



## ERIK PENSER BANK

Penser Access | Information Technology Services | Sweden | 10 May 2021

# Irisity

## In line with our expectations and confirms commercialization plan

### Delivering on plan

Total revenues were SEK 15.3m, compared with our estimate of SEK 13.8m. The gross margin was 72.8% vs our estimate of 65%, while EBITDA was SEK -0.5m vs the estimated SEK 1m. Other external charges and personnel costs were higher than expected, which put pressure on profitability. The company is guiding for volume growth during Q2 and H2. MRR amounted to SEK 1.9m, corresponding to an increase of 30% q/q.

### Retaining our estimates

We are keeping our sales estimate for the full year as we have been clear in previous research that growth will accelerate mainly in H2 2021. As the cost base was higher than our estimate, we are cutting the EPS forecast slightly for this year. For the coming two years we are slightly adjusting EPS upwards to reflect a higher gross margin. The news flow in the coming half year may lead to adjustments in our estimates.

### Fair value unchanged

Prior to the report and when the company signed its collaboration with Milestone, we increased our fair value to SEK 85–87. This is unchanged because the company is performing on plan. If the recently concluded pilots with GardaWorld result in a similar agreement to the current one with G4S, we mainly anticipate that the required return will fall. Irisity is now trading at an implicit WACC of 22%, compared to 15% in our WACC.

Estimate Changes (SEK)			Estimates (SEK)				Risk and Potential			
	Now	Before		20	21e	22e	23e	Motivated value	85.00 - 87.00	
EPS, adj 21e	0.39	0.41	-3.8%	Sales,m	37	102	334	648	Current price	SEK57.00
EPS, adj 22e	3.45	3.29	4.9%	Sales Growth	3.9%	178.3%	226.5%	94.0%	Risk level	Medium
EPS, adj 23e	8.33	7.95	4.7%	EBITDA, m	(13.1)	25	132	296		
				EBIT, m	(26.4)	13.1	112.4	271.8		
				EPS, adj	(0.91)	0.39	3.45	8.33		
				EPS Growth	NA%	NA%	772.7%	141.6%		
				Equity/Share	4.6	4.9	8.4	9.9		
				Dividend	0.00	0.00	0.00	0.00		
				EBIT Marginal	NA%	12.8%	33.6%	41.9%		
				ROE (%)	(17.9)%	8.0%	41.2%	83.9%		
				ROCE	(35.2)%	15.9%	124.8%	225.4%		
				EV/Sales	38.37x	13.79x	4.22x	2.18x		
				EV/EBITDA	(107.6)x	55.5x	10.7x	4.8x		
				EV/EBIT	(53.4)x	107.7x	12.6x	5.2x		
				P/E, adj	(62.6)x	144.3x	16.5x	6.8x		
				P/Equity	12.5x	11.6x	6.8x	5.7x		
				Dividend yield	0.0%	0.0%	0.0%	0.0%		
				FCF yield	NA%	1.8%	9.6%	-%		
				Net Debt/EBITDA	4.8g	(2.9)g	(1.3)g	(0.7)g		

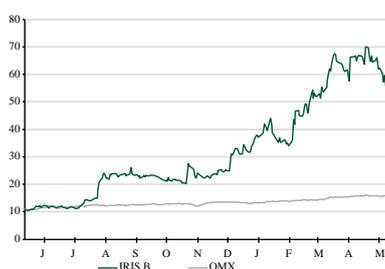
### Calendar Events

Q2'21 rapport 08/06/2020

### Key Figures (mkr)

Number of Shares	25.8m
Market cap	1,473
Net Debt	(62)
EV	1,411
Free Float	31.00%
Avg. No. of Daily Traded Sh.	180.4(k)
Reuters/Bloomberg	IRIS B / IRIS SS

### One Year Performance Chart



### Analysts

rikard.engberg@penser.se



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## Overview

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### Investment Case

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Irisity is a software company that develops algorithms for IP cameras. These algorithms have the ability to independently raise an alarm if there is an intruder at a protected property. The reduced staffing requirement from this enables cost savings of 50–70% for a security company. Irisity has recently signed a commercial rollout agreement with G4S and is currently negotiating a commercial rollout with three other international security companies. In addition to having global security companies as customers, Irisity has entered into an agreement with Axis, the leading IP camera manufacturer in the western world. These two sales channels mean that we see a fair value of SEK 85–87.

### Company Profile

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The security industry had sales of approximately USD 161bn in 2019 and has historically seen growth in line with GDP. The industry has always been staff-intensive, with operating margins of around 5%. One of the fastest growing niches is video surveillance, a market that according to IHS Markit is expected to turn over USD 20bn in 2020 and to grow by about 10.5% per year (in value) in the coming years. Consulting company Mordor Intelligence estimates that 60% of sales currently consist of hardware and 10–15% service. Software thus accounts for about 15–20% of sales. The reason why video surveillance is growing faster than the security industry as a whole is the great efficiency gains that surveillance companies can make by replacing patrolling guards with cameras. American organization IPVM estimates that 2020 will be the year that video surveillance as a service (VSaaS) will see a significantly increased degree of commercialization. We also note that industry analysts believe a majority of new sales in video surveillance will be cloud-based within 3 years.

Irisity has been training and developing its algorithms for detecting human activity for over 10 years. The time and data that Irisity has amassed during the company's lifetime is one of its main competitive advantages since this volume of data processing is difficult to replicate, making the algorithm strong. We estimate that a security company could reduce its costs for monitoring a property by 40–60% by using Irisity's software, which would mean its operating margins for surveillance work could rise from 5% with fully manual surveillance to 8–10% if fully replaced with video surveillance. We believe that security companies will accelerate their investments in improved margins post Covid-19.

Irisity has signed an agreement with Axis, the leading manufacturer of IP cameras in the western world. Under this agreement, Irisity's software will be sold integrated into the new generation of Axis IP cameras. These cameras have processors specially developed to handle AI software. We estimate that this agreement could generate SEK ~500m in revenue for Irisity over the next 4 years as Axis will sell Irisity's software globally through its dealer network. During Q1, Irisity also began a collaboration with Mobotix, a German manufacturer of IP cameras.

### Valuation approach

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Irisity is currently in negotiations with a number of major security companies over a large-scale commercial roll-out of its software. We estimate that these companies together have about 3.6 million cameras in use, which if all were equipped with the software would correspond to a market of about SEK 5.2–5.5bn.

### Target Price

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At present, the company trades at an implicit WACC of about 22%. If we balance our DCF and multiple valuations, we get a fair value in the range SEK 85–87.

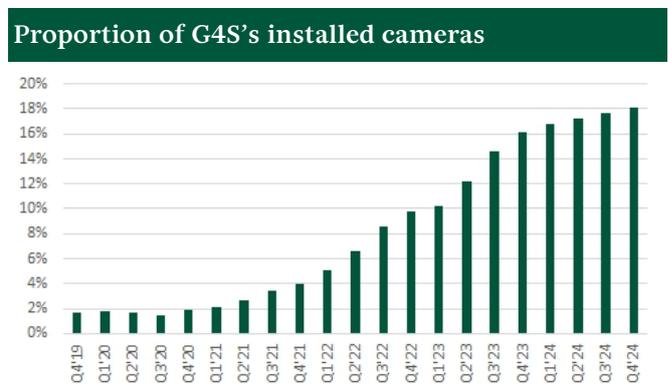
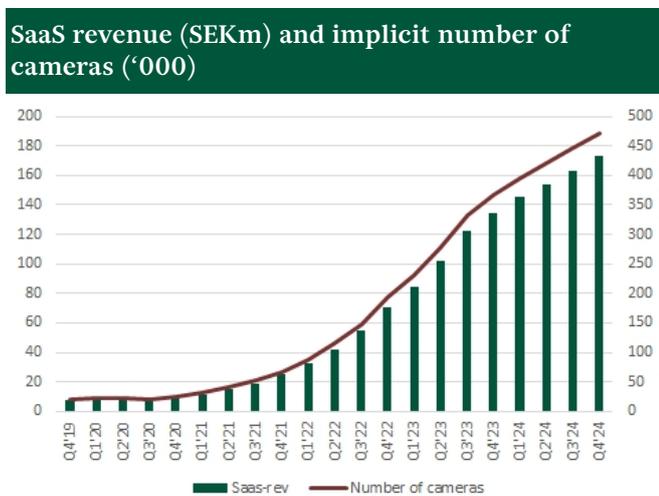
## Commercialization assumptions

We have applied the following assumptions for our estimates of the G4S contract rollout in the coming years:

- In the five markets, there are about 8 million cameras. The markets where the agreement will initially be rolled out are Greece, Belgium, Denmark, the United Kingdom and the Netherlands
- G4S has a market share of approximately 15% in these markets
- Each camera generates EUR 12.5/month/algorithm and on average one algorithm is installed per camera

We estimate that Irisity must reach approximately 15% of the relevant cameras in order for our estimates to be achieved. These estimates and the figures in the graph below do not take into account other security companies that Irisity is negotiating with.

Revenues may be relatively volatile as Irisity installs its software centrally at G4S's various Security Operations Centres (SOCs). Irisity will then receive a license fee for all cameras connected to one of these centres once installation is complete. In our assessment, it is these installations that are depressing the gross margin at present.



We estimate that Irisity, in addition to the current G4S agreement, is negotiating with 4–5 other global players for a similar agreement. It seems that a contract with Prosegur, a Spanish company that protects about 300,000 properties globally, is most likely to be next. Prosegur has a stated target to increase the degree of digitization in its operations and install over 10,000 new cameras per year. The following are some brief assumptions for calculating the total addressable market:

- The companies that Irisity is negotiating with have about 2.5 million protected properties
- Only 10% of these properties have cameras, with an average of 15
- This gives about 3.6 million cameras as a total market

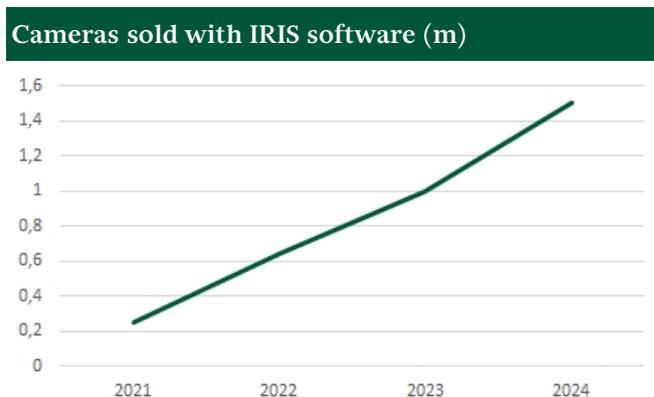
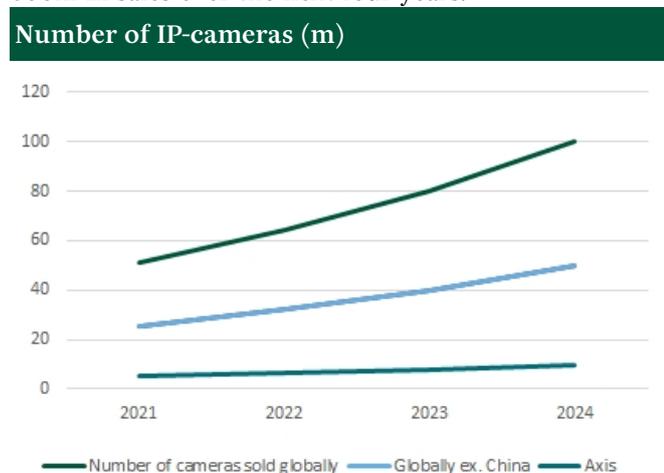
We therefore estimate that Irisity is in procurements that correspond to approximately SEK 5bn annually in recurring revenues. The number of IP cameras is increasing by about 10–12% annually, which means that the total addressable market is increasing at a similar rate.

## Assumptions for Axis and Mobotix

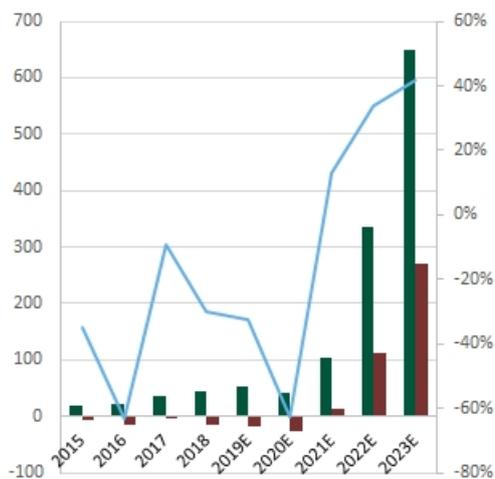
We estimate that in 2024 approximately 100 million IP cameras will be sold globally. Of these, about 50% will be in China, a market dominated by domestic providers. Axis is the leader in the western world and has a market share of just under 10% globally. Below are our assumptions for calculating Irisity's sales from this collaboration.

- 2024: 100 million cameras
- Axis market share: ~10%
- The proportion of cameras sold by Axis that are compatible with Irisity's software is 10–15% towards the end of the forecast period

The cameras that Irisity's software will be compatible with are classified as premium models, which we estimate will account for 10–15% of the cameras sold in the coming years. We forecast that this agreement could add SEK 300–600m in sales over the next four years.

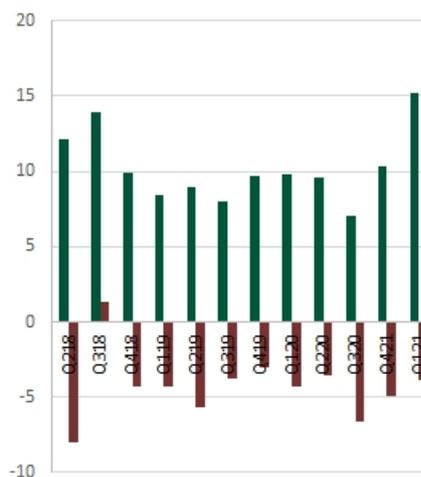


## Sales and EBIT (y/y)



■ Sales ■ EBIT — EBIT-m

## Sales and EBIT (Quarterly)



■ Sales ■ EBIT

## Quick facts

Shareholders	Number of shares
Aktiebolaget Westergyllen	10,1%
Avanza Pension	9,6%
Chalmers Innovation Seed Fund	9,5%
Tin Ny Teknik	5,7%
Övriga	65,1%
Chairman of the board	Lennart Svantesson
CEO	Marcus Bäcklund
CFO	Andreas Höye
IR	Andreas Höye
Webpage	<a href="https://www.irisity.com">https://www.irisity.com</a>

## income statement

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
<b>Net sales</b>	35,3	45,4	35,4	36,8	102,3	334,1	648,3
Other income			16,3	12,7	0,0	0,0	0,0
Cost of goods sold	-7,9	-9,3	-13,1	-14,8	-27,8	-91,9	-162,1
<b>Gross profit</b>	<b>27,4</b>	<b>36,1</b>	<b>38,6</b>	<b>34,7</b>	<b>74,5</b>	<b>242,2</b>	<b>486,2</b>
Personnel costs	-18,2	-25,8	-28,5	-31,6	-40,4	-49,7	-73,7
Other operating costs	-8,5	-18,2	-15,0	-9,1	-18,7	-60,1	-116,7
Extraordinära kostnader							
<b>EBITDA</b>	<b>0,7</b>	<b>-8,0</b>	<b>-4,8</b>	<b>-5,9</b>	<b>37,0</b>	<b>132,4</b>	<b>295,8</b>
Depreciation/amortisation	-3,7	-5,6	-11,8	-13,3	-23,9	-20,0	-24,0
Impairments							
<b>EBIT (adjusted)</b>	<b>-2,9</b>	<b>-13,6</b>	<b>-16,7</b>	<b>-19,3</b>	<b>13,1</b>	<b>112,4</b>	<b>271,8</b>
Items affecting comparability	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>EBIT</b>	<b>-2,9</b>	<b>-13,6</b>	<b>-16,7</b>	<b>-19,3</b>	<b>13,1</b>	<b>112,4</b>	<b>271,8</b>
Financial income	-0,2	0,0	0,0	0,0	0,0	0,0	0,0
Financial expenses	-0,5	-0,7	-0,6	-0,3	-0,2	-0,2	-0,8
<b>Profit before tax</b>	<b>-3,6</b>	<b>-14,3</b>	<b>-17,3</b>	<b>-19,6</b>	<b>12,9</b>	<b>112,2</b>	<b>271,0</b>
Tax	0,1	0,0	-0,4	0,0	-2,6	-23,1	-55,8
Minority interests	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>Net profit (reported)</b>	<b>-3,5</b>	<b>-14,3</b>	<b>-17,6</b>	<b>-19,6</b>	<b>10,2</b>	<b>89,1</b>	<b>215,2</b>
<b>Net profit (adjusted)</b>	<b>-3,5</b>	<b>-14,3</b>	<b>-17,6</b>	<b>-19,6</b>	<b>10,2</b>	<b>89,1</b>	<b>215,2</b>

## Balance sheet

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
<b>Balance sheet</b>							
Goodwill	0	0	0	0	0	0	0
Other intangible assets	12	25	59	59	56	36	12
Property, plant and equipment	7	8	5	2	2	2	2
Interest-bearing non-current assets	0	0	0	0	0	0	0
Investments in associates and shares	0	0	0	0	0	0	0
Other non-current assets	0	0	0	0	0	0	0
<b>Total non-current assets</b>	<b>19</b>	<b>33</b>	<b>64</b>	<b>61</b>	<b>59</b>	<b>39</b>	<b>15</b>
Inventory	0	0	0	0	0	0	0
Trade receivables	8	9	6	8	16	46	87
Other current assets	37	3	2	4	4	4	4
Cash and cash equivalents	6	32	40	65	78	180	410
<b>Total current assets</b>	<b>51</b>	<b>44</b>	<b>48</b>	<b>77</b>	<b>98</b>	<b>230</b>	<b>501</b>
<b>TOTAL ASSETS</b>	<b>70</b>	<b>77</b>	<b>112</b>	<b>138</b>	<b>156</b>	<b>268</b>	<b>515</b>

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
<b>EQUITY AND LIABILITIES</b>							
Equity	0	0	0	118	127	216	431
Minority interests	0	0	0	0	0	0	0
<b>Total equity</b>	<b>36</b>	<b>47</b>	<b>87</b>	<b>118</b>	<b>127</b>	<b>216</b>	<b>431</b>
Non-current financial liabilities	8	6	3	1	1	1	1
Provisions for pensions	0	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	0
<b>Total non-current liabilities</b>	<b>8</b>	<b>6</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Current financial liabilities	6	5	3	1	1	1	1
Trade payables	4	4	4	4	12	35	67
Tax liabilities	0	0	0	0	0	0	0
Other current liabilities	16	14	14	14	14	14	14
<b>Total current liabilities</b>	<b>25</b>	<b>24</b>	<b>22</b>	<b>19</b>	<b>28</b>	<b>51</b>	<b>82</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>69</b>	<b>77</b>	<b>112</b>	<b>138</b>	<b>156</b>	<b>268</b>	<b>515</b>

## Cashflow

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net profit (reported)	-3,5	-14,3	-17,6	-19,6	10,2	89,1	215,2
Non-cash items	-2,9	5,6	12,7	12,6	11,4	19,6	-74,1
Changes in working capital	2,1	1,7	2,7	-4,2	1,0	-6,9	-7,9
<b>Cash flow from operating activities</b>	<b>-4,4</b>	<b>-7,0</b>	<b>-2,2</b>	<b>-11,1</b>	<b>22,6</b>	<b>101,7</b>	<b>133,2</b>
Investments	-11,3	-20,4	-17,7	-10,0	-10,0	0,0	0,0
Disposals	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>Free cash flow</b>	<b>-16</b>	<b>-27</b>	<b>-20</b>	<b>-21</b>	<b>13</b>	<b>102</b>	<b>133</b>
Dividends	0	0	0	0	0	0	0
Share issues/buybacks	0	54	27	47	0	0	0
Purchases	0	0	0	0	0	0	0
Debt financing and other adjustments	0	0	0	0	0	0	0
<b>Cash flow</b>	<b>-18</b>	<b>26</b>	<b>7,5</b>	<b>25,4</b>	<b>12,6</b>	<b>101,7</b>	<b>133,2</b>
<b>Net Debt</b>	<b>8</b>	<b>-21</b>	<b>-34</b>	<b>-63</b>	<b>-76</b>	<b>-178</b>	<b>-407</b>

## Quarterly data

	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Net sales	9,5	12,1	13,9	9,9	8,4	8,9	8,0	9,7	9,8	9,6	7,0	10,4	15,2
Other income					5,1	4,5	3,5	3,5	3,1	3,1	3,0	3,6	4,1
Kostnad sálda varor	-2,4	-2,1	-2,3	-2,6	-3,6	-3,8	-3,0	-2,7	-3,5	-3,1	-3,6	-4,5	-3,1
<b>Gross profit</b>	<b>7,2</b>	<b>10,0</b>	<b>11,6</b>	<b>7,3</b>	<b>9,9</b>	<b>9,7</b>	<b>8,5</b>	<b>6,9</b>	<b>9,4</b>	<b>9,6</b>	<b>6,4</b>	<b>9,4</b>	<b>16,2</b>
Other external costs	-5,0	-11,4	-4,9	-4,7	-6,4	-7,8	-6,0	-8,3	-7,8	-7,6	-7,2	-8,9	-9,5
Personnel costs	-3,5	-5,4	-4,2	-5,3	-5,1	-4,3	-3,1	-2,5	-2,3	-2,0	-2,3	-2,4	-3,2
<b>EBITDA</b>	<b>1,6</b>	<b>-6,7</b>	<b>2,6</b>	<b>-2,6</b>	<b>-1,5</b>	<b>-2,4</b>	<b>-0,6</b>	<b>-0,4</b>	<b>-0,8</b>	<b>-0,1</b>	<b>-3,2</b>	<b>-1,9</b>	<b>-0,5</b>
Depreciation/amortisation	-1,4	-1,3	-1,2	-1,7	-2,8	-3,2	-3,1	-2,6	-3,4	-3,4	-3,4	-3,1	-3,3
<b>EBIT</b>	<b>0,2</b>	<b>-8,0</b>	<b>1,3</b>	<b>-4,3</b>	<b>-4,3</b>	<b>-5,6</b>	<b>-3,7</b>	<b>-3,0</b>	<b>-4,2</b>	<b>-3,5</b>	<b>-6,6</b>	<b>-4,9</b>	<b>-3,8</b>
Items affecting comparability	0,0	-6,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>EBIT (adjusted)</b>	<b>0,2</b>	<b>-14,3</b>	<b>1,3</b>	<b>-4,3</b>	<b>-4,3</b>	<b>-5,6</b>	<b>-3,7</b>	<b>-3,0</b>	<b>-4,2</b>	<b>-3,5</b>	<b>-6,6</b>	<b>-4,9</b>	<b>-3,8</b>
Financial expenses	-0,2	-0,2	-0,2	-0,2	0,0	-0,2	0,0	-0,1	0,0	0,0	0,0	0,1	0,1
Financial Income	0,0	0,0	0,0	0,0	-0,2	0,0	-0,1	0,0	-0,1	-0,1	-0,1	0,0	0,0
<b>Profit before tax</b>	<b>0,0</b>	<b>-14,5</b>	<b>1,2</b>	<b>-4,5</b>	<b>-4,5</b>	<b>-5,8</b>	<b>-3,9</b>	<b>-3,1</b>	<b>-4,3</b>	<b>-3,6</b>	<b>-6,6</b>	<b>-5,0</b>	<b>-5,0</b>
Tax	0,0	0,0	0,0	0,1	0,1	0,0	0,0	-0,4	0,1	0,1	0,1	-0,4	-0,4
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net profit (reported)</b>	<b>0,0</b>	<b>-14,5</b>	<b>1,2</b>	<b>-4,4</b>	<b>-4,4</b>	<b>-5,8</b>	<b>-3,9</b>	<b>-3,5</b>	<b>-4,2</b>	<b>-3,5</b>	<b>-6,5</b>	<b>-5,4</b>	<b>-5,4</b>
<b>Net profit (adjusted)</b>	<b>0,0</b>	<b>-9,6</b>	<b>1,2</b>	<b>-4,4</b>	<b>-4,4</b>	<b>-5,8</b>	<b>-3,9</b>	<b>-3,5</b>	<b>-4,2</b>	<b>-3,5</b>	<b>-6,5</b>	<b>-5,4</b>	<b>-5,4</b>

## Growth and Margins

	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Sales growth	na	na	na	na	-12%	-26%	-42%	-2%	17%	8%	-13%	7%	56%
EBIT growth (adjusted)	na												
Gross margin	75%	83%	84%	74%	119%	109%	106%	72%	96%	99%	91%	91%	106%
EBITDA margin (excluding IFRS 16)	16%	na	18%	na									
EBIT margin (adjusted)	2%	na	14%	na									

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Erik Penser Bank (*publ.*)

Apelbergsgatan 27 Box 7405 103 91 STOCKHOLM

tel: +46 8 463 80 00 fax: +46 8 678 80 33 [www.penser.se](http://www.penser.se)