

ContextVision

BUY

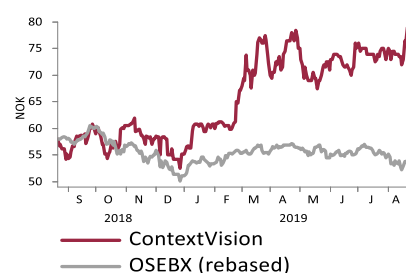
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	611
Net debt (NOKm)	-37
EV (NOKm)	574
Net debt / equity	-61%

Issued shares (m)	7.7
-------------------	-----

Share price



Performance

	1m	3m	12m
COV	8%	14%	37%
OSEBX	-2%	-5%	-7%

Upcoming events

3Q19 report	October 24, 2019
DP market entry	2019
4Q19 report	February 20, 2020

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

Analyst

Tomas Skeivys, CFA

+47 21 95 37 49

tomas.skeivys@norne.no

Strong 2Q figures and AI as well as Digital Pathology products ready for sale in '19 keeps us positive

ContextVision's 2Q figures were very strong and better than we expected. Combining this with good progress in Digital Pathology and new AI-based products already coming into the market, we keep our positive stance on COV share. After our estimate adjustments, we increase our TP to NOK 100/sh (90 previously).

2Q figures above expectations on good cost control

ContextVision (COV) released its 2Q19 report on August 15th with sales of SEK 23.1m being spot on our estimate, but EBITDA of SEK 7.3m was 27% better than we expected. EBITDA margin was 31% (25% expected), which is even higher than the levels seen before the company started the journey into Digital Pathology. Cash position was improved by SEK 2.5m QoQ despite more than SEK 7m CAPEX on intangibles (product development mainly for Digital Pathology but also for other AI-based products).

2Q/19 results	2Q/18	1Q/19	2Q/19 Reported	2Q/19E Norne	Deviation
SEKm					
Revenues	21.9	21.1	23.1	23.1	0%
EBITDA	0.1	6.1	7.3	5.7	27%
EBITDA margin	0%	29%	31%	25%	7%p
EBIT	-1.2	4.3	5.4	3.9	40%
Pre-tax profit	-1.2	4.2	5.3	3.8	41%
Net earnings	-1.2	3.3	4.1	3.0	38%
EPS reported (SEK)	-0.16	0.43	0.53	0.38	38%
EPS adjusted (SEK)	-0.12	0.43	0.54	0.38	41%

Digital Pathology product ready for sales in 2019; first AI-based product out in the market

Multiple beta sites for INIFY Prostate – the Digital Pathology product – are now in preparation for testing. COV expects to sign agreements, install and start testing (in clinical setting) in 3Q. Therefore, the company expects the product to be ready for sales this year, which seems like a slight delay from earlier wording of summer 2019. Notably, the first AI-based product for X-ray – Altumira – is released for sale and first contract signed. More contracts for Altumira are expected in 2019.

Mixed estimate changes, but Buy stays at higher TP of NOK 100/sh (90)

We have made mixed changes to our estimates. While 2019 estimates were little changed, we have moved first sales of Digital Pathology product to next year, thus decreasing sales and EBITDA forecasts for 2020. Estimates beyond 2020 were changed less and all in all resulted in a higher TP of NOK 100/sh (90 previously). We see that the current Image Enhancement business is doing well, while the endeavor into Digital Pathology and other AI-based products are starting to bear fruits. Therefore, we are likely to see more exciting news in the months and years to come that should act as triggers for the share and stay positive with a Buy recommendation.

Estimate changes (SEKm)	2Q19		3Q19E		2019E		2020E		2021E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	23.1	23.1	22.3	23.0	96.7	98.2	116.7	127.0	176.1	183.4
EBITDA adj.	7.3	5.7	6.8	7.2	30.9	31.2	42.2	49.9	93.7	98.7
EBITDA adj. margin	31%	25%	30%	31%	32%	32%	36%	39%	53%	54%
EBIT (adj)	5.4	3.9	4.4	4.9	22.0	22.4	24.8	32.6	68.3	73.4
EBIT adj. margin	23%	17%	20%	21%	23%	23%	21%	26%	39%	40%
Non-recurring items	-	-	-	-	-	-	-	-	-	-
EBIT	5.4	3.9	4.4	4.9	22.0	22.4	24.8	32.6	68.3	73.4
Pre-tax profit	5.3	3.8	4.3	4.8	21.6	22.0	24.4	32.2	67.9	73.1
Tax	-1.2	-0.8	-0.9	-1.0	-4.7	-4.7	-5.2	-6.9	-14.0	-15.0
Tax rate	23%	21%	21%	21%	22%	21%	21%	21%	21%	21%
Profit after tax	4.1	3.0	3.4	3.8	16.9	17.3	19.2	25.3	53.9	58.0
Revenue split by segment										
Medical Imaging	23.1	23.1	22.3	22.8	96.7	97.3	101.0	102.2	105.3	106.5
X-ray	3.2	3.3	3.4	3.4	12.9	12.9	14.1	14.2	14.8	14.9
Ultrasound 2D	12.9	13.8	13.4	13.4	57.5	58.4	60.3	61.3	62.8	63.8
Ultrasound 3D	3.6	3.9	3.0	3.9	15.0	16.8	16.4	18.1	17.4	19.2
Magnetic Resonance Imaging	2.6	1.6	1.8	1.6	8.7	7.4	7.2	6.6	7.4	6.7
Others (iRV, CT, Mammo)	0.8	0.5	0.7	0.5	2.6	1.9	2.9	2.0	2.9	2.0
Digital Pathology	-	-	-	0.2	-	0.9	15.7	24.8	70.8	76.9
Total	23.1	23.1	22.3	23.0	96.7	98.2	116.7	127.0	176.1	183.4

DCF model

SEKm	3Q-4Q 2019E	2020E	2021E	2022E	2023E
Revenues	52	117	176	211	229
EBIT*	10	21	67	93	106
Tax on EBIT	-2	-4	-14	-19	-22
NOPLAT (+)	8	17	53	74	84
Depreciation & amortization (+)	5	17	25	30	31
Capital expenditure (-)	-16	-33	-34	-34	-34
Change in working capital (- or +)	-5	-8	-12	-6	-4
Free Cash Flow to the Firm	-7	-8	33	65	78
NPV of FCFE	-7	-6	26	46	51

* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-40	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	3Q-4Q 2019-2023E	110	# shares, m	7.7
Market risk premium	6.0%	2024E-	674		
Cost of equity	10.2%	Total NPV cash flow	784		
WACC	10.2%	Equity value	823		
		Value per share, SEK	106.43		
		Value per share, NOK	98.98		

Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	8%	123.1	132.4	143.3	172.4	192.4
	9%	105.1	111.7	119.4	138.9	151.6
	10%	89.0	93.7	99.0	112.0	120.1
	12%	71.8	74.8	78.2	86.0	90.7
	15%	53.6	55.3	57.1	61.1	63.4

Profit & Loss (SEKm)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Operating revenues	64.4	72.2	81.9	80.5	90.9	96.7	116.7	176.1
Operating expenses	-50.7	-61.7	-71.3	-78.9	-86.1	-65.8	-74.5	-82.4
EBITDA	13.7	10.5	10.6	1.6	4.8	30.9	42.2	93.7
Depreciation & Amortisation	-3.8	-4.3	-4.8	-4.9	-5.0	-8.9	-17.4	-25.4
EBIT (adj)	9.8	6.3	5.8	-3.3	-0.2	22.0	24.8	68.3
Non-recurring items	-2.9	0.7	-	1.3	-1.1	-	-	-
EBIT	6.9	7.0	5.8	-2.0	-1.3	22.0	24.8	68.3
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	21.6	24.4	67.9
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.6	-1.5	0.3	0.1	-4.7	-5.2	-14.0
Profit after tax	5.4	5.3	4.3	-1.7	-1.2	16.9	19.2	53.9
EPS rep. (SEK)	0.70	0.69	0.55	-0.22	-0.15	2.19	2.48	6.97
EPS adj. (SEK)	1.03	0.63	0.58	-0.33	-0.02	2.20	2.48	6.97
Margins								
Operating margin	15%	9%	7%	-4%	0%	23%	21%	39%
ROE	16%	9%	8%	-4%	0%	25%	23%	45%
ROCE	20%	11%	10%	-5%	0%	31%	28%	56%
Tax rate	23%	23%	26%	14%	9%	22%	21%	21%
Growth rates (YoY)								
Operating revenues	5%	12%	13%	-2%	13%	6%	21%	51%
EBIT (adj)	59%	-36%	-8%	nm	nm	nm	13%	>100%
EPS (adj)	62%	-38%	-8%	nm	nm	nm	13%	>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	19.8	24.4	67.9
Depreciation and amortisation	3.9	4.3	6.2	5.0	6.7	8.9	17.4	25.4
Unrealized g/l on current investments	-0.6	0.8	-0.0	-0.2	0.3	-0.6	-	-
Paid taxes	-0.3	-2.0	-3.5	-3.4	0.4	-1.7	-5.2	-14.0
Other	-	-	-	-	-	-	-	-
Change in working capital	0.2	-0.9	1.1	2.6	-1.0	1.5	-8.4	-11.5
Operating cash flow (OCF)	10.3	9.2	9.5	1.9	5.1	27.9	28.2	67.8
Capital expenditures	-8.5	-5.4	-2.2	-4.5	-7.5	-30.2	-33.3	-33.7
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	-2.3	-5.1	34.1
Cash flow from financing activities	-	-	-	-	-	-3.6	-3.6	-1.1
Change in cash	2.0	4.5	7.3	-2.6	-2.4	-6.0	-8.7	33.0

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	38.3	54.2	62.6
Other intangible assets	1.0	0.3	0.3	0.4	0.3	11.9	11.9	11.9
Non-current Assets	18.2	18.3	15.5	14.9	15.4	50.2	66.1	74.5
Inventory	0.5	0.4	0.3	0.6	0.7	1.3	1.7	2.3
Receivables	13.5	18.1	20.6	23.3	22.8	24.7	32.7	43.6
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	31.1	35.6	42.9	40.3	37.9	32.0	23.3	56.2
Current Assets	45.1	54.2	63.8	64.2	61.5	58.0	57.6	102.1
Total assets	63.3	72.5	79.3	79.1	76.8	108.2	123.8	176.6
Shareholders equity	50.8	57.0	61.4	59.3	58.6	74.9	94.1	148.1
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	50.8	57.0	61.4	59.3	58.6	74.9	94.1	148.1
Deferred tax liability	-	-	-	-	1.0	0.9	0.9	0.9
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	0.8	1.2	1.5	1.1	-	4.8	1.1	0.0
Non-current liabilities	0.8	1.2	1.5	1.1	1.0	5.7	2.0	0.9
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	11.8	14.3	16.4	18.6	17.3	27.6	27.6	27.6
Current liabilities	11.8	14.3	16.4	18.6	17.3	27.6	27.6	27.6
Total liabilities	12.6	15.5	17.9	19.7	18.3	33.2	29.6	28.5
Total liabilities and equity	63.3	72.5	79.3	79.1	76.8	108.2	123.8	176.6
Working capital	14.0	18.5	20.9	23.8	23.5	26.0	34.4	45.9
Net IB debt	-31.1	-35.6	-42.9	-40.3	-37.9	-32.0	-23.3	-56.2
Capital employed	51.5	58.2	62.9	60.5	59.5	80.6	96.2	149.0
Net IB debt / equity	-61%	-62%	-70%	-68%	-65%	-43%	-25%	-38%
Equity / total assets	80%	79%	77%	75%	76%	69%	76%	84%

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	79.00	79.00	79.00
Market cap (NOKm)	169	204	383	445	427	611	611	611
Enterprise value (NOKm)	140	169	343	405	392	581	590	559
EPS rep. (SEK)	0.70	0.69	0.55	-0.22	-0.15	2.19	2.48	6.97
EPS adj. (SEK)	1.03	0.63	0.58	-0.33	-0.02	2.20	2.48	6.97
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2014	2015	2016	2017	2018	2019E	2020E	2021E
EV/Sales	2.3	2.3	4.5	5.1	4.6	6.5	5.4	3.4
EV/EBITDA	11.1	16.0	34.8	>100	87.8	20.3	15.0	6.4
EV/EBIT (adj)	15.4	26.9	63.9	neg	neg	28.4	25.6	8.8
P/E (adj)	23.0	41.7	91.5	neg	neg	38.6	34.2	12.2
P/B (excl. goodwill)	3.6	3.6	6.7	7.6	7.8	8.8	7.0	4.4

Growth (YoY)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Revenues	5%	12%	13%	-2%	13%	6%	21%	51%
EBITDA	41%	-23%	1%	-85%	199%	543%	37%	122%
EBIT (adj)	59%	-36%	-8%	nm	nm	nm	13%	175%
Pre-tax profit (rep)	11%	-1%	-17%	nm	nm	nm	13%	178%
Net profit (rep)	11%	-2%	-20%	nm	nm	nm	14%	181%
EPS (rep)	11%	-2%	-20%	nm	nm	nm	14%	181%
EPS (adj)	62%	-38%	-8%	nm	nm	nm	13%	181%

Margins	2014	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA	21.2 %	14.6 %	12.9 %	2.0 %	5.3 %	31.9 %	36.2 %	53.2 %
EBIT (adj)	15.2 %	8.7 %	7.0 %	-4.1 %	-0.3 %	22.8 %	21.3 %	38.8 %
Pre-tax profit	10.9 %	9.6 %	7.0 %	-2.5 %	-1.4 %	22.4 %	21.0 %	38.6 %
Net profit	8.4 %	7.4 %	5.2 %	-2.1 %	-1.3 %	17.5 %	16.5 %	30.6 %

Profitability	2014	2015	2016	2017	2018	2019E	2020E	2021E
ROE	16.5 %	9.1 %	7.6 %	-4.2 %	-0.3 %	25.5 %	22.7 %	44.5 %
ROCE	20.1 %	11.4 %	9.5 %	-5.3 %	-0.4 %	31.4 %	28.1 %	55.7 %
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)
22/08/2019	Buy	100.00
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

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.

DISCLOSURES AND DISCLAIMER

STANDARDS AND SUPERVISORY AUTHORITY

This report has been prepared by Norne Securities AS, which is supervised by The Financial Supervisory Authority of Norway (Finanstilsynet). Industry standards issued by The Norwegian Securities Dealers Association (Verdipapirforetakenes Forbund) (www.vpff.no) have been used in preparing this report.

DISCLAIMER

This report is provided for information purposes only. It should not be used or considered as an offer to sell or a solicitation of an offer to buy any securities. This report is prepared for general circulation and general information only. It does not take into account the specific investment objectives, investment knowledge and experience and financial situation of any recipient. Investors seeking to buy or sell any securities discussed or recommended in this report, should seek independent financial advice relating thereto and make his/her own appraisal of the tax or other financial merits of the investment. Any opinions expressed are subject to change without prior notice. This report is based on information from various sources believed to be reliable. Although all reasonable care has been taken to ensure that the information herein is not misleading, Norne Securities AS makes no guarantee, representation or warranty, expressed or implied as to its accuracy, adequacy or completeness. Neither Norne Securities AS, its employees, nor any other person connected with it, accepts any liability whatsoever for any direct, indirect or incidental, special or consequential loss of any kind arising out of the use or reliance on the information in this report.

This report is intended for use only by those persons to whom it is made available by Norne Securities AS. This report may not be distributed, quoted from or reproduced, in full or in part, in any manner without written approval by Norne Securities AS.

RECOMMENDATION STRUCTURE

Norne Securities' general recommendations – Buy, Hold and Sell – are based on the expected absolute return on the financial instrument within the next 12 months, which equals to an upside to the target price, in combination with a risk profile. The target price represents the price level which the analyst expects the financial instrument to trade at within the coming 12 months. The table below shows the ranges of returns under different risk levels, based on which the recommendation is being determined:

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.

TARGET PRICE AND UPDATES

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.

DISCLOSURE OF INTERESTS

Norne Securities AS may at any time perform investment banking or other services or solicit investment banking or other mandates from the company or companies covered in this report. Norne Securities AS may hold positions in securities covered in this report due to its own-account trading that is part of its investment services operations, such as market making. Norne Securities AS has appointed and may at any time appoint tied agents to provide investment services on behalf of Norne Securities AS. Tied agents are listed in the public registry of the Norwegian Financial Supervisory Authority, and an updated overview of appointed tied agents of Norne Securities AS can be found on <https://www.norne.no/compliance/>.

PREVENTING CONFLICTS OF INTEREST

Norne Securities AS has arrangements in place with the aim of preventing conflicts of interest. As part of these arrangements, Norne Securities AS has established information barriers between different parts of the company to restrict and control the exchange of sensitive information. No direct link exists between remuneration of the Norne Securities AS analysts and investment banking services provided by Norne Securities AS, but analysts may receive a bonus under the firm’s general bonus scheme. Under our internal regulations, which have been prepared in accordance with applicable legislation and relevant industry standards, our analysts are not permitted to purchase new securities in the companies they cover.

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.

CAUTIONARY NOTE REGARDING RISK

An investment in the company involves risk, and several factors could cause the actual results, performance or achievements of the company to be materially different from future results, performance or achievements that may be expressed or implied by statements and information in this presentation. Including, among others, risk or uncertainties associated with the company's business segments, development, growth management, financing, market acceptance and relations with customer, and more generally, general economic and business conditions, changes in domestic and foreign laws and regulations, taxes, changes in competition and pricing environment, fluctuations in currency exchange rates and interest rates and other factors. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. Past performance is not a guide to future performance. Investing in securities may result in a loss of all or part of the investment.

DISTRIBUTION RESTRICTIONS

This report is not intended for and must not be distributed to private customers in the UK or US. Norne Securities AS and its employees are not subject to the Rules of the Financial Industry Regulatory Authority (FINRA) governing research analyst conflicts. The research reports are intended for distribution in the United States solely to "major U.S. institutional investors" as defined in Rule 15a-6 under the United States Securities Exchange Act of 1934, as amended and may not be furnished to any other person in the United States. Each major U.S. institutional investor that receives a copy of a Norne Securities AS research report by its acceptance thereof represents and agrees that it shall not distribute or provide copies to any other person. Reports are prepared by Norne Securities AS and distributed to major U.S. institutional investors under Rule 15a-6(a)(2).

COPYRIGHT

This report may not be duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws.

THIS REPORT IS SUBJECT TO NORWEGIAN LAW, AND ANY DISPUTE ARISING IN RESPECT OF THIS REPORT IS SUBJECT TO THE EXCLUSIVE JURISDICTION OF NORWEGIAN COURTS.