



ERIK PENSER BANK

Penser Access | Software | Sweden | 15 August 2023

Irisity

Full-year guidance suggests growth has returned

Ongoing delivery by the company

Revenues reached SEK 30.2m in the quarter, representing growth of -5% y/y and 10% q/q. MRR came in at SEK 4.5m, implying 2% growth q/q. EBITDA for Q2 was SEK 0.3m, suggesting a margin of 1%. The driving force behind the positive EBITDA was the gross margin hitting 83.9%. During Q2, the company forged two new strategic alliances, the first with Exanet, a surveillance company focusing on the Latin American markets, and the other with Mobius, a security company focused on the Middle East. To increase transparency, Irisity has presented full-year and quarterly guidance, the full-year guidance suggesting sales of SEK 131–141m. It anticipates sales of SEK 32–37m in Q3 and of SEK 37–42m in Q4.

Strong belief in the technology

We have confidence in Irisity's technology, thanks to the technical validation it has received from several large players in the field. In Q4, the company signed two framework agreements with key players in the ecosystem. Moreover, interest in the industry for software investments that facilitate surveillance work is substantial. During 2022, Irisity had repeated problems with project delivery. We believe this was partly the result of winning larger and more complex projects for which it lacked the full delivery capacity. We consider the robust growth q/q and issued full-year guidance proof that Irisity can deliver.

Estimate raised to reflect new guidance

Given the quarter's sales and that we assume that Irisity will see a continued growth in MRR during the current year we lift our net sales estimates by around 7%. Our new estimate is at the lower end of the guidance range for this year. Furthermore we believe that the growth will continue in the period 2024-2025 and we raise our estimates during the period by an average of 11%. Led by the company's higher gross margin, we lift our EBITDA estimates by SEK 8m for 2023, by SEK 9m for 2024, and by SEK 10m for 2025. The quarter, a continued growth in MRR, the directed share issue and the confidence of the new management makes us look forward to H2'23. We reiterate our positive view on the technology and keep our fair value at SEK 9.1-9.5.

Change in estimates				Forecast (SEK m)				Value and risk																
	23e	24e	25e		2022	2023e	2024e	2025e	Fair value	SEK 9.1 – 9.5														
Total revenue	0,0%	0,0%	0,0%	Total revenue	121	161	208	245	Share price	SEK 5.3														
EBITDA, adj.	nm	52,4%	35,0%	Revenue growth	30%	32%	29%	18%	Risk level	High														
EPS, adj.	-1,1%	7,2%	12,5%	EBITDA, adj.	-32	2	26	37	<div style="background-color: #004a99; color: white; padding: 5px; text-align: center;">Price Performance 12 months</div>															
<div style="background-color: #004a99; color: white; padding: 5px;">Upcoming events</div>				EBIT, adj.	-147	-104	-61	-44																
				EPS, adj.	-3,6	-2,6	-1,5	-1,1																
<div style="background-color: #004a99; color: white; padding: 5px;">Company facts (SEK m)</div>				EPS growth, adj.	N.m.	N.m.	N.m.	N.m.																
				BV/share	19,3	16,7	15,2	14,1																
Q3 - report	14 November 2023			Dividend per share	0,0	0,0	0,0	0,0			<div style="background-color: #004a99; color: white; padding: 5px; text-align: center;">Conflicts of interest</div> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Liquidity provider</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Certified adviser</td> <td style="text-align: center;">✓</td> <td></td> </tr> <tr> <td>Transactions 12m</td> <td></td> <td style="text-align: center;">✓</td> </tr> </tbody> </table>			Yes	No	Liquidity provider		✓	Certified adviser	✓		Transactions 12m		✓
	Yes	No																						
Liquidity provider		✓																						
Certified adviser	✓																							
Transactions 12m		✓																						
Number of shares	41m			EBIT margin	Neg.	Neg.	Neg.	Neg.																
Market capitalization	219			ROE, adj.	Neg.	Neg.	Neg.	Neg.																
Net debt	28			ROCE, adj.	Neg.	Neg.	Neg.	Neg.																
EV	247			EV/Sales	2,2x	1,5x	1,2x	1,0x																
Free float	99%			EV/EBITDA	-	116,6x	9,5x	6,8x																
Daily trading volume, average	34k			P/BV	0,3x	0,3x	0,3x	0,4x																
Bloomberg Ticker	IRIS SS EQUITY			FCF yield	-	-	1%	2%																
<div style="background-color: #004a99; color: white; padding: 5px;">Analyst</div>				Net debt / EBITDA	-0,2x	14,3x	1,1x	0,7x																
				Rikard Engberg rikard.engberg@penser.se																				

Investment case

Irisity is a software company that develops analysis algorithms for IP cameras. These algorithms can autonomously raise an alarm in the case of intrusion onto a protected site or be used to track human activity. Implementation of such solutions can bring cost savings of 50–70% for a security company. We consider Irisity's algorithms to be world leading, as reflected in the technical partners it has. These include Axis, the leading camera manufacturer in the western world, and Milestone, a key VMS system in the market, as well as Mobotix, Intel, and Genetec. Irisity also co-operates with prominent security companies G4S and Securitas. We believe Irisity has, in recent years and via the Agent VI acquisition, built a global presence and a solid base from which to reach new levels of profitability and growth. This will come via channel partnerships with key global security industry players.

Company profile

Irisity is a software company that develops different analysis algorithms for IP cameras. These cameras can then be used to facilitate various types of surveillance work. Case studies from the company have demonstrated reductions of some 30% in OPEX and around 80% in OPEX. OPEX savings mainly stem from Irisity being able to reduce the number of false alarms, which is one of the largest cost aspects with traditional surveillance. We believe Irisity has developed a fairly robust software. Beyond effectively reducing the number of alarms with traditional surveillance, Irisity has also developed predictive algorithms that can, for example, warn about suspicious or violent behaviour in public spaces or of a fall by residents at an elderly care home. Irisity's algorithms all work in real time with complete anonymisation, which reduces the authorisation and administration required during installation.

The security industry is conservative, with numerous players. Beyond the pure security companies, there are a number of different types of suppliers to these. These include camera manufacturers, software companies, VMS companies, etc. Given the industry's rapid geographical consolidation, it is relatively decentralised, meaning its digitalisation is relatively slow. Today, only 50% of surveillance cameras are connected and just 50–60% of all storage is in private/connected clouds, limiting the use of analytics. Irisity has managed to engage with several key players in the industry and has, among other things, established a co-operation with leading camera manufacturer Axis, two of the most prominent WMS operators – Milestone and Genentech – and signed agreements with G4S and Securitas, two key security companies. We thus consider the company's technology verified by these leading industry players. During 2021–2022, however, we saw major disruptions to supply chains in the branch, with 46% of all surveyed companies reporting project delays in excess of three months.

We believe there is potential for Irisity to return to a relatively high growth rate following a 2022 dominated by supply chain disruptions that led, in turn, to delays and project cancellations. We base this hypothesis on the company now having a relatively robust sales year and, thanks to the agreements signed, a presence across most of the ecosystem.

Valuation

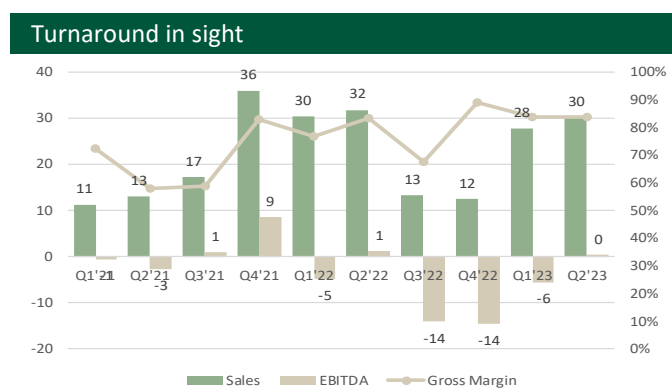
We have chosen to use a combination of a multiples valuation and an IRR calculation to value Irisity. Given that Irisity is considerably earlier in the commercial phase than many of the Swedish software companies we look at, we believe it necessary to look two to three years ahead and apply a relatively high required rate of return. We believe a required rate of return of 30% reflects Irisity's current commercial phase. We therefore see a fair value of SEK 9.1-9.5.

The quarter in detail

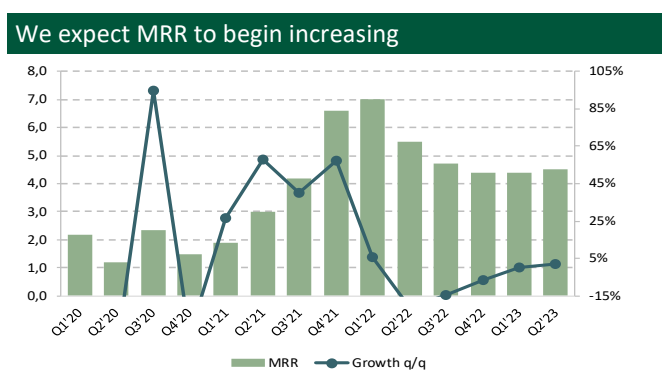
Net sales in Q2 came in at SEK 30.2m, representing growth of -5% y/y and 10% q/q. The company has now chewed through the order backlog of SEK 45m seen at the end of Q4 2022. Beyond the order backlog, it has achieved sales of SEK 13.7m, implying growth in underlying business. MRR came in at SEK 4.5m, representing 3% growth q/q. We thus believe the cancellations of contracts seen in 2022, on account of ongoing legal cases and evaluations related to IMY, have declined.

EBITDA came in at SEK 0.3m, surpassing what was needed to reach our full-year estimates. We believe the cost base will prove relatively constant throughout the year, which means we lift our EBITDA estimates for this year and the remainder of the forecast period.

At the end of the quarter, Irisity had a cash position of SEK 6.5m. Following the close of the quarter, the company conducted a directed share issue of SEK 17.5m to the CEO, which bolstered liquidity.



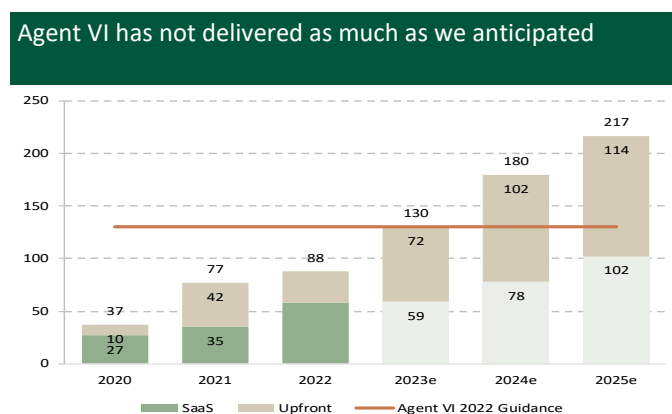
Source: Company



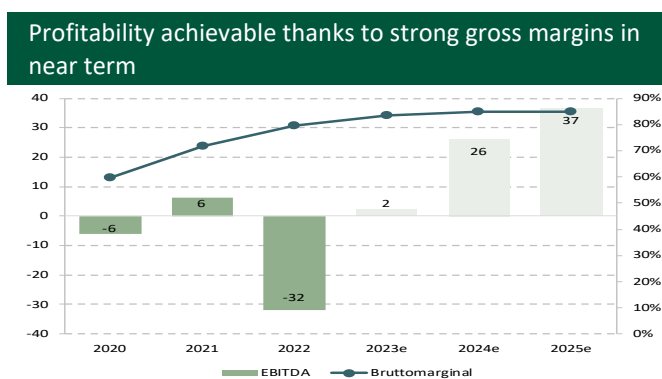
Source: Company

Estimate changes

We raise our net sales estimate by some 7% and expect the company to reach the lower end of the guidance range for the full year. We lift our net sales estimates for 2024–2025 by an average of 11%. Led by the company's higher gross margin, we lift our EBITDA estimates by SEK 8m for 2023, by SEK 9m for 2024, and by SEK 10m for 2025.



Source: EPB



Source: EPB

Valuation

We have chosen to use a peer valuation based on the 2025 sales estimate from which to value Iristry. We have then discounted this back to the present to reach our fair value.

- In our view, Iristry should be valued at a multiple of 3.25x EV/Sales. This represents a discount to the listed SaaS companies. We consider this realistic since Iristry has a higher variable component in its revenues and is not profitable at present.
- IRR of 30% – we believe the IRR reflects the challenges that Iristry still face, given liquidity situation and the confidence in the market for the firm and the management

These two assumptions suggest a value of SEK 9.1–9.5 per share. Despite the high required rate of return, we remain confident in the company's products, given the technical validation from Axis and Mobotix, among others, as well as other industry players. This is bolstered by the performance we have seen from the products, the example projects from G4S and other customers, and the projects Iristry has won in recent years.

Peers													
Name	Share price (USD)	Share price perf.			M-cap (USD)	EV/S			EV/EBITDA			CY rev. growth	
		LTM	L6M	LTM		2023	2024	2025	2023	2024	2025	2023	2024
Carasent	1,5	-41,0%	-10,1%	-4,5%	115	2,28	1,93	1,64	14,8	7,9	5,5	30,4%	18,0%
AVTECH Sweden	0,3	21,6%	21,1%	-13,7%	17	nm	nm	nm	nm	nm	nm	-	-
Fortnox	5,7	67,4%	31,5%	-9,2%	3 543	22,78	17,27	13,62	45,5	33,2	25,5	30,3%	31,9%
SmartCraft	2,0	16,2%	34,2%	4,7%	350	8,64	7,50	6,46	20,9	17,3	14,5	19,7%	14,5%
Kahoot	3,3	47,5%	39,6%	56,5%	1 622	nm	nm	nm	nm	nm	nm	17,5%	15,9%
Lime Technologies	24,0	8,2%	42,6%	14,7%	311	6,21	5,49	4,86	19,8	17,5	15,3	16,7%	13,2%
SimCorp	107,6	33,2%	55,0%	49,6%	4 235	6,37	5,86	5,39	27,2	22,6	20,0	9,0%	8,9%
Admicom	40,5	-38,5%	-21,1%	-14,4%	202	5,43	5,05	4,56	14,4	13,2	11,6	8,9%	6,0%
Lemonsoft	8,6	-43,3%	-19,9%	-1,1%	nm	5,29	4,70	4,40	18,6	15,3	14,0	16,6%	12,7%
Efecte	9,7	-27,2%	-1,6%	-18,1%	62	2,17	1,89	1,63	537,9	28,3	15,4	14,8%	14,5%
FormPipe Software	2,5	-14,5%	18,3%	3,6%	134	2,77	2,55	2,32	13,1	10,3	8,4	10,6%	8,9%
Vitec Software Group	55,0	54,9%	56,9%	12,7%	1 804	nm	nm	nm	nm	nm	nm	40,3%	15,9%
Karnov Group	4,5	-12,8%	-14,6%	-6,7%	488	2,91	2,81	2,73	11,9	11,0	9,7	121,7%	4,5%
Litium	0,8	-35,3%	-15,7%	-15,3%	15	2,13	1,66	1,32	21,3	7,5	6,2	7,7%	28,6%
Bambuser	0,2	-81,3%	-54,9%	-42,6%	36	0,32	0,31	0,25	nm	nm	nm	-1,8%	3,6%
Upsales Technology	3,8	-21,7%	-35,4%	-40,2%	65	nm	nm	nm	nm	nm	nm	11,6%	16,0%
Checkin.com Group	3,0	19,6%	8,6%	-21,8%	90	9,10	4,86	2,69	34,7	15,9	8,7	47,1%	87,4%
Iristry	0,5	-82,9%	6,7%	-24,9%	20	1,77	1,37	1,16	neg	neg	neg		
Median						4,10	3,76	3,57	19,78	15,30	14,01	17%	15%
medel						5,61	4,75	4,10	67,77	16,74	13,29	24%	14%
Vs Iristry						-68%	-71%	-72%	nm	nm	nm		

Source: Factset

Sensitivity table						
	15%	20%	30%	30%	35%	
2,75	10,8	9,8	8,1	8,1	7,5	
3	11,7	10,6	8,8	8,8	8,1	
3,25	12,7	11,5	9,5	9,5	8,7	
3,5	13,6	12,3	10,2	10,2	9,3	
4,00	15,4	13,9	11,5	11,5	10,6	

Source: EPB

Income statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net sales	35	45	35	37	77	88	130	180	217
Other operating income	0	0	16	13	16	34	31	28	28
Total revenue	35	45	52	50	93	121	161	208	245
Cost of goods sold	-8	-9	-13	-15	-22	-18	-22	-27	-33
Gross profit	27	36	39	35	71	104	139	181	212
Other Operating Expenses	-27	-44	-43	-41	-65	-135	-137	-155	-176
EBITDA	1	-8	-5	-6	6	-32	2	26	37
EBITDA, adjusted	1	-8	-5	-6	6	-32	2	26	37
EBITA, adjusted	1	-8	-5	-6	6	-32	2	26	37
Amortization	-4	-6	-12	-13	-32	-116	-107	-88	-80
EBIT	-3	-14	-17	-19	-26	-147	-104	-61	-44
EBIT, adjusted	-3	-14	-17	-19	-26	-147	-104	-61	-44
Net Financial Items	-1	-1	-1	0	-1	0	0	0	0
Profit before tax	-4	-14	-17	-20	-26	-147	-104	-61	-44
Profit before tax, adjusted	-4	-14	-17	-20	-26	-147	-104	-61	-44
Taxes	0	0	0	0	3	11	0	0	0
Net income	-4	-14	-18	-20	-24	-137	-104	-61	-44
Net income, adjusted	-4	-14	-18	-20	-24	-137	-104	-61	-44
Sales Growth	-	29%	14%	-4%	88%	30%	32%	29%	18%
Gross Margin	77,7%	79,4%	>100%	94,5%	92,3%	>100%	>100%	>100%	97,9%
EBIT Margin, Adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EPS, Adjusted	-0,22	-0,81	-0,76	-0,76	-0,62	-3,57	-2,62	-1,48	-1,06
EPS Growth, Adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.

Source: Irisity, EPB

Cash flow statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	-3	-14	-17	-19	-26	-147	-104	-61	-44
Other Cash flow Items	4	6	12	13	5	116	108	86	78
Changes in working capital	-3	1	3	-5	-7	-10	-12	6	-3
Cash flow from operating activities	-2	-7	-2	-11	-27	-42	-8	30	32
Investments in intangible fixed assets	-11	-20	-18	-10	-90	-26	-30	-28	-28
Cash Flow From Investments	-11	-20	-18	-10	-90	-26	-30	-28	-28
Free cash flow	-14	-27	-20	-21	-118	-68	-38	2	4
New share issue / repurchase	0	54	27	47	124	-	18	-	0
Change in liabilities	-	-	-	-	-	14	20	0	0
Cash flow from financing	0	54	27	47	124	14	37	0	0
Cash flow	-14	26	8	25	6	-55	-1	2	4
Net debt	8	-21	-34	-63	-62	8	30	28	25

Source: Irisity, EPB

Balance sheet

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS									
Goodwill	12	25	59	59	736	757	713	654	601
Tangible fixed assets	7	8	5	2	3	2	10	10	10
Financial assets	0	0	0	0	34	39	40	40	40
Total fixed assets	19	33	64	61	772	797	764	704	651
Accounts receivable	8	9	6	8	40	19	21	25	28
Other current assets	37	3	2	4	15	30	47	47	48
Cash and cash equivalents	6	32	40	65	71	18	16	18	22
Total current assets	51	44	48	77	127	66	85	90	97
TOTAL ASSETS	69	77	112	138	899	863	849	794	749
EQUITY AND LIABILITIES									
Equity	36	47	87	118	762	739	691	628	582
Total equity	36	47	87	118	762	739	691	628	582
Long-term interest-bearing liabilities	8	6	3	1	9	21	41	41	41
Other long-term liabilities	0	0	0	0	77	65	59	59	59
Total long-term liabilities	8	6	3	1	85	86	100	100	100
Short-term interest-bearing liabilities	6	5	3	1	1	4	6	6	6
Accounts payable	4	4	4	4	12	5	16	25	25
Other current liabilities	16	14	14	14	38	29	36	36	36
Total current liabilities	25	24	22	19	52	38	57	66	67
TOTAL EQUITY AND LIABILITIES	69	77	112	138	899	863	849	794	749

Source: Irisity, EPB

Growth and margins

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	29%	14%	-4%	88%	30%	32%	29%	18%
EBITDA growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	>100%	40%
EBIT growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
Gross margin	77,7%	79,4%	>100%	94,5%	92,3%	>100%	>100%	>100%	97,9%
EBITDA margin	2,1%	Neg.	Neg.	Neg.	8,3%	Neg.	1,6%	14,5%	16,9%
EBITDA margin, adjusted	2,1%	Neg.	Neg.	Neg.	8,3%	Neg.	1,6%	14,5%	16,9%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profit margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Irisity, EPB

Return

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Irisity, EPB

Capital efficiency

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Accounts receivable / total revenue	22%	19%	12%	17%	43%	16%	13%	12%	11%
Accounts payable / COGS	46%	47%	34%	24%	57%	30%	72%	91%	77%
Total short-term liabilities / total cost	74%	45%	39%	34%	60%	25%	36%	37%	32%
Working capital / total revenue	72%	-16%	-19%	-12%	5%	12%	11%	6%	6%
Capital turnover rate	0,7x	0,8x	0,6x	0,4x	0,1x	0,2x	0,2x	0,3x	0,4x

Source: Irisity, EPB

Financial position

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	8	-21	-34	-63	-62	8	30	28	25
Equity ratio	52%	61%	78%	85%	85%	86%	81%	79%	78%
Net debt / equity	0,2x	-0,5x	-0,4x	-0,5x	-0,1x	0,0x	0,0x	0,0x	0,0x
Net debt / EBITDA	10,5x	2,6x	6,9x	10,6x	-9,6x	-0,2x	14,3x	1,1x	0,7x

Source: Irisity, EPB

Per share data

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EPS	-0,22	-0,81	-0,76	-0,76	-0,62	-3,57	-2,62	-1,48	-1,06
EPS, adjusted	-0,22	-0,81	-0,76	-0,76	-0,62	-3,57	-2,62	-1,48	-1,06
FCF per share	-0,85	-1,56	-0,84	-0,82	-3,07	-1,78	-0,96	0,05	0,09
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Book value per share	2,27	2,67	3,77	4,56	19,9	19,3	16,7	15,2	14,1
Number of shares, m	16,0	17,6	23,2	25,8	38,3	38,3	41,4	41,4	41,4
Number of shares after dilution, average	16,0	17,6	23,2	25,8	38,3	38,3	39,9	41,4	41,4

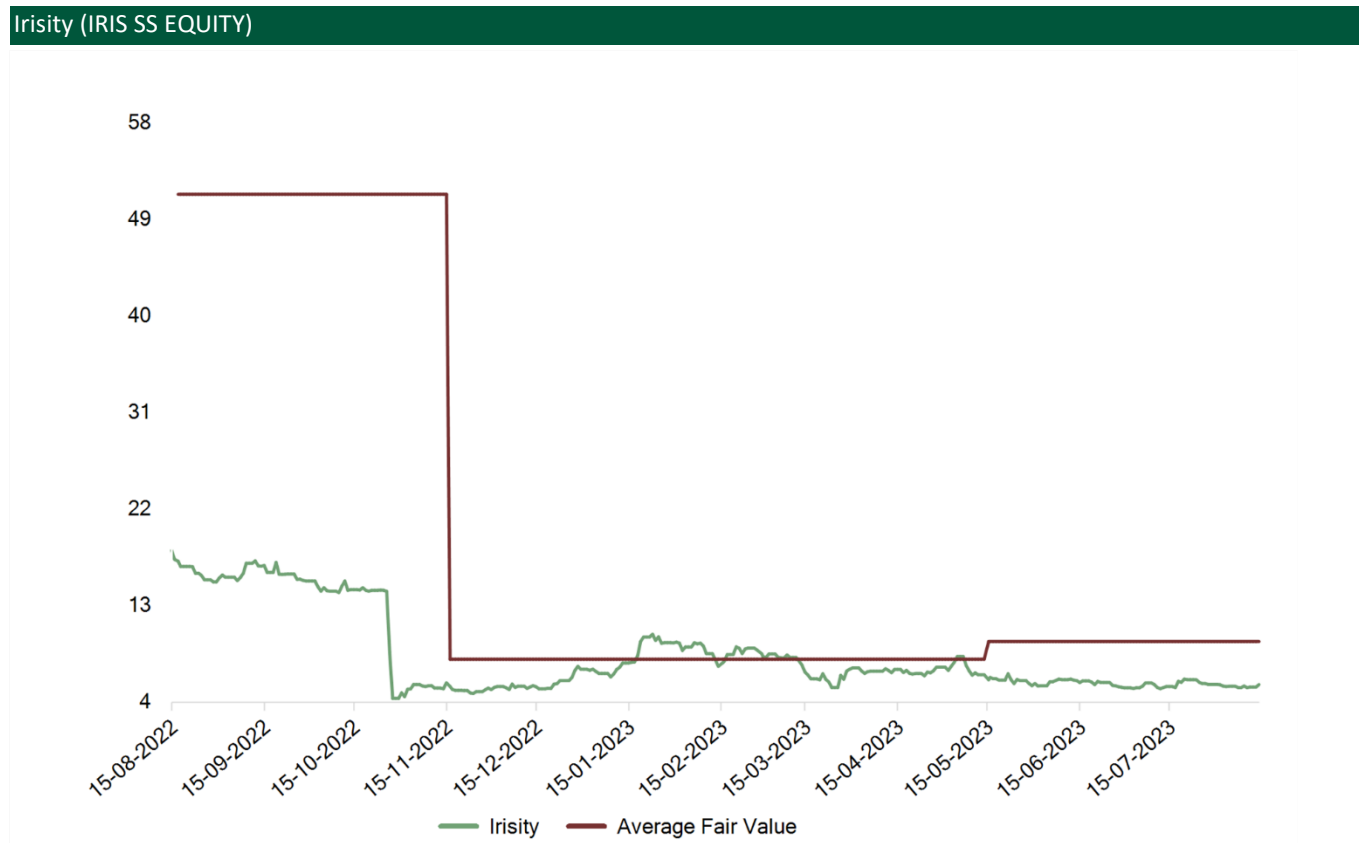
Source: Irisity, EPB

Valuation

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
P/BV	4,1x	5,4x	2,4x	8,1x	3,1x	0,3x	0,3x	0,3x	0,4x
P/FCF	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	114,3x	57,3x
FCF-yield	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	1%	2%
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV/Sales	4,4x	5,1x	3,4x	18,0x	24,8x	2,2x	1,5x	1,2x	1,0x
EV/EBITDA, adjusted	213,7x	Neg.	Neg.	Neg.	360,2x	Neg.	116,6x	9,5x	6,8x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EV	156	234	178	893	2 309	265	247	247	247
Share price, year end	9,3	14,5	9,1	37,0	61,9	6,7	5,3	5,3	5,3

Source: Irisity, EPB

Share Price and Fair Value Chart



Source: EPB, IDC

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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