

ContextVision

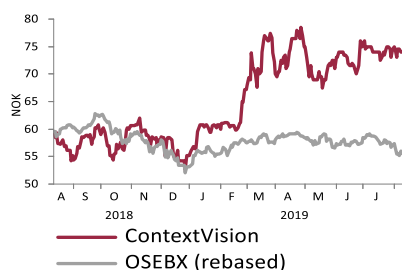
BUY

Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	573
Net debt (NOKm)	-35
EV (NOKm)	538
Net debt / equity	-61%
Issued shares (m)	7.7

Share price



Performance

	1m	3m	12m
COV	0%	7%	22%
OSEBX	-5%	-4%	-7%

Upcoming events

DP market entry	Summer 2019
2Q19 report	August 15, 2019
3Q19 report	October 24, 2019

Norne Securities AS is a market maker in the shares of ContextVision

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Profitable growth continues; DP market entry any day now

We keep our Buy recommendation at an unchanged TP of NOK 90/sh on COV share ahead of 2Q report on August 15th. Image Enhancement business is growing profitably, while we could hear news on Digital Pathology market entry any day now.

Mid-single digit growth and healthy EBITDA margin expected in 2Q

ContextVision (COV) will release its 2Q19 report on August 15th. We expect sales of SEK 23.1m and EBITDA of SEK 5.7m, representing growth of 5.5% YoY and EBITDA margin of 25%. Therefore, the company continues to grow steadily and now is achieving solid EBITDA margins once again, despite significant investments into products within digital pathology market.

2Q/19 results	2Q/18	1Q/19	2Q/19E
SEKm			Norne
Revenues	21.9	21.1	23.1
EBITDA adj.	0.1	6.1	5.7
EBITDA adj. margin	0%	29%	25%
EBIT	-1.2	4.3	3.9
Pre-tax profit	-1.2	4.2	3.8
Net earnings	-1.2	3.3	3.0
EPS reported (SEK)	-0.16	0.43	0.38
EPS adjusted (SEK)	-0.12	0.43	0.38

Digital Pathology market entry any day now

The key focus currently is the long-awaited Digital Pathology market entry that is scheduled to be this summer, so any time now. The shift in R&D cost recognition from expensing to capitalizing the past several quarters also indicates a rather advance stage in product development (the company was very conservative in R&D cost recognition on the balance sheet prior to 4Q18).

Buy and NOK 90/sh TP reiterated

We maintain our Buy recommendation and TP of NOK 90/sh ahead of 2Q report this Thursday. We are very eager to see the long-awaited product launch in the Digital Pathology market and initial results of that late this year with more significant figures next year. At the same time, we are encouraged by ContextVision's continuous leadership in the Image Enhancement business that shows stable growth and healthy profitability, which results in limited cash drain from the R&D efforts within Digital Pathology.

Estimate changes (SEKm)	2Q19E		3Q19E		2019E		2020E		2021E	
	New	Old	New	Old	New	Old	New	Old	New	Old
Operating revenues	23.1	23.1	23.0	23.0	98.2	98.2	127.0	126.6	183.4	182.5
EBITDA adj.	5.7	5.7	7.2	7.2	31.2	31.1	49.9	49.5	98.7	97.8
EBITDA adj. margin	25%	25%	31%	31%	32%	32%	39%	39%	54%	54%
EBIT (adj)	3.9	3.9	4.9	4.9	22.4	22.3	32.6	32.2	73.4	72.5
EBIT adj. margin	17%	17%	21%	21%	23%	23%	26%	25%	40%	40%
Non-recurring items	-	-	-	-	-	-	-	-	-	-
EBIT	3.9	3.9	4.9	4.9	22.4	22.3	32.6	32.2	73.4	72.5
Pre-tax profit	3.8	3.8	4.8	4.8	22.0	21.9	32.2	31.8	73.1	72.2
Tax	-0.8	-0.8	-1.0	-1.0	-4.7	-4.7	-6.9	-6.8	-15.0	-14.9
Tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Profit after tax	3.0	3.0	3.8	3.8	17.3	17.2	25.3	25.0	58.0	57.3
Revenue split by segment										
Medical Imaging	23.1	23.1	22.8	22.8	97.3	97.3	102.2	102.1	106.5	106.4
X-ray	3.3	3.3	3.4	3.4	12.9	12.9	14.2	14.1	14.9	14.9
Ultrasound 2D	13.8	13.8	13.4	13.4	58.4	58.4	61.3	61.3	63.8	63.7
Ultrasound 3D	3.9	3.9	3.9	3.9	16.8	16.8	18.1	18.1	19.2	19.1
Magnetic Resonance Imaging	1.6	1.6	1.6	1.6	7.4	7.4	6.6	6.5	6.7	6.7
Others (iRV, CT, Mammo)	0.5	0.5	0.5	0.5	1.9	1.9	2.0	2.0	2.0	2.0
Digital Pathology	-	-	0.2	0.2	0.9	0.9	24.8	24.5	76.9	76.1
Total	23.1	23.1	23.0	23.0	98.2	98.2	127.0	126.6	183.4	182.5

DCF model

SEKm	2Q-4Q 2019E	2020E	2021E	2022E	2023E
Revenues	77	127	183	211	228
EBIT*	15	29	72	91	104
Tax on EBIT	-3	-6	-15	-19	-21
NOPLAT (+)	12	23	57	73	82
Depreciation & amortization (+)	7	17	25	30	31
Capital expenditure (-)	-24	-34	-35	-35	-35
Change in working capital (- or +)	-2	-10	-10	-5	-4
Free Cash Flow to the Firm	-7	-5	38	63	75
NPV of FCF	-7	-4	29	44	47

* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-37	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	21%
				SEK/NOK	0.93
Risk free rate	3.0%	NPV cash flow			
Beta	1.2	2Q-4Q 2019-2023E	110	# shares, m	7.7
Market risk premium	6.0%	2024E-	628		
Cost of equity	10.2%	Total NPV cash flow	737		
WACC	10.2%	Equity value	775		
		Value per share, SEK	100.13		
		Value per share, NOK	93.12		

Sensitivity analysis

	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
WACC 8%	116.2	124.9	135.1	162.3	181.0
9%	99.1	105.3	112.4	130.7	142.5
10%	83.8	88.2	93.1	105.2	112.8
12%	67.5	70.3	73.4	80.7	85.0
15%	50.3	51.8	53.5	57.2	59.3

Profit & Loss (SEKm)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Operating revenues	64.4	72.2	81.9	80.5	90.9	98.2	127.0	183.4
Operating expenses	-50.7	-61.7	-71.3	-78.9	-86.1	-67.0	-77.1	-84.7
EBITDA	13.7	10.5	10.6	1.6	4.8	31.2	49.9	98.7
Depreciation & Amortisation	-3.8	-4.3	-4.8	-4.9	-5.0	-8.8	-17.3	-25.3
EBIT (adj)	9.8	6.3	5.8	-3.3	-0.2	22.4	32.6	73.4
Non-recurring items	-2.9	0.7	-	1.3	-1.1	-	-	-
EBIT	6.9	7.0	5.8	-2.0	-1.3	22.4	32.6	73.4
Net interest & other financial effects	0.1	-	-0.0	-0.0	0.0	-0.4	-0.4	-0.4
Pre-tax profit	7.0	7.0	5.8	-2.0	-1.3	22.0	32.2	73.1
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.6	-1.5	0.3	0.1	-4.7	-6.9	-15.0
Profit after tax	5.4	5.3	4.3	-1.7	-1.2	17.3	25.3	58.0
EPS rep. (SEK)	0.70	0.69	0.55	-0.22	-0.15	2.23	3.27	7.50
EPS adj. (SEK)	1.03	0.63	0.58	-0.33	-0.02	2.23	3.27	7.50
Margins								
Operating margin	15%	9%	7%	-4%	0%	23%	26%	40%
ROE	16%	9%	8%	-4%	0%	26%	29%	45%
ROCE	20%	11%	10%	-5%	0%	32%	35%	56%
Tax rate	23%	23%	26%	14%	9%	21%	21%	21%
Growth rates (YoY)								
Operating revenues	5%	12%	13%	-2%	13%	8%	29%	44%
EBIT (adj)	59%	-36%	-8%	nm	nm	nm	46%	>100%
EPS (adj)	62%	-38%	-8%	nm	nm	nm	46%	>100%

Cash flow (SEKm)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Pre-tax profit	7.0	7.0	5.8	-2.0	-1.3	20.2	32.2	73.1
Depreciation and amortisation	3.9	4.3	6.2	5.0	6.7	8.8	17.3	25.3
Unrealized g/l on current investments	-0.6	0.8	-0.0	-0.2	0.3	-0.5	-	-
Paid taxes	-0.3	-2.0	-3.5	-3.4	0.4	-2.5	-6.9	-15.0
Other	-	-	-	-	-	-	-	-
Change in working capital	0.2	-0.9	1.1	2.6	-1.0	-0.1	-10.4	-9.6
Operating cash flow (OCF)	10.3	9.2	9.5	1.9	5.1	25.8	32.2	73.7
Capital expenditures	-8.5	-5.4	-2.2	-4.5	-7.5	-31.0	-34.5	-35.1
Other cash flow from investments	0.2	0.7	-0.1	-	-	-	-	-
Free Cash Flow (FCF)	2.0	4.5	7.3	-2.6	-2.4	-5.1	-2.3	38.7
Cash flow from financing activities	-	-	-	-	-	-3.6	-3.6	-1.1
Change in cash	2.0	4.5	7.3	-2.6	-2.4	-8.7	-5.9	37.5

Balance sheet (SEKm)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	17.2	18.1	15.2	14.5	15.0	38.2	55.3	65.1
Other intangible assets	1.0	0.3	0.3	0.4	0.3	12.8	12.8	12.8
Non-current Assets	18.2	18.3	15.5	14.9	15.4	50.9	68.1	77.9
Inventory	0.5	0.4	0.3	0.6	0.7	1.3	1.9	2.3
Receivables	13.5	18.1	20.6	23.3	22.8	25.5	35.4	44.4
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	31.1	35.6	42.9	40.3	37.9	29.2	23.3	60.8
Current Assets	45.1	54.2	63.8	64.2	61.5	56.0	60.5	107.6
Total assets	63.3	72.5	79.3	79.1	76.8	106.9	128.6	185.5
Shareholders equity	50.8	57.0	61.4	59.3	58.6	75.3	100.6	158.6
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	50.8	57.0	61.4	59.3	58.6	75.3	100.6	158.6
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	0.8	1.2	1.5	1.1	1.0	5.7	2.1	0.9
Non-current liabilities	0.8	1.2	1.5	1.1	1.0	5.7	2.1	0.9
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	11.8	14.3	16.4	18.6	17.3	25.9	25.9	25.9
Current liabilities	11.8	14.3	16.4	18.6	17.3	25.9	25.9	25.9
Total liabilities	12.6	15.5	17.9	19.7	18.3	31.6	28.0	26.8
Total liabilities and equity	63.3	72.5	79.3	79.1	76.8	106.9	128.6	185.5
Working capital	14.0	18.5	20.9	23.8	23.5	26.8	37.2	46.8
Net IB debt	-31.1	-35.6	-42.9	-40.3	-37.9	-29.2	-23.3	-60.8
Capital employed	51.5	58.2	62.9	60.5	59.5	81.0	102.7	159.6
Net IB debt / equity	-61%	-62%	-70%	-68%	-65%	-39%	-23%	-38%
Equity / total assets	80%	79%	77%	75%	76%	70%	78%	86%

Share data	2014	2015	2016	2017	2018	2019E	2020E	2021E
Shares outstanding, year end (mill.)	7.737	7.737	7.737	7.737	7.737	7.737	7.737	7.737
Share price, year end (NOK)	21.90	26.40	49.50	57.50	55.20	74.00	74.00	74.00
Market cap (NOKm)	169	204	383	445	427	573	573	573
Enterprise value (NOKm)	140	169	343	405	392	545	551	516
EPS rep. (SEK)	0.70	0.69	0.55	-0.22	-0.15	2.23	3.27	7.50
EPS adj. (SEK)	1.03	0.63	0.58	-0.33	-0.02	2.23	3.27	7.50
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2014	2015	2016	2017	2018	2019E	2020E	2021E
EV/Sales	2.3	2.3	4.5	5.1	4.6	6.0	4.7	3.0
EV/EBITDA	11.1	16.0	34.8	>100	87.8	18.8	11.9	5.6
EV/EBIT (adj)	15.4	26.9	63.9	neg	neg	26.2	18.2	7.6
P/E (adj)	23.0	41.7	91.5	neg	neg	35.6	24.3	10.6
P/B (excl. goodwill)	3.6	3.6	6.7	7.6	7.8	8.2	6.1	3.9

Growth (YoY)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Revenues	5%	12%	13%	-2%	13%	8%	29%	44%
EBITDA	41%	-23%	1%	-85%	199%	549%	60%	98%
EBIT (adj)	59%	-36%	-8%	nm	nm	nm	46%	125%
Pre-tax profit (rep)	11%	-1%	-17%	nm	nm	nm	46%	127%
Net profit (rep)	11%	-2%	-20%	nm	nm	nm	47%	129%
EPS (rep)	11%	-2%	-20%	nm	nm	nm	47%	129%
EPS (adj)	62%	-38%	-8%	nm	nm	nm	46%	129%

Margins	2014	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA	21.2 %	14.6 %	12.9 %	2.0 %	5.3 %	31.7 %	39.3 %	53.8 %
EBIT (adj)	15.2 %	8.7 %	7.0 %	-4.1 %	-0.3 %	22.8 %	25.7 %	40.0 %
Pre-tax profit	10.9 %	9.6 %	7.0 %	-2.5 %	-1.4 %	22.4 %	25.4 %	39.8 %
Net profit	8.4 %	7.4 %	5.2 %	-2.1 %	-1.3 %	17.6 %	19.9 %	31.6 %

Profitability	2014	2015	2016	2017	2018	2019E	2020E	2021E
ROE	16.5 %	9.1 %	7.6 %	-4.2 %	-0.3 %	25.8 %	28.8 %	44.7 %
ROCE	20.1 %	11.4 %	9.5 %	-5.3 %	-0.4 %	31.8 %	35.5 %	56.0 %
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for ContextVision during the last 12 months:

Date	Recommendation	Target price (NOK)
13/08/2019	Buy	90.00
30/04/2019	Buy	90.00
05/04/2019	Buy	85.00
05/03/2019	Buy	80.00
15/02/2019	Buy	80.00
26/10/2018	Buy	80.00
22/10/2018	Buy	80.00
21/08/2018	Buy	90.00
27/07/2018	Buy	90.00

Valuation

To arrive at our share price target we have used a rounded result from our DCF valuation.

Risks

The main risks to our target price on ContextVision are the following:

- Slower sales growth in the operating areas, particularly in the Ultrasound segment;
- Failure to successfully complete R&D and market the new products in the portfolio, i.e. within Digital Pathology field;
- The company invests heavily in R&D and being able to capitalize on these investments, not to incur significant cost overruns etc. in the future is the key for the company's long-term growth;
- Currency risk – our long-term estimates for the Digital Pathology market are based on USD, the company reports in SEK and the share is traded in NOK.

Sources

The sources used in the preparation of this report were: ContextVision, Refinitiv Eikon, Infront and Oslo Stock Exchange.

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Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

Share prices used in the report are as of market close on the last trading day if the report is being published before the stock market opening, or market price within 15 min. before the publication if the report is published during the trading hours of the Oslo Stock Exchange.

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Target prices may be based on one or several valuation methods, for instance, the discounted cash flow (DCF) analysis or applying “fair” pricing multiple(s) based on historical valuation or peer pricing level. Target price may not necessarily equal to the “fair value” of the financial instrument – certain discount or premium is possible due to various reasons, depending on the analyst's view of what the price may be within the 12 months period. Norne Securities AS plans to update the recommendation based on the following events: the target price is achieved; new accounting figures are released; any significant news on the company or its industry is announced.

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POTENTIAL CONFLICTS OF INTEREST

Norne Securities AS is a market maker in the shares of ContextVision.

This report has been presented to the issuer before dissemination for a check of factual information. Amendments of factual information have not been made following this.

Share holdings of Norne employees in ContextVision:

Responsible analyst(s)	0
All Norne analysts	0
Other Norne employees	0
Norne Securities AS	0

The overview of share holdings is updated continuously. A list of total share holdings of the Norne Securities' employees and the date of last overview can be found on <https://www.norne.no/compliance/>. Shareholdings that Norne Securities AS owns as a result of own-account trading that is part of its investment services operations (such as market making) are not included in the table above.

Distribution of Norne Securities' recommendations during three months up till June 30, 2019:

	Buy	Hold	Sell
Total recommendations	50	29	8
% of total	57%	33%	9%
Corporate clients*	26	9	2
% of corporate clients*	70%	24%	5%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

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