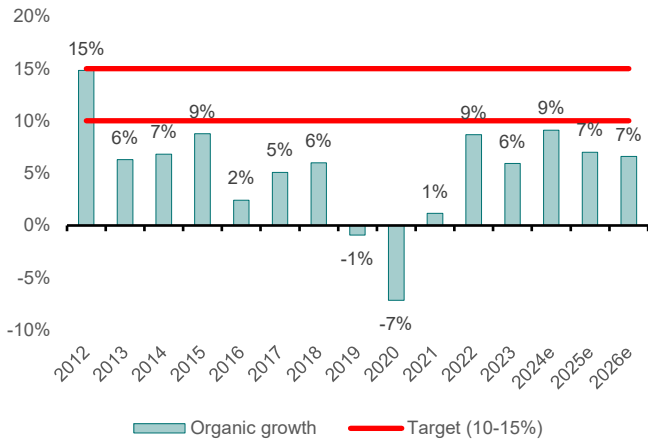
Source: Company (historical data), DNB Markets (further calculations)

**Figure 4: Net sales CAGR by processor type (2017–2023)**



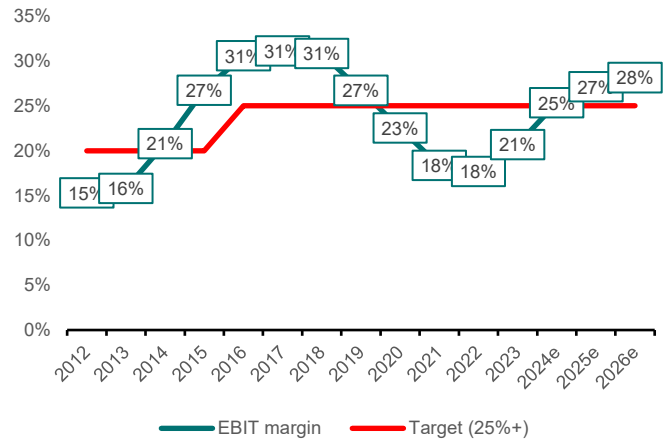
Source: Company (historical data), DNB Markets (further calculations)

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



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

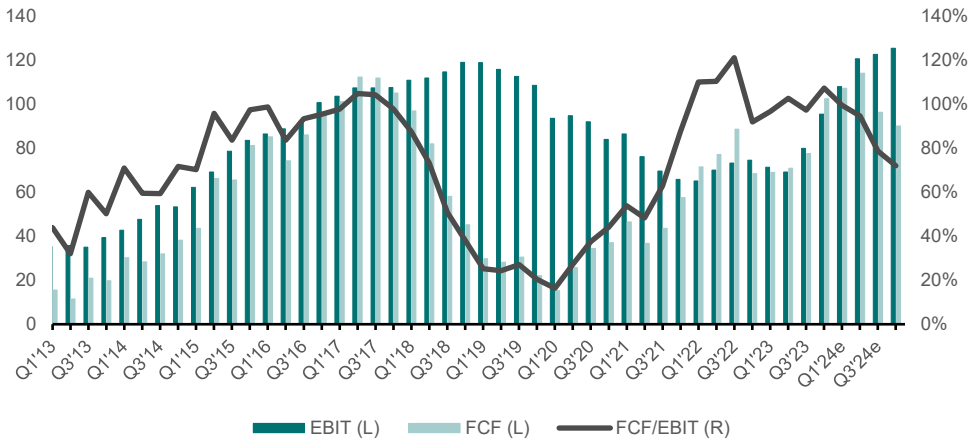
**Figure 6: Financial goal 2 – EBIT margin >25%**



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

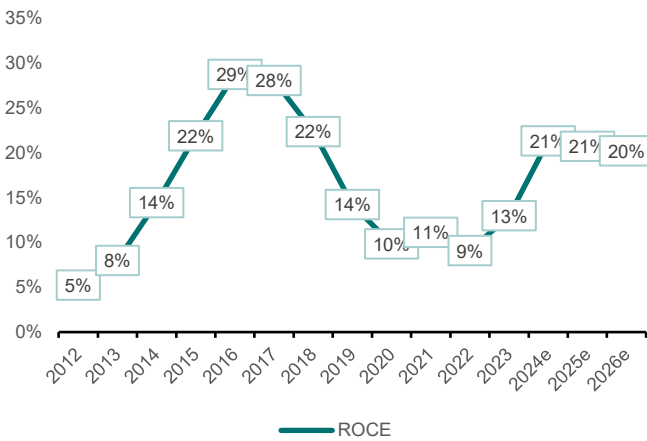
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**Figure 7: LTM FCF versus LTM EBIT (2013–2023e) – coming out of an intense investment period to accelerate organic growth since 2018**



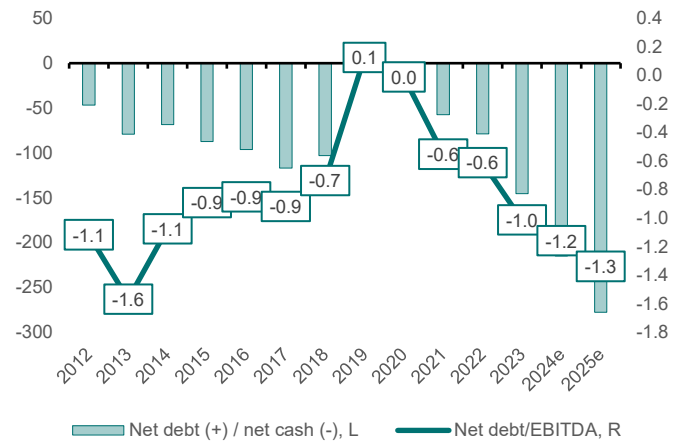
Source: DNB Markets (forecasts), company (historical data)

**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
<b>Net sales</b>	<b>405.6</b>	<b>372.0</b>	<b>355.8</b>	<b>419.9</b>	<b>458.1</b>	<b>494.2</b>	<b>529.9</b>	<b>564.8</b>	<b>7%</b>
Growth YOY, of which	5%	-8%	-4%	18%	10%	7%	7%	7%	
Organic	-1%	-7%	1%	9%	6%	9%	7%	7%	
Structural	0%	0%	0%	0%	0%	0%	0%	0%	
FX	6%	-1%	-6%	9%	4%	-2%	0%	0%	
COGS	-10.8	-14.1	-12.0	-12.8	-13.4	-13.7	-13.7	-13.7	
<b>Gross profit</b>	<b>394.8</b>	<b>357.9</b>	<b>346.0</b>	<b>410.0</b>	<b>447.5</b>	<b>480.5</b>	<b>516.2</b>	<b>551.1</b>	
Capitalised work	0.0	0.0	64.4	50.2	36.1	54.0	56.4	56.4	
Other external expenses	-63.7	-37.7	-48.3	-58.2	-54.4	-55.9	-58.9	-59.9	
Personnel costs	-185.3	-187.5	-258.2	-273.0	-285.5	-293.0	-306.2	-324.1	
<b>EBITDA</b>	<b>145.8</b>	<b>132.7</b>	<b>103.9</b>	<b>129.0</b>	<b>143.7</b>	<b>185.6</b>	<b>207.6</b>	<b>223.5</b>	
IAC	0.0	0.0	-134.2	0.9	-299.7	-8.0	-8.0	-8.0	
<b>Adj. EBITDA</b>	<b>145.8</b>	<b>132.7</b>	<b>238.1</b>	<b>128.1</b>	<b>443.4</b>	<b>193.6</b>	<b>215.6</b>	<b>231.5</b>	
Depreciation and amortisation	-37.4	-48.9	-172.4	-53.3	-348.0	-60.3	-63.7	-64.5	
<b>EBIT</b>	<b>108.4</b>	<b>83.8</b>	<b>-68.5</b>	<b>75.7</b>	<b>-204.3</b>	<b>117.3</b>	<b>135.9</b>	<b>151.0</b>	
<b>Adj. EBIT</b>	<b>108.4</b>	<b>83.8</b>	<b>65.7</b>	<b>74.8</b>	<b>95.4</b>	<b>125.3</b>	<b>143.9</b>	<b>159.0</b>	<b>19%</b>
Financial items	-1.4	-7.0	-0.1	-2.2	0.9	-2.6	-3.2	-3.2	
<b>Profit before tax</b>	<b>107.0</b>	<b>76.8</b>	<b>-68.6</b>	<b>73.5</b>	<b>-203.4</b>	<b>114.7</b>	<b>132.7</b>	<b>147.8</b>	
Taxes paid	-25.8	-17.4	1.2	-15.7	-25.6	-25.0	-31.6	-35.1	
<b>Adj. Net profit</b>	<b>81.2</b>	<b>59.4</b>	<b>66.8</b>	<b>56.9</b>	<b>70.7</b>	<b>97.7</b>	<b>109.0</b>	<b>120.7</b>	<b>20%</b>
EPS	5.96	4.36	-4.94	4.23	-16.85	6.56	7.39	8.25	
Adj. EPS (diluted)	5.96	4.36	4.90	4.17	5.12	7.15	7.98	8.84	
DPS	3.00	0.00	0.00	1.50	1.50	2.50	2.79	3.09	
<b>Margins</b>									
Gross	97.3%	96.2%	96.6%	97.0%	97.1%	97.2%	97.4%	97.6%	
EBITDA	35.9%	35.7%	29.0%	30.5%	31.2%	37.6%	39.2%	39.6%	
Adj. EBITDA	35.9%	35.7%	66.5%	30.3%	96.2%	39.2%	40.7%	41.0%	
EBIT	26.7%	22.5%	-19.1%	17.9%	-44.3%	23.7%	25.6%	26.7%	
Adj. EBIT	26.7%	22.5%	18.4%	17.7%	20.7%	25.4%	27.1%	28.2%	
FCF margin	5.4%	9.9%	16.1%	16.2%	22.2%	18.2%	18.3%	19.3%	
Rule of 40 (EBIT)	32.0%	14.2%	14.6%	35.8%	29.7%	32.6%	34.4%	34.7%	
ROCE	17.7%	12.4%	9.9%	10.9%	15.8%	25.1%	26.3%	26.6%	
<b>Cash flow</b>									
Cash flow from operating activities	105.7	118.4	131.6	128.0	144.0	151.2	161.4	174.3	
Capex	-83.6	-81.4	-74.1	-59.6	-42.2	-61.2	-64.4	-65.3	
Adj. FCF	22.1	37.0	57.5	68.4	101.8	90.0	96.9	109.0	<b>2%</b>
Cash conversion (FCF/EBIT)	20%	44%	88%	91%	107%	72%	67%	69%	
<b>Balance sheet</b>									
Cash	60.7	67.8	113.4	148.2	197.4	246.9	289.6	340.5	
Net cash (-) / net debt (+)	18.4	-1.5	-57.4	-78.9	-145.7	-215.2	-277.9	-348.8	
Net debt/EBITDA	0.1x	0.0x	-0.6x	-0.6x	-1.0x	-1.2x	-1.3x	-1.6x	

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
<b>Net sales by segment</b>									
Development tools	403.9	367.0	355.1	418.4	456.0	491.7	527.0	561.5	7%
Security solutions	1.7	5.0	0.7	1.5	2.1	2.5	2.9	3.3	16%
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Total</b>	<b>405.6</b>	<b>372.0</b>	<b>355.8</b>	<b>419.9</b>	<b>460.9</b>	<b>494.2</b>	<b>529.9</b>	<b>564.8</b>	<b>7%</b>
<b>Net sales growth by segment</b>									
Development tools	6%	-9%	-3%	18%	9%	8%	7%	7%	
Security solutions	-66%	194%	-86%	114%	40%	17%	16%	14%	
Other									
<b>Total</b>	<b>5%</b>	<b>-8%</b>	<b>-4%</b>	<b>18%</b>	<b>10%</b>	<b>7%</b>	<b>7%</b>	<b>7%</b>	
<b>Net sales by product</b>									
License-based	236.3	212.4	196.1	233.0	229.4	245.6	266.2	288.2	8%
Support and software updates	146.3	145.2	141.6	167.9	210.6	228.6	243.1	255.1	7%
Other	23.0	14.4	18.1	19.0	18.1	20.0	20.6	21.5	6%
<b>Total</b>	<b>405.6</b>	<b>372.0</b>	<b>355.8</b>	<b>419.9</b>	<b>460.9</b>	<b>494.2</b>	<b>529.9</b>	<b>564.8</b>	<b>7%</b>
<b>Net sales growth by product</b>									
License-based	-3%	-10%	-8%	19%	-2%	7%	8%	8%	
Support and software updates	23%	-1%	-2%	19%	25%	9%	6%	5%	
Other	0%	-37%	26%	5%	-5%	10%	3%	4%	
<b>Total</b>	<b>5%</b>	<b>-8%</b>	<b>-4%</b>	<b>18%</b>	<b>10%</b>	<b>7%</b>	<b>7%</b>	<b>7%</b>	

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	Q1'24e	Q2'24e	Q3'24e	Q4'24e
<b>Net sales by segment</b>										
Development tools	105.6	108.6	107.3	107.1	116.2	125.4	118.5	119.3	123.4	130.6
Security solutions	0.5	0.2	0.4	1.1	0.1	0.5	0.5	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
<b>Total</b>	<b>106.1</b>	<b>110.7</b>	<b>108.6</b>	<b>108.9</b>	<b>117.4</b>	<b>126.0</b>	<b>119.0</b>	<b>120.5</b>	<b>123.6</b>	<b>131.2</b>
<b>Net sales growth by segment</b>										
Development tools	20%	19%	11%	0%	10%	15%	10%	11%	6%	4%
Security solutions	400%	100%	0%	175%	-80%	150%	23%	7%	97%	19%
Other										
<b>Total</b>	<b>20%</b>	<b>19%</b>	<b>10%</b>	<b>1%</b>	<b>10%</b>	<b>15%</b>	<b>10%</b>	<b>11%</b>	<b>6%</b>	<b>4%</b>
<b>Net sales by product</b>										
License-based	56.2	57.0	53.3	53.0	55.8	67.3	58.2	58.6	61.1	67.7
Support and software updates	44.4	45.4	49.7	50.7	55.2	55.0	55.7	56.9	57.5	58.5
Other	5.5	6.4	4.7	4.5	5.3	3.6	5.0	5.0	5.0	5.0
<b>Total</b>	<b>106.1</b>	<b>110.7</b>	<b>108.6</b>	<b>108.9</b>	<b>117.4</b>	<b>126.0</b>	<b>119.0</b>	<b>120.5</b>	<b>123.6</b>	<b>131.2</b>
<b>Net sales growth by product</b>										
License-based	22%	15%	2%	-22%	-1%	18%	9%	11%	9%	1%
Support and software updates	20%	26%	21%	37%	24%	21%	12%	12%	4%	6%
Other	15%	5%	12%	55%	-4%	-44%	6%	11%	-6%	39%
<b>Total</b>	<b>20%</b>	<b>19%</b>	<b>10%</b>	<b>1%</b>	<b>10%</b>	<b>15%</b>	<b>10%</b>	<b>11%</b>	<b>6%</b>	<b>4%</b>

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

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

(SEKm)	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24e	Q2'24e	Q3'24e	Q4'24e
<b>Net sales</b>	<b>106.1</b>	<b>110.7</b>	<b>108.6</b>	<b>108.9</b>	<b>117.4</b>	<b>126.0</b>	<b>119.0</b>	<b>120.5</b>	<b>123.6</b>	<b>131.2</b>
Grow th YOY, of w hich	20%	19%	10%	1%	10%	15%	10%	11%	6%	4%
Organic	11%	7%	5%	-4%	6%	15%	12%	13%	9%	5%
Structural	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
FX	9%	12%	6%	5%	4%	1%	-2%	-2%	-3%	-1%
COGS	-3.1	-3.8	-3.2	-2.8	-3.1	-4.3	-3.5	-3.4	-3.4	-3.4
<b>Gross profit</b>	<b>103.0</b>	<b>106.9</b>	<b>105.4</b>	<b>106.1</b>	<b>114.3</b>	<b>121.7</b>	<b>115.5</b>	<b>117.1</b>	<b>120.2</b>	<b>127.8</b>
Capitalised work	11.3	16.2	9.4	10.4	7.2	9.1	12.0	14.0	14.0	14.0
Other external expenses	-18.8	-16.1	-12.7	-10.0	-11.9	-19.8	-13.0	-10.8	-15.1	-17.0
Personnel costs	-61.3	-74.6	-76.8	-76.0	-66.2	-66.5	-74.0	-75.0	-69.0	-75.0
<b>EBITDA</b>	<b>34.2</b>	<b>32.4</b>	<b>25.3</b>	<b>30.5</b>	<b>43.4</b>	<b>44.5</b>	<b>40.5</b>	<b>45.3</b>	<b>50.1</b>	<b>49.8</b>
IAC	0.0	0.0	-1.7	-6.2	-3.9	-287.9	-2.0	-2.0	-2.0	-2.0
<b>Adj. EBITDA</b>	<b>34.2</b>	<b>32.4</b>	<b>27.0</b>	<b>36.7</b>	<b>47.3</b>	<b>332.4</b>	<b>42.5</b>	<b>47.3</b>	<b>52.1</b>	<b>51.8</b>
Depreciation and amortisation	-12.1	-15.9	-13.9	-19.3	-14.5	-300.3	-14.9	-15.3	-15.2	-14.9
<b>EBIT</b>	<b>22.1</b>	<b>16.5</b>	<b>11.4</b>	<b>11.2</b>	<b>28.9</b>	<b>-255.8</b>	<b>23.6</b>	<b>28.0</b>	<b>32.9</b>	<b>32.9</b>
<b>Adj. EBIT</b>	<b>22.1</b>	<b>16.5</b>	<b>13.1</b>	<b>17.4</b>	<b>32.8</b>	<b>32.1</b>	<b>25.6</b>	<b>30.0</b>	<b>34.9</b>	<b>34.9</b>
Financial items	1.1	-1.9	0.3	2.8	-4.0	1.8	-0.7	-0.7	-0.7	-0.7
<b>Profit before tax</b>	<b>23.2</b>	<b>14.6</b>	<b>11.7</b>	<b>14.0</b>	<b>24.9</b>	<b>-254.0</b>	<b>22.9</b>	<b>27.3</b>	<b>32.2</b>	<b>32.2</b>
Taxes paid	-6.4	0.0	-5.3	-7.9	-10.9	-1.5	-5.6	-6.6	-7.7	-5.1
<b>Adj. Net profit</b>	<b>16.8</b>	<b>14.6</b>	<b>8.1</b>	<b>12.3</b>	<b>17.9</b>	<b>32.4</b>	<b>19.3</b>	<b>22.7</b>	<b>26.5</b>	<b>29.1</b>
EPS	1.04	1.07	0.47	0.45	1.02	-18.79	1.27	1.52	1.80	1.98
Adj. EPS (diluted)	1.23	1.07	0.59	0.89	1.29	2.35	1.41	1.66	1.94	2.13
DPS	0.00	0.00	0.00	1.50	0.00	0.00	0.00	1.50	0.00	0.00
<b>Margins</b>										
Gross	97.1%	96.6%	97.1%	97.4%	97.4%	96.6%	97.1%	97.2%	97.2%	97.4%
EBITDA	32.2%	29.3%	23.3%	28.0%	37.0%	35.3%	34.0%	37.6%	40.5%	38.0%
Adj. EBITDA	32.2%	29.3%	24.9%	33.7%	40.3%	263.8%	35.7%	39.2%	42.1%	39.5%
EBIT	20.8%	14.9%	10.5%	10.3%	24.6%	-203.0%	19.8%	23.2%	26.6%	25.1%
Adj. EBIT	20.8%	14.9%	12.1%	16.0%	27.9%	25.5%	21.5%	24.9%	28.2%	26.6%
FCF margin	31.3%	3.0%	14.6%	16.9%	34.0%	22.3%	17.4%	20.9%	18.0%	16.7%
Rule of 40 (EBIT)	38.7%	35.8%	22.5%	17.2%	38.6%	39.3%	31.0%	35.5%	33.5%	30.7%
ROCE	11.1%	10.9%	10.1%	9.5%	10.7%	14.1%	17.6%	22.0%	25.2%	25.1%
<b>Cash flow</b>										
Cash flow from operating activities	47.4	25.8	26.1	29.1	51.9	36.9	34.4	41.3	38.2	37.3
Capex	-14.2	-22.5	-10.4	-10.7	-12.0	-9.1	-13.7	-16.1	-16.0	-15.4
Adj. FCF	33.2	3.3	15.7	18.4	39.9	27.8	20.7	25.2	22.2	21.9
Cash conversion (FCF/EBIT)	150%	20%	120%	106%	122%	87%	81%	84%	64%	63%
<b>Balance sheet</b>										
Cash	158.8	148.2	158.1	153.8	186.0	197.4	213.1	212.8	230.0	246.9
Net cash (-) / net debt (+)	-131.1	-78.9	-92.6	-94.7	-127.8	-145.7	-166.4	-171.1	-193.3	-215.2
Net debt/EBITDA	-1.2x	-0.6x	-0.7x	-0.8x	-1.0x	-1.0x	-1.0x	-1.0x	-1.1x	-1.2x

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

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## Valuation

Figure 14: Valuation approaches (SEKm, %)

	Peers regression	DCF	Historical average
Net sales (2024e)			494
Adj. EBIT (2024e)			125
Adj. EPS (2024e)			7.15
Sales CAGR (2022–2024e)	13.2		7.2
Adj. EBIT margin (2023e)	20.8		25.4
RO40 (2023e)	36.5		32.6
<b>Target multiple</b>	RO40, P/B, EV/S	9% WACC	15x EV/EBIT
Enterprise value	3,410	2,849	1,879
Net debt (+)/cash (-)	-215	-215	-215
Equity value	3,625	3,065	2,095
Shares outstanding	13.8	13.8	13.8
<b>Implied fair value/share</b>	<b>263</b>	<b>222</b>	<b>152</b>
Implied potential	92%	62%	11%
<b>2024e valuation multiples</b>			
Implied EV/sales	6.9	5.8	3.8
Implied EV/EBIT	27.2	22.7	15.0
Implied P/E	37.1	31.4	21.4

Source: DNB Markets

Figure 15: Implied valuation multiples based on current share price

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>Net sales</b>	<b>345</b>	<b>385</b>	<b>406</b>	<b>372</b>	<b>356</b>	<b>420</b>	<b>458</b>	<b>494</b>	<b>530</b>	<b>565</b>
Growth YOY	5.1%	10.2%	5.2%	-8.3%	-4.4%	18.1%	9.8%	7.2%	7.2%	6.6%
Gross profit	337	376	395	358	346	410	448	481	516	551
Gross margin	97.5%	97.7%	97.3%	96.2%	96.6%	97.0%	97.1%	97.2%	97.4%	97.6%
Adj. EBITDA	127	140	146	133	104	129	144	186	208	224
EBITDA margin	36.9%	37.2%	35.9%	35.7%	66.5%	30.3%	96.2%	39.2%	40.7%	41.0%
<b>Adj. EBIT</b>	<b>107</b>	<b>119</b>	<b>108</b>	<b>84</b>	<b>66</b>	<b>75</b>	<b>95</b>	<b>125</b>	<b>144</b>	<b>159</b>
EBIT margin	31.1%	30.8%	26.7%	22.5%	18.4%	17.7%	20.7%	25.4%	27.1%	28.2%
Adj. Net profit	80	94	81	59	67	57	71	98	109	121
<b>Adj. FCF</b>	<b>105</b>	<b>46</b>	<b>22</b>	<b>37</b>	<b>58</b>	<b>68</b>	<b>102</b>	<b>90</b>	<b>97</b>	<b>109</b>
FCF margin	30.4%	11.9%	5.4%	9.9%	16.2%	16.3%	22.2%	18.2%	18.3%	19.3%
Cash conversion	98%	39%	20%	44%	88%	91%	107%	72%	67%	69%
Rule of 40 (EBIT)	36.2%	41.0%	31.9%	14.2%	14.0%	35.8%	30.5%	32.6%	34.4%	34.7%
ROCE	37.4%	28.1%	17.7%	12.4%	9.9%	10.9%	15.8%	25.1%	26.3%	26.6%
ROIC	28.5%	21.9%	13.8%	10.1%	10.4%	8.7%	11.5%	20.1%	20.5%	20.7%
<b>Market cap</b>	<b>2,387</b>	<b>3,310</b>	<b>2,535</b>	<b>1,905</b>	<b>1,606</b>	<b>1,870</b>	<b>1,871</b>	<b>1,871</b>	<b>1,871</b>	<b>1,871</b>
Net debt	-117	-103	18	-1	-57	-79	-146	-215	-278	-349
<b>Enterprise value</b>	<b>2,270</b>	<b>3,206</b>	<b>2,554</b>	<b>1,904</b>	<b>1,548</b>	<b>1,791</b>	<b>1,726</b>	<b>1,656</b>	<b>1,593</b>	<b>1,523</b>
EV/Sales	6.6x	8.3x	6.3x	5.1x	4.4x	4.3x	3.8x	3.4x	3.0x	2.7x
EV/EBIT	21.1x	27.0x	23.6x	22.7x	23.6x	23.9x	18.1x	13.2x	11.1x	9.6x
P/E	29.8x	35.2x	31.2x	32.1x	24.0x	32.9x	26.5x	19.2x	17.2x	15.5x
FCF yield	4.4%	1.4%	0.9%	1.9%	3.6%	3.7%	5.4%	4.8%	5.2%	5.8%

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

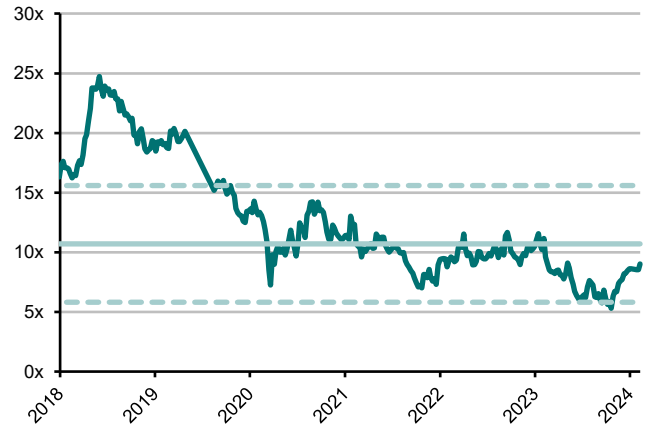
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**Figure 16: EV/sales 12-month forward IAR Systems (2018–2024)**



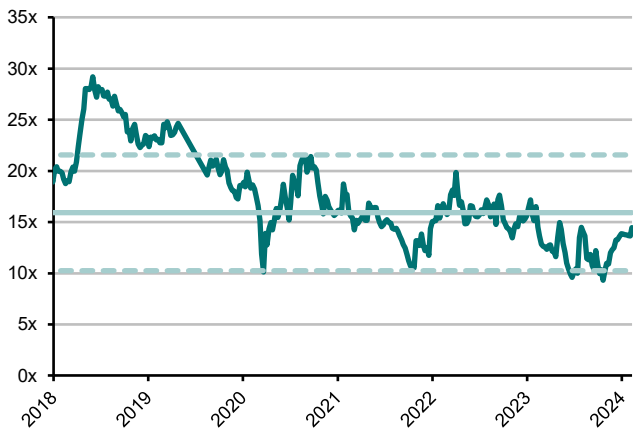
Source: Bloomberg

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



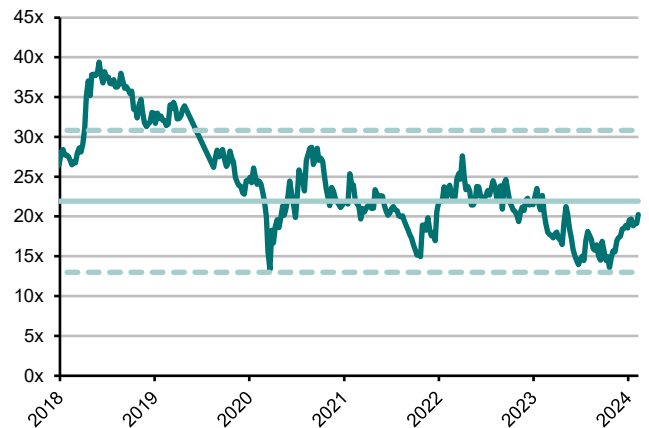
Source: Bloomberg

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



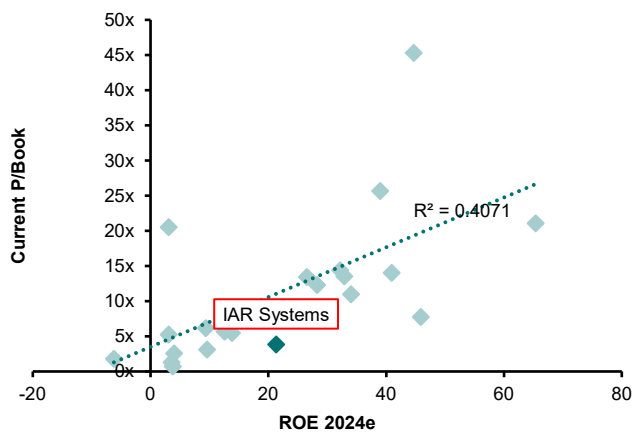
Source: Bloomberg

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



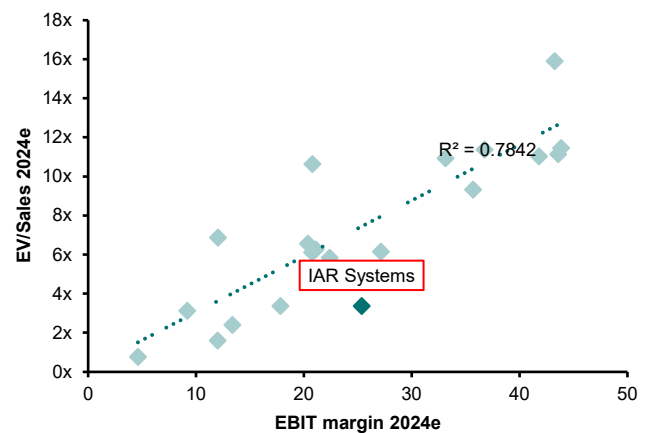
Source: Bloomberg

**Figure 20: Current P/book versus ROE 2024e**



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

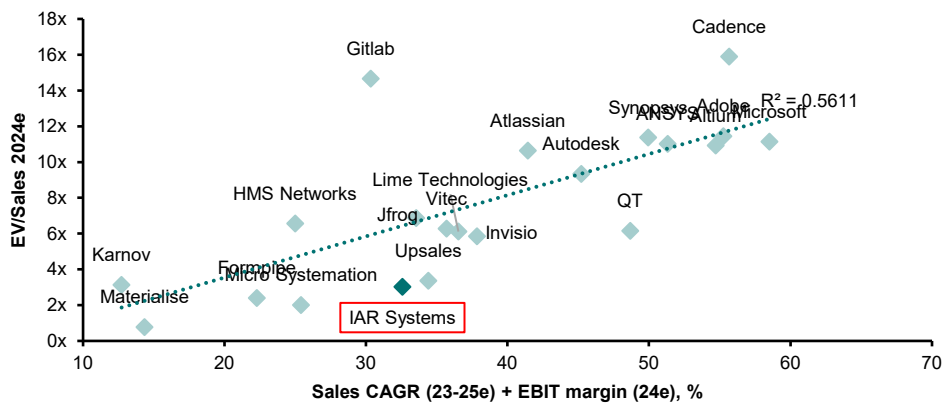
**Figure 21: EV/sales versus EBIT margin (2024e)**



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

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Figure 22: EV/sales 2024e versus sales CAGR + EBIT margin



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

**Figure 23: 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	
<b>IAR Systems (DNBe)</b>	<b>1.9</b>	<b>21</b>	<b>19</b>	<b>17</b>	<b>13</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1.8</b>	<b>4.8</b>	<b>21</b>	<b>21</b>	<b>25.4</b>	<b>27.1</b>	<b>7</b>	<b>23</b>		
Premium/discount		-70%	-57%	-51%	-74%	-78%	-68%	-69%	-77%	-73%	-62%	-60%	-59%										
<b>IAR Systems (Cons.)</b>	<b>1.9</b>	<b>21</b>	<b>18</b>		<b>14</b>	<b>12</b>		<b>9</b>	<b>8</b>		<b>4</b>	<b>3</b>		<b>1.7</b>	<b>4.7</b>	<b>11</b>	<b>12</b>	<b>23.9</b>	<b>26.4</b>	<b>8</b>	<b>33</b>	<b>41</b>	
Premium/discount		-70%	-60%	n.a.	-72%	-76%	n.a.	-69%	-77%	n.a.	-59%	-55%	n.a.										
<b>Nordic software</b>																							
Enea	1.2	13	11	9	13	10	7	5	4	3	2	2	1		11.8	4	5	12.0	13.2	1		-15	
Formpipe	1.5	30	19		19	13		10	8		3	2	2	1.5	3.8	10	14	13.4	17.5	9	51	55	
HMS Networks	21.5	47	37	32	36	29	24	30	25	21	7	7	6	1.0	2.9	20	22	20.4	22.8	5	1	-1	
Invisio	9.7	42	33	29	30	23		25	20		7	6	5	1.1	2.3	32	32	22.4	24.3	15	26	26	
Karnov	6.1	18	14	12	32		15	12	10	8	3	3	3	1.8	6.2	4	8	9.2	13.9	4	51	21	
Lime Technologies	4.6	38	32	29	33	26		22	18	15	7	6		1.1	2.0	36	36	20.8	22.1	16	22	24	
Micro Systemation	1.1	18	15	13	13	10	8	11	9	7	2	2	2	3.9	6.4	46	45	16.8	18.2	9	19	16	
QT	18.8	34	26	22	27	19	14	22	17	13	8	6	5	0.0	2.5	33	31	27.1	30.1	22	33	30	
Upsales	0.7	29	25		22	18		16	14		4	3		2.9	2.3	65	67	17.8	18.3	17	9	10	
Vitec	21.2	41	36	31	33	29	26	18	17	15	7	6	6	0.7	2.2	13	13	21.1	21.9	15	14	27	
WithSecure	2.1		97	46		185		37	13		1	1	1	0.0		-6	1	-4.4	0.5	7			
<b>Engineering software</b>																							
Adobe	2,940.4	35	31	27	30	26	24	28	25	24	13	11	10	0.0	3.1	41	37	43.9	44.0	11	9	13	
Altium	45.8	52	42	34	39	31	25	36	29	23	13	11	9	1.6	1.3	27	30	33.1	34.9	22	26	26	
Andes	8.6	145	50		416	49		90	31		16	12	10	0.2	0.8	3	10	3.8	23.7	37		380	
ANSYS	314.7	36	33	29	29	27		27	26		12	11	10	0.0	2.5	14	10	41.8	42.3	10	10	11	
Atlassian	584.8	84	69	53	61	48	35	57	45	34	13	11	9	0.0	1.9	45	52	20.8	21.5	21	27	32	
Autodesk	589.9	35	32	29	29	26	24	27	27	24	10	9	9	0.0	2.2	113	142	35.7	35.5	10	9	11	
Cadence	878.7	52	45	38	41	35	30	40	34	30	18	16	14	0.0	1.9	39	38	43.2	44.2	12	16	16	
Gitlab	123.7	587	204	120		368	138		280	127	19	15	11		0.0	3	10	-1.5	4.0	32			
Jfrog	42.8	74	59	49	69	48	31	56	51	20	9	7	6		1.9	9	12	12.0	13.8	22	46	22	
Materialise	3.4	29	19	15	16	9		5	4		1	1	1	0.0	0.9	4	6	4.6	7.1	10	69	55	
Microsoft	32,236.9	36	31	26	28	24	21	24	21	17	13	11	10	0.7	2.2	34	32	43.6	43.9	15	18	18	
Synopsys	913.4	43	37	31	35	31	26	35	31	28	13	12	10		1.9	28	26	36.8	36.4	13	16	18	
<b>Average</b>	<b>1,685.7</b>	<b>69</b>	<b>43</b>	<b>34</b>	<b>50</b>	<b>49</b>	<b>30</b>	<b>29</b>	<b>33</b>	<b>26</b>	<b>9</b>	<b>7</b>	<b>7</b>	<b>0.9</b>	<b>2.9</b>	<b>27</b>	<b>30</b>	<b>21.5</b>	<b>24.1</b>	<b>14</b>	<b>25</b>	<b>38</b>	
<b>Median</b>	<b>21.2</b>	<b>37</b>	<b>33</b>	<b>29</b>	<b>30</b>	<b>27</b>	<b>24</b>	<b>26</b>	<b>21</b>	<b>20</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>0.7</b>	<b>2.2</b>	<b>27</b>	<b>26</b>	<b>20.8</b>	<b>22.1</b>	<b>13</b>	<b>19</b>	<b>21</b>	

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.

### 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.

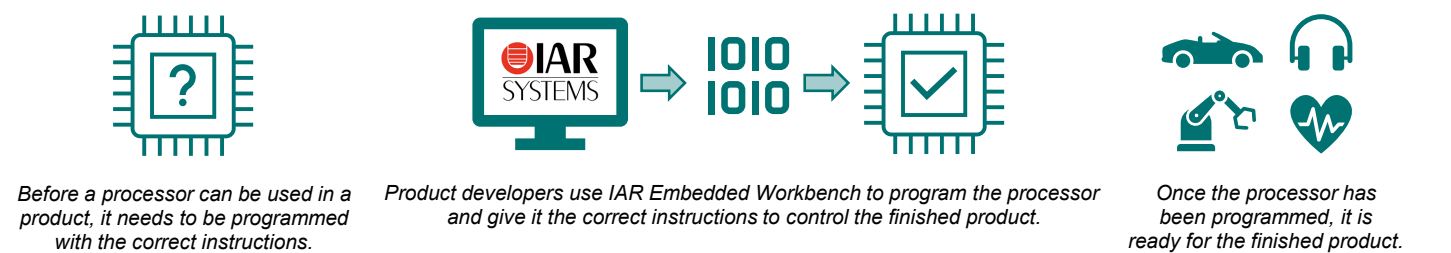
## Business overview

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 24: IAR Embedded Workbench in the customer's product development



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

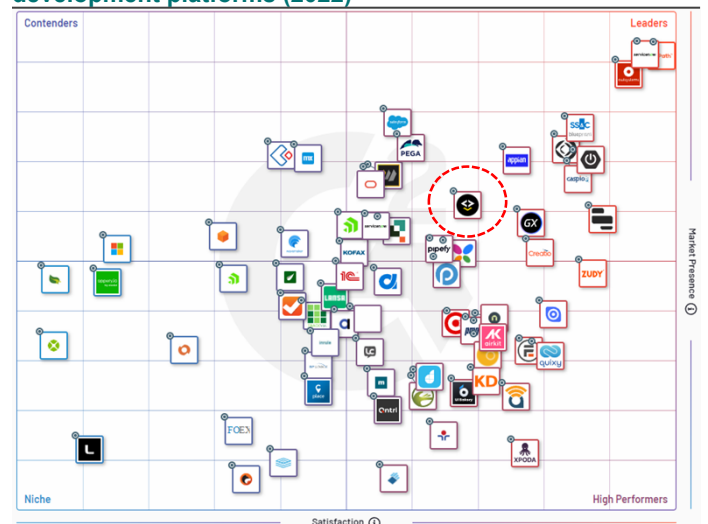
Headquartered in Uppsala, Sweden, IAR Systems has 200+ employees in 15 offices on three continents with technical support teams in its customers' local time zones in 10+ languages. Its independent software supports more than 14,000 processors from more than 70 vendors, more than any other supplier, meaning 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 25: Example of customers



Source: Company

Figure 26: 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

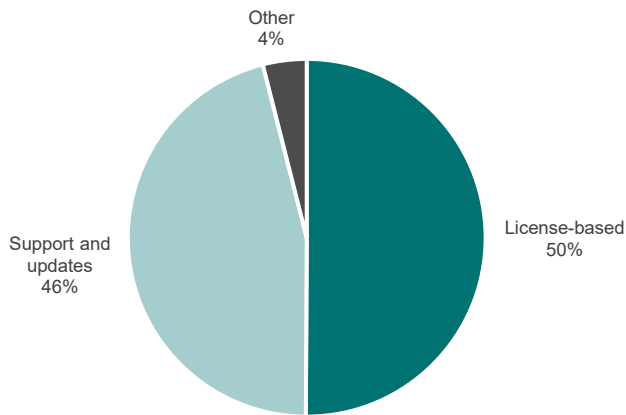
companies, etc.); and 4) suppliers of integrated programmes (real-time operating systems, graphics development, etc.).

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

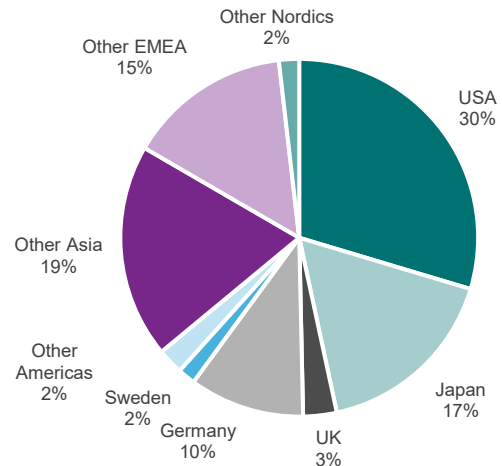
- **Development tools (~99% of 2023 net sales)** consist of IAR Embedded Workbench (8- to 64-bit) with world-leading code-optimisation technology, compiler, debugger probes and analysis tools (ensuring code quality and coding standards), functional safety certifications (pre-certified build tools), RISV-V 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 27: Net sales by revenue stream (2023)



Source: Company

Figure 28: Geographical net sales split (2022)



Source: Company

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Revenues	494	530	565	487	520		7	10	
Cost of sales	-14	-14	-14	-13	-13		-1	-1	
Gross profit	481	516	551	474	507		6	9	
Operating expenses	-349	-365	-384	-345	-359		-4	-7	
EBITDA	186	208	224	184	208		2	0	
EBITDA adj	194	216	232	190	215		3	1	
EBITDA margin (%)	37.6	39.2	39.6	37.6	40.0	nm	-0.1	-0.8	nm
Depreciation	-26	-28	-29	-29	-31		3	3	
Amortisation	-34	-36	-36	-34	-36		0	0	
EBIT	117	136	151	113	134		4	2	
EBIT adj	125	144	159	120	141		5	3	
Net financial items	-3	-3	-3	-3	-3		0	0	
PBT	115	133	148	111	131		4	2	
Taxes	-25	-32	-35	-26	-31		1	-1	
Net profit	90	101	113	84	100		5	1	
Adjustments to net profit	8	8	8	7	7		1	1	
Net profit adj	98	109	121	91	107		7	2	
<i>Per share data (SEK)</i>									
EPS	6.56	7.39	8.25	6.17	7.33		0.39	0.07	
EPS adj	7.15	7.98	8.84	6.67	7.82		0.48	0.16	
DPS ordinary	2.50	2.79	3.09	2.33	2.74		0.17	0.05	
DPS	2.50	2.79	3.09	2.33	2.74		0.17	0.05	
<i>Other key metrics (%)</i>									
Revenue growth	7.2	7.2	6.6	8.2	6.7	nm	-0.9	0.5	nm
EBIT adj growth	31.3	14.8	10.5	42.5	17.5	nm	-11.2	-2.6	nm
EPS adj growth	39.5	11.6	10.8	69.2	17.3	nm	-29.7	-5.7	nm
Avg. number of shares (m)	14	14	14	14	14		0	0	
Capex	-61	-64	-65	-62	-68		0	3	
OpFCF	132	151	166	129	147		4	4	
Working capital	-54	-51	-48	-56	-53		2	2	
NIBD adj	-215	-278	-349	-210	-274		-5	-4	

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Revenue									
<b>Assumptions</b>									
Revenue org. % YOY	9.12	6.99	6.59	7.27	6.75		1.85	0.24	
Currency impact % YOY	-1.89	0.23	0.00	0.88	0.00		-2.77	0.23	

Source: DNB Markets

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## Quarterly numbers

(SEKm)	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024e	Q2 2024e	Q3 2024e	Q4 2024e	Q1 2025e
<b>Revenues</b>	<b>106</b>	<b>111</b>	<b>109</b>	<b>109</b>	<b>117</b>	<b>126</b>	<b>119</b>	<b>120</b>	<b>124</b>	<b>131</b>	<b>129</b>
Cost of sales	-3	-4	-3	-3	-3	-4	-4	-3	-3	-3	-4
<b>Gross profit</b>	<b>103</b>	<b>107</b>	<b>105</b>	<b>106</b>	<b>114</b>	<b>122</b>	<b>115</b>	<b>117</b>	<b>120</b>	<b>128</b>	<b>125</b>
Operating expenses	-80	-91	-90	-86	-78	-86	-87	-86	-84	-92	-92
<b>EBITDA</b>	<b>34</b>	<b>32</b>	<b>25</b>	<b>31</b>	<b>43</b>	<b>45</b>	<b>40</b>	<b>45</b>	<b>50</b>	<b>50</b>	<b>47</b>
Depreciation	-5	-9	-7	-7	-7	-7	-6	-7	-7	-6	-7
Amortisation	-7	-7	-7	-13	-8	-294	-9	-9	-9	-9	-9
<b>EBIT</b>	<b>22</b>	<b>17</b>	<b>11</b>	<b>11</b>	<b>29</b>	<b>-256</b>	<b>24</b>	<b>28</b>	<b>33</b>	<b>33</b>	<b>29</b>
Net financial items	1	-2	0	3	-4	2	-1	-1	-1	-1	-1
<b>PBT</b>	<b>23</b>	<b>15</b>	<b>12</b>	<b>14</b>	<b>25</b>	<b>-254</b>	<b>23</b>	<b>27</b>	<b>32</b>	<b>32</b>	<b>28</b>
Taxes	-6	0	-5	-8	-11	-2	-6	-7	-8	-5	-7
<b>Net profit</b>	<b>17</b>	<b>15</b>	<b>6</b>	<b>6</b>	<b>14</b>	<b>-256</b>	<b>17</b>	<b>21</b>	<b>25</b>	<b>27</b>	<b>21</b>
Adjustments to net profit	0	0	2	6	4	288	2	2	2	2	2
Net profit adj	17	15	8	12	18	32	19	23	27	29	23
Dividend paid	0	0	0	-21	0	0	0	-20	0	0	0
Avg. number of shares (m)	14	14	14	14	14	14	14	14	14	14	14
<i>Per share data (SEK)</i>											
EPS	1.04	1.07	0.47	0.45	1.02	-18.79	1.27	1.52	1.80	1.98	1.56
<b>EPS adj</b>	<b>1.23</b>	<b>1.07</b>	<b>0.59</b>	<b>0.89</b>	<b>1.29</b>	<b>2.35</b>	<b>1.41</b>	<b>1.66</b>	<b>1.94</b>	<b>2.13</b>	<b>1.71</b>
DPS ordinary	0.00	0.00	0.00	1.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00
DPS	0.00	0.00	0.00	1.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	-1.4	4.3	-1.9	0.3	7.8	7.3	-5.6	1.3	2.6	6.2	-2.0
Revenues, YOY growth	17.9	20.9	10.5	1.2	10.7	13.8	9.5	10.6	5.3	4.1	8.1
EPS adj, YOY growth	21.8	-49.3	-26.9	-14.7	5.2	119.5	140.0	86.1	50.0	-9.3	20.8
Gross margin	97.1	96.6	97.1	97.4	97.4	96.6	97.1	97.2	97.2	97.4	97.3
EBITDA adj margin	32.2	29.3	24.9	33.7	40.3	263.8	35.7	39.2	42.1	39.5	37.9
Depreciation/revenues	-5.1	-7.9	-6.1	-6.0	-5.8	-5.2	-5.4	-5.6	-5.4	-4.9	-5.3
EBIT adj margin	20.8	14.9	12.1	16.0	27.9	25.5	21.5	24.9	28.2	26.6	24.0
Net profit margin	15.8	13.2	5.9	5.6	11.9	nm	14.5	17.2	19.8	20.7	16.6

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

## Adjustments to quarterly numbers

(SEKm)	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024e	Q2 2024e	Q3 2024e	Q4 2024e	Q1 2025e
<b>EBITDA</b>	<b>34</b>	<b>32</b>	<b>25</b>	<b>31</b>	<b>43</b>	<b>45</b>	<b>40</b>	<b>45</b>	<b>50</b>	<b>50</b>	<b>47</b>
EBITDA adj	34	32	27	37	47	332	42	47	52	52	49
<b>EBIT</b>	<b>22</b>	<b>17</b>	<b>11</b>	<b>11</b>	<b>29</b>	<b>-256</b>	<b>24</b>	<b>28</b>	<b>33</b>	<b>33</b>	<b>29</b>
Other EBIT adjustments	0	0	-2	-6	-4	-288	-2	-2	-2	-2	-2
EBIT adj	22	17	13	17	33	32	26	30	35	35	31
<b>Net profit</b>	<b>17</b>	<b>15</b>	<b>6</b>	<b>6</b>	<b>14</b>	<b>-256</b>	<b>17</b>	<b>21</b>	<b>25</b>	<b>27</b>	<b>21</b>
Other EBIT adjustments	0	0	-2	-6	-4	-288	-2	-2	-2	-2	-2
Net profit adj	17	15	8	12	18	32	19	23	27	29	23

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

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Quarterly numbers by segment and assumptions

(SEKm)	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024e	Q2 2024e	Q3 2024e	Q4 2024e	Q1 2025e
<b>Assumptions</b>											
Revenue org. % YOY	10.89	6.88	4.53	-4.46	5.94	14.65	12.33	12.92	9.25	5.11	7.10
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	9.33	11.90	5.95	5.02	3.68	0.80	-1.97	-1.66	-3.04	-0.90	0.97

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

Annual P&L

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>Revenues</b>	<b>345</b>	<b>385</b>	<b>406</b>	<b>372</b>	<b>358</b>	<b>423</b>	<b>461</b>	<b>494</b>	<b>530</b>	<b>565</b>
Cost of sales	-9	-9	-11	-14	-12	-13	-13	-14	-14	-14
<b>Gross profit</b>	<b>337</b>	<b>376</b>	<b>395</b>	<b>358</b>	<b>346</b>	<b>410</b>	<b>448</b>	<b>481</b>	<b>516</b>	<b>551</b>
Operating expenses	-209	-236	-249	-225	-307	-331	-340	-349	-365	-384
<b>EBITDA</b>	<b>127</b>	<b>140</b>	<b>146</b>	<b>133</b>	<b>104</b>	<b>129</b>	<b>144</b>	<b>186</b>	<b>208</b>	<b>224</b>
Depreciation	-2	-3	-13	-20	-20	-26	-26	-26	-28	-29
Amortisation	-17	-22	-25	-29	-152	-28	-322	-34	-36	-36
<b>EBIT</b>	<b>107</b>	<b>116</b>	<b>108</b>	<b>84</b>	<b>-69</b>	<b>76</b>	<b>-204</b>	<b>117</b>	<b>136</b>	<b>151</b>
Net financial items	-2	-2	-1	-7	0	-2	1	-3	-3	-3
<b>PBT</b>	<b>106</b>	<b>117</b>	<b>107</b>	<b>77</b>	<b>-69</b>	<b>74</b>	<b>-203</b>	<b>115</b>	<b>133</b>	<b>148</b>
Taxes	-26	-26	-26	-17	1	-16	-26	-25	-32	-35
Effective tax rate (%)	24	22	24	23	2	21	-13	22	24	24
<b>Net profit</b>	<b>80</b>	<b>91</b>	<b>81</b>	<b>59</b>	<b>-67</b>	<b>58</b>	<b>-229</b>	<b>90</b>	<b>101</b>	<b>113</b>
Adjustments to net profit	0	3	0	0	134	-1	300	8	8	8
Net profit adj	80	94	81	59	67	57	71	98	109	121
Dividend paid	-63	-68	-68	0	0	0	-21	-20	-34	-38
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	6.56	7.39	8.25
<b>EPS adj</b>	<b>6.33</b>	<b>6.67</b>	<b>5.96</b>	<b>4.36</b>	<b>4.90</b>	<b>4.17</b>	<b>5.12</b>	<b>7.15</b>	<b>7.98</b>	<b>8.84</b>
DPS ordinary	5.00	5.00	3.00	0.00	0.00	1.50	1.50	2.50	2.79	3.09
DPS	5.00	5.00	3.00	0.00	0.00	1.50	1.50	2.50	2.79	3.09
<i>Growth and margins (%)</i>										
Revenue growth	5.1	11.7	5.3	-8.3	-3.8	18.1	9.0	7.2	7.2	6.6
EPS adj growth	2.6	5.3	-10.6	-26.8	12.5	-14.9	22.9	39.5	11.6	10.8
Gross margin	97.5	97.7	97.3	96.2	96.6	97.0	97.1	97.2	97.4	97.6
EBITDA margin	36.9	36.4	35.9	35.7	29.0	30.5	31.2	37.6	39.2	39.6
EBITDA adj margin	36.9	37.2	35.9	35.7	66.5	30.3	96.2	39.2	40.7	41.0
Depreciation/revenues	-0.7	-0.7	-3.2	-5.5	-5.7	-6.0	-5.7	-5.3	-5.2	-5.0
EBIT margin	31.1	30.0	26.7	22.5	nm	17.9	nm	23.7	25.6	26.7
EBIT adj margin	31.1	30.8	26.7	22.5	18.4	17.7	20.7	25.4	27.1	28.2
PBT margin	30.6	30.4	26.4	20.6	nm	17.4	nm	23.2	25.0	26.2
Net profit margin	23.2	23.6	20.0	16.0	nm	13.7	nm	18.1	19.1	20.0

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

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## Adjustments to annual P&amp;L

(SEKm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
<b>EBITDA</b>	<b>127</b>	<b>140</b>	<b>146</b>	<b>133</b>	<b>104</b>	<b>129</b>	<b>144</b>	<b>186</b>	<b>208</b>	<b>224</b>
EBITDA adj	127	143	146	133	238	128	443	194	216	232
<b>EBIT</b>	<b>107</b>	<b>116</b>	<b>108</b>	<b>84</b>	<b>-69</b>	<b>76</b>	<b>-204</b>	<b>117</b>	<b>136</b>	<b>151</b>
Other EBIT adjustments	0	-3	0	0	-134	1	-300	-8	-8	-8
EBIT adj	107	119	108	84	66	75	95	125	144	159
<b>Net profit</b>	<b>80</b>	<b>91</b>	<b>81</b>	<b>59</b>	<b>-67</b>	<b>58</b>	<b>-229</b>	<b>90</b>	<b>101</b>	<b>113</b>
Other EBIT adjustments	0	-3	0	0	-134	1	-300	-8	-8	-8
Net profit adj	80	94	81	59	67	57	71	98	109	121
<i>Per share data (SEK)</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	6.56	7.39	8.25
Recommended adjustment	0.00	0.00	0.00	0.00	9.85	-0.07	21.97	0.59	0.59	0.59
EPS adj	6.33	6.67	5.96	4.36	4.90	4.17	5.12	7.15	7.98	8.84

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	90	101	113
Depreciation and amortisation	20	25	37	49	172	53	348	60	64	65
<b>Cash flow from operations (CFO)</b>	<b>124</b>	<b>93</b>	<b>106</b>	<b>118</b>	<b>132</b>	<b>128</b>	<b>144</b>	<b>151</b>	<b>161</b>	<b>174</b>
Capital expenditure	-19	-47	-84	-81	-74	-60	-42	-61	-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
<b>Cash flow from investing (CFI)</b>	<b>-38</b>	<b>-218</b>	<b>-102</b>	<b>-81</b>	<b>-74</b>	<b>-60</b>	<b>-43</b>	<b>-61</b>	<b>-64</b>	<b>-65</b>
<b>Free cash flow (FCF)</b>	<b>86</b>	<b>-125</b>	<b>4</b>	<b>37</b>	<b>58</b>	<b>68</b>	<b>101</b>	<b>90</b>	<b>97</b>	<b>109</b>
Net change in debt	0	0	30	6	1	1	0	0	0	0
Dividends paid	-63	-68	-68	0	0	0	-21	-20	-34	-38
Share issue (repurchase)	0	172	0	0	0	0	0	0	0	0
Other	0	4	-14	-30	-16	-40	-29	-20	-20	-20
<b>Cash flow from financing (CFF)</b>	<b>-63</b>	<b>108</b>	<b>-52</b>	<b>-25</b>	<b>-15</b>	<b>-40</b>	<b>-49</b>	<b>-40</b>	<b>-54</b>	<b>-58</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>23</b>	<b>-17</b>	<b>-49</b>	<b>12</b>	<b>42</b>	<b>29</b>	<b>52</b>	<b>50</b>	<b>43</b>	<b>51</b>
<i>FCFF calculation</i>										
Free cash flow	86	-125	4	37	58	68	101	90	97	109
Less: acquisitions	0	171	19	0	0	0	0	0	0	0
Less: divestments	0	0	0	0	0	0	-1	0	0	0
<b>Growth (%)</b>										
CFO	8.5	-25.3	14.1	12.0	11.1	-2.7	12.5	5.0	6.7	8.0
CFI	-98.9	-478.5	53.0	20.4	9.0	19.6	28.7	-43.9	-5.4	-1.4
FCF	-9.4	-244.7	102.8	957.1	55.4	19.0	48.4	-11.3	7.7	12.4
CFF	28.5	270.4	-148.3	52.7	38.6	-162.3	-24.0	17.5	-33.8	-7.3

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

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**Balance sheet**

<b>(SEKm)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
<b>Assets</b>	<b>410</b>	<b>722</b>	<b>825</b>	<b>834</b>	<b>813</b>	<b>922</b>	<b>700</b>	<b>728</b>	<b>765</b>	<b>811</b>
Inventories	5	7	7	6	10	11	10	10	10	9
Trade receivables	51	63	67	59	59	67	78	64	60	56
Other receivables	12	38	52	64	44	34	40	31	29	28
Cash and cash equivalents	120	106	61	68	113	148	197	247	290	340
<b>Current assets</b>	<b>187</b>	<b>214</b>	<b>186</b>	<b>196</b>	<b>226</b>	<b>260</b>	<b>325</b>	<b>352</b>	<b>389</b>	<b>434</b>
Property, plant and equipment	6	9	7	8	15	17	16	17	17	18
Other intangible assets	194	484	624	624	567	639	348	348	348	348
Deferred tax assets	3	13	5	4	3	3	7	7	7	7
Non-current financial assets	20	2	2	3	3	4	3	3	3	3
<b>Non-current assets</b>	<b>223</b>	<b>508</b>	<b>639</b>	<b>638</b>	<b>587</b>	<b>663</b>	<b>375</b>	<b>376</b>	<b>376</b>	<b>377</b>
<b>Total assets</b>	<b>410</b>	<b>722</b>	<b>825</b>	<b>834</b>	<b>813</b>	<b>922</b>	<b>700</b>	<b>728</b>	<b>765</b>	<b>811</b>
<b>Equity and liabilities</b>	<b>410</b>	<b>722</b>	<b>825</b>	<b>834</b>	<b>813</b>	<b>922</b>	<b>700</b>	<b>728</b>	<b>765</b>	<b>811</b>
<b>Total equity</b>	<b>290</b>	<b>550</b>	<b>592</b>	<b>613</b>	<b>585</b>	<b>667</b>	<b>423</b>	<b>493</b>	<b>559</b>	<b>634</b>
Trade payables	6	7	9	5	9	8	7	7	7	6
Other payables and accruals	86	131	117	111	133	146	174	153	143	135
Short-term debt	1	0	25	18	18	0	0	0	0	0
<b>Total current liabilities</b>	<b>102</b>	<b>140</b>	<b>164</b>	<b>150</b>	<b>179</b>	<b>173</b>	<b>198</b>	<b>176</b>	<b>166</b>	<b>158</b>
Long-term debt	2	1	41	32	20	50	35	15	-5	-25
Deferred tax liabilities	14	30	27	37	28	30	43	43	43	43
Other non-current liabilities	2	2	1	1	1	2	2	2	2	2
<b>Total non-current liabilities</b>	<b>17</b>	<b>32</b>	<b>69</b>	<b>70</b>	<b>49</b>	<b>82</b>	<b>79</b>	<b>59</b>	<b>39</b>	<b>19</b>
<b>Total liabilities</b>	<b>120</b>	<b>172</b>	<b>233</b>	<b>220</b>	<b>228</b>	<b>255</b>	<b>277</b>	<b>235</b>	<b>205</b>	<b>177</b>
<b>Total equity and liabilities</b>	<b>410</b>	<b>722</b>	<b>825</b>	<b>834</b>	<b>813</b>	<b>922</b>	<b>700</b>	<b>728</b>	<b>765</b>	<b>811</b>
<i>Key metrics</i>										
Net interest bearing debt	-117	-103	18	-2	-57	-79	-146	-215	-278	-349

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



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**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	-278	-349
Net interest bearing debt adj	-117	-103	18	-2	-57	-79	-146	-215	-278	-349
EV	2,270	3,206	2,554	1,904	1,548	1,974	1,545	1,656	1,593	1,523
EV adj	2,270	3,206	2,554	1,904	1,548	1,974	1,545	1,656	1,593	1,523
<i>Valuation</i>										
EPS	6.33	6.67	5.96	4.36	-4.94	4.23	-16.85	6.56	7.39	8.25
<b>EPS adj</b>	<b>6.33</b>	<b>6.67</b>	<b>5.96</b>	<b>4.36</b>	<b>4.90</b>	<b>4.17</b>	<b>5.12</b>	<b>7.15</b>	<b>7.98</b>	<b>8.84</b>
DPS ordinary	5.00	5.00	3.00	0.00	0.00	1.50	1.50	2.50	2.79	3.09
DPS	5.00	5.00	3.00	0.00	0.00	1.50	1.50	2.50	2.79	3.09
P/E	29.8	36.4	31.2	32.1	-23.8	35.5	-7.3	20.9	18.5	16.6
P/E adj	29.8	36.4	31.2	32.1	24.0	36.1	24.2	19.2	17.2	15.5
P/B	8.22	6.02	4.28	3.11	2.74	3.08	3.99	3.80	3.35	2.95
Average ROE	28.1%	21.6%	14.2%	9.9%	-11.2%	9.2%	-42.0%	19.6%	19.2%	18.9%
Earnings yield adj	3.4%	2.7%	3.2%	3.1%	4.2%	2.8%	4.1%	5.2%	5.8%	6.5%
Dividend yield	2.6%	2.1%	1.6%	0.0%	0.0%	1.0%	1.2%	1.8%	2.0%	2.3%
Free cash flow yield	3.6%	-3.8%	0.1%	1.9%	3.6%	3.3%	6.0%	4.8%	5.2%	5.8%
EV/SALES	6.58	8.32	6.30	5.12	4.32	4.67	3.35	3.35	3.01	2.70
EV/SALES adj	6.58	8.32	6.30	5.12	4.32	4.67	3.35	3.35	3.01	2.70
EV/EBITDA	17.8	22.9	17.5	14.3	14.9	15.3	10.8	8.9	7.7	6.8
EV/EBITDA adj	17.8	22.4	17.5	14.3	6.5	15.4	3.5	8.6	7.4	6.6
EV/EBIT	21.1	27.7	23.6	22.7	-22.6	26.1	-7.6	14.1	11.7	10.1
EV/EBIT adj	21.1	27.0	23.6	22.7	23.6	26.4	16.2	13.2	11.1	9.6
EV/capital employed	7.8	5.8	3.8	2.8	2.4	2.7	3.3	3.2	2.8	2.4
EV/NOPLAT	27.1	35.6	30.2	29.1	-29.0	33.4	-9.7	18.1	15.0	12.9
EV/OpFCF (taxed)	26.8	45.6	66.6	57.9	10.4	37.9	4.1	15.8	13.3	11.6

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	12.6	13.5	14.3
ROCE	37.4	28.1	17.7	12.4	9.9	10.9	15.8	25.1	26.3	26.6
ROCE after tax	29.1	21.9	13.8	9.7	7.8	8.5	12.3	19.6	20.5	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	3.3	3.3	3.2
Working capital/revenues	-6.9	-7.8	-0.2	3.4	-8.3	-10.1	-11.5	-10.9	-9.6	-8.5
<i>Cash flow ratios (%)</i>										
FCF/revenues	25.0	-32.4	0.9	9.9	16.1	16.2	22.0	18.2	18.3	19.3
FCF yield (%)	3.6	1.4	0.9	1.9	3.6	3.3	6.0	4.8	5.2	5.8
CFO/revenues	35.9	24.0	26.1	31.8	36.8	30.3	31.2	30.6	30.4	30.9
CFO/market capitalisation	5.2	2.8	4.2	6.2	8.2	6.2	8.5	8.1	8.6	9.3
CFO/capex	652.1	197.9	126.4	145.5	177.6	214.8	341.2	247.2	250.4	266.8
CFO/current liabilities	121.1	66.2	64.4	78.9	73.7	73.9	72.9	85.7	97.0	110.6
Cash conversion ratio	107.9	-137.6	4.3	62.3	-85.3	118.3	-44.3	100.4	95.9	96.6
Capex/revenues	5.5	12.1	20.6	21.9	20.7	14.1	9.2	12.4	12.2	11.6
Capex/depreciation	791.7	1800.0	648.1	401.0	363.2	233.7	159.8	232.5	232.5	229.1
OpFCF margin	31.4	25.1	15.3	13.8	45.8	16.2	87.0	26.8	28.5	29.4
Total payout ratio	78.9	75.0	50.4	0.0	0.0	35.4	-8.9	38.1	37.8	37.5
<i>Leverage and solvency (x)</i>										
Net debt/EBITDA	-0.92	-0.74	0.13	-0.01	-0.55	-0.61	-1.01	-1.16	-1.34	-1.56
Total debt/total capital (BV)	0.01	0.00	0.08	0.06	0.05	0.05	0.05	0.02	-0.01	-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	277.2	260.0	244.7
Receivables turnover days	66.2	96.1	106.8	120.2	104.7	86.5	93.6	70.2	61.4	54.2
Credit period	244.8	296.1	310.9	129.4	279.8	239.5	182.5	184.8	173.3	163.2
Cash conversion cycle	44.8	67.7	18.9	138.3	113.8	169.2	175.3	162.6	148.0	135.8

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

9 February 2024

## Important Information

Company: IAR Systems  
 Coverage by Analyst: Joachim Gunell  
 Date: 09/2/2024

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9 February 2024

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