

ContextVision

BUY

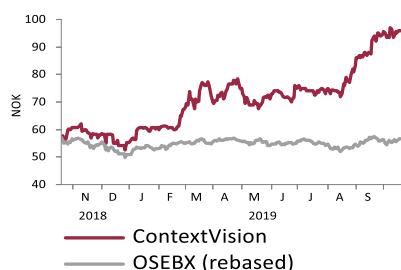
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	743
Net debt (NOKm)	-37
EV (NOKm)	706
Net debt / equity	-61%

Issued shares (m)	7.7
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Share price



Performance

	1m	3m	12m
COV	3%	32%	68%
OSEBX	-1%	3%	-1%

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

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DP market presents enormous growth potential

We keep our bullish stance on COV share ahead of 3Q report on October 24th. Our model was extended and adjusted according to COV's estimates for DP market and we increase our TP to NOK 150/sh (100 previously). We see enormous growth potential for the company and first fruits of the endeavour into DP market to be seen already next year.

Image Enhancement business to continue doing well in 3Q

ContextVision (COV) will release its 3Q report on October 24th. We expect sales of SEK 22.3m and EBITDA of SEK 6.8m, representing a modest top line growth of 2.0% YoY and EBITDA margin of 30% (flat QoQ). Comparison on EBITDA is irrelevant on a YoY basis due to the company starting to capitalize significant development costs only from 4Q18. The bottom line should still be well above zero at SEK 3.4m, albeit a bit lower QoQ due to 3Q being a seasonally weaker quarter. Nevertheless, it is impressive to see the company's existing Image Enhancement business to continue on a profitable growth path that mostly finances the endeavour into the very promising Digital Pathology field.

3Q/19 results	3Q/18	2Q/19	3Q/19E
SEKm			Norne
Revenues	21.9	23.1	22.3
EBITDA	1.6	7.3	6.8
EBITDA margin	7%	31%	30%
EBIT	0.4	5.4	4.4
Pre-tax profit	0.4	5.3	4.3
Net earnings	0.4	4.1	3.4
EPS reported (SEK)	0.05	0.53	0.44
EPS adjusted (SEK)	0.04	0.54	0.44

Digital Pathology provides enormous room for growth

Naturally, the key focus from investors currently is the company's entry into the Digital Pathology (DP) market. COV estimates the relevant part of the DP market to grow from USD 20m in 2020 to a massive USD 250m by 2022 and even more impressive USD 700m by 2024. This provides plenty of room for growth for many who enter the DP market including COV. We hope to see first sales from DP early next year, as the company is very close to releasing its first Decision Support Tool for prostate cancer (INIFY Prostate) for sale this year.

TP raised to NOK 150/sh (100 previously) and Buy reiterated

Following the meeting with the company and after including COV's own estimates of the DP market into our model (extended to 2024), our DCF returns a fair value of NOK 150/sh (100 previously). This is based on an estimate that COV will be able to maintain 3% DP market share by 2024. This demonstrates the strong growth potential and sensitivity to long-term estimate changes to valuation. All in all, we keep our Buy recommendation at a higher TP of NOK 150/sh (prev. 100) awaiting DP market entry and exciting months and years ahead.

Estimate changes (SEKm)	3Q19E		2019E		2020E		2021E		2022E
	New	Old	New	Old	New	Old	New	Old	New
Operating revenues	22.3	22.3	96.1	96.7	111.6	116.7	173.6	176.1	254.8
EBITDA adj.	6.8	6.8	30.3	30.9	37.1	42.2	91.0	93.7	164.0
EBITDA adj. margin	30%	30%	32%	32%	33%	36%	52%	53%	64%
EBIT (adj)	4.4	4.4	21.4	22.0	20.7	24.8	67.6	68.3	135.2
EBIT adj. margin	20%	20%	22%	23%	19%	21%	39%	39%	53%
Non-recurring items	-	-	-	-	-	-	-	-	-
EBIT	4.4	4.4	21.4	22.0	20.7	24.8	67.6	68.3	135.2
Pre-tax profit	4.3	4.3	21.1	21.6	20.4	24.4	67.3	67.9	134.8
Tax	-0.9	-0.9	-4.6	-4.7	-4.4	-5.2	-13.9	-14.0	-27.8
Tax rate	21%	21%	22%	22%	21%	21%	21%	21%	21%
Profit after tax	3.4	3.4	16.5	16.9	16.0	19.2	53.4	53.9	107.1
Revenue split by segment									
Medical Imaging	22.3	22.3	96.1	96.7	99.9	101.0	104.3	105.3	107.8
X-ray	3.4	3.4	12.9	12.9	14.1	14.1	15.2	14.8	16.0
Ultrasound 2D	13.4	13.4	57.5	57.5	60.3	60.3	62.8	62.8	64.6
Ultrasound 3D	3.0	3.0	14.4	15.0	15.3	16.4	16.1	17.4	16.7
Magnetic Resonance Imaging	1.8	1.8	8.7	8.7	7.2	7.2	7.4	7.4	7.5
Others (iRV, CT, Mammo)	0.7	0.7	2.6	2.6	2.9	2.9	2.9	2.9	3.0
Digital Pathology	-	-	-	-	11.8	15.7	69.3	70.8	147.0
Total	22.3	22.3	96.1	96.7	111.6	116.7	173.6	176.1	254.8

DCF model

SEKm	3Q-4Q 2019E	2020E	2021E	2022E	2023E	2024E
Revenues	52	112	174	255	274	319
EBIT*	10	17	67	135	145	179
Tax on EBIT	-2	-4	-14	-28	-30	-37
NOPLAT (+)	8	13	53	107	115	143
Depreciation & amortization (+)	5	16	23	29	34	38
Capital expenditure (-)	-16	-35	-37	-38	-40	-43
Change in working capital (- or +)	-4	-6	-11	-18	-4	-10
Free Cash Flow to the Firm	-7	-11	28	80	104	128
NPV of FCFE	-7	-10	22	57	67	75

* 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 2019-2024E	205	# shares, m	7.7
Market risk premium	6.0%	2025E-	1,002		
Cost of equity	10.2%	Total NPV cash flow	1,207		
WACC	10.2%	Equity value	1,247		
		Value per share, SEK	161.16		
		Value per share, NOK	149.88		

Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	8%	189.7	203.7	220.2	264.4	294.7
	9%	160.8	170.7	182.3	211.5	230.6
	10%	135.0	142.0	149.9	169.2	181.2
	12%	107.7	112.1	116.9	128.4	135.2
	15%	78.8	81.2	83.7	89.4	92.7

Profit & Loss (SEKm)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Operating revenues	64.4	72.2	81.9	80.5	90.9	96.1	111.6	173.6	254.8
Operating expenses	-50.7	-61.7	-71.3	-78.9	-86.1	-65.8	-74.5	-82.6	-90.8
EBITDA	13.7	10.5	10.6	1.6	4.8	30.3	37.1	91.0	164.0
Depreciation & Amortisation	-3.8	-4.3	-4.8	-4.9	-5.0	-8.9	-16.4	-23.4	-28.8
EBIT (adj)	9.8	6.3	5.8	-3.3	-0.2	21.4	20.7	67.6	135.2
Non-recurring items	-2.9	0.7	-	1.3	-1.1	-	-	-	-
EBIT	6.9	7.0	5.8	-2.0	-1.3	21.4	20.7	67.6	135.2
Net interest & other financial effects	0.1	-	-0.0	-0.0	0.0	-0.4	-0.4	-0.4	-0.4
Pre-tax profit	7.0	7.0	5.8	-2.0	-1.3	21.1	20.4	67.3	134.8
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.6	-1.5	0.3	0.1	-4.6	-4.4	-13.9	-27.8
Profit after tax	5.4	5.3	4.3	-1.7	-1.2	16.5	16.0	53.4	107.1
EPS rep. (SEK)	0.70	0.69	0.55	-0.22	-0.15	2.13	2.07	6.90	13.84
EPS adj. (SEK)	1.03	0.63	0.58	-0.33	-0.02	2.14	2.07	6.90	13.84
Margins									
Operating margin	15%	9%	7%	-4%	0%	22%	19%	39%	53%
ROE	16%	9%	8%	-4%	0%	25%	19%	46%	54%
ROCE	20%	11%	10%	-5%	0%	31%	24%	57%	68%
Tax rate	23%	23%	26%	14%	9%	22%	21%	21%	21%
Growth rates (YoY)									
Operating revenues	5%	12%	13%	-2%	13%	6%	16%	56%	47%
EBIT (adj)	59%	-36%	-8%	nm	nm	nm	-3%	>100%	100%
EPS (adj)	62%	-38%	-8%	nm	nm	nm	-3%	>100%	>100%

Cash flow (SEKm)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Pre-tax profit	7.0	7.0	5.8	-2.0	-1.3	19.2	20.4	67.3	134.8
Depreciation and amortisation	3.9	4.3	6.2	5.0	6.7	8.9	16.4	23.4	28.8
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	-1.6	-4.4	-13.9	-27.8
Other	-	-	-	-	-	-	-	-	-
Change in working capital	0.2	-0.9	1.1	2.6	-1.0	2.0	-6.1	-11.0	-17.7
Operating cash flow (OCF)	10.3	9.2	9.5	1.9	5.1	28.0	26.3	65.7	118.1
Capital expenditures	-8.5	-5.4	-2.2	-4.5	-7.5	-30.2	-34.9	-36.7	-38.4
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	-8.7	29.0	79.8
Cash flow from financing activities	-	-	-	-	-	-3.6	-3.6	-1.1	-
Change in cash	2.0	4.5	7.3	-2.6	-2.4	-5.9	-12.3	27.9	79.8

Balance sheet (SEKm)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	17.2	18.1	15.2	14.5	15.0	38.3	56.9	70.2	79.8
Other intangible assets	1.0	0.3	0.3	0.4	0.3	11.9	11.9	11.9	11.9
Non-current Assets	18.2	18.3	15.5	14.9	15.4	50.2	68.7	82.1	91.7
Inventory	0.5	0.4	0.3	0.6	0.7	1.3	1.6	2.1	3.0
Receivables	13.5	18.1	20.6	23.3	22.8	24.2	30.0	40.5	57.3
Other current assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	31.1	35.6	42.9	40.3	37.9	32.1	19.8	47.7	127.4
Current Assets	45.1	54.2	63.8	64.2	61.5	57.6	51.4	90.3	187.8
Total assets	63.3	72.5	79.3	79.1	76.8	107.7	120.1	172.4	279.4
Shareholders equity	50.8	57.0	61.4	59.3	58.6	74.5	90.5	143.9	250.9
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	50.8	57.0	61.4	59.3	58.6	74.5	90.5	143.9	250.9
Deferred tax liability	-	-	-	-	1.0	0.9	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	0.0
Non-current liabilities	0.8	1.2	1.5	1.1	1.0	5.7	2.0	0.9	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	27.6
Current liabilities	11.8	14.3	16.4	18.6	17.3	27.6	27.6	27.6	27.6
Total liabilities	12.6	15.5	17.9	19.7	18.3	33.2	29.6	28.5	28.5
Total liabilities and equity	63.3	72.5	79.3	79.1	76.8	107.7	120.1	172.4	279.4
Working capital	14.0	18.5	20.9	23.8	23.5	25.5	31.6	42.6	60.3
Net IB debt	-31.1	-35.6	-42.9	-40.3	-37.9	-32.1	-19.8	-47.7	-127.4
Capital employed	51.5	58.2	62.9	60.5	59.5	80.2	92.5	144.8	251.9
Net IB debt / equity	-61%	-62%	-70%	-68%	-65%	-43%	-22%	-33%	-51%
Equity / total assets	80%	79%	77%	75%	76%	69%	75%	83%	90%

Share data	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Shares outstanding, year end (mill.)	7.737	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	96.00	96.00	96.00	96.00
Market cap (NOKm)	169	204	383	445	427	743	743	743	743
Enterprise value (NOKm)	140	169	343	405	392	713	724	698	624
EPS rep. (SEK)	0.70	0.69	0.55	-0.22	-0.15	2.13	2.07	6.90	13.84
EPS adj. (SEK)	1.03	0.63	0.58	-0.33	-0.02	2.14	2.07	6.90	13.84
DPS. (SEK)	-	-	-	-	-	-	-	-	-

Valuation	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
EV/Sales	2.3	2.3	4.5	5.1	4.6	8.0	7.0	4.3	2.6
EV/EBITDA	11.1	16.0	34.8	>100	87.8	25.3	21.0	8.3	4.1
EV/EBIT (adj)	15.4	26.9	63.9	neg	neg	35.8	37.6	11.1	5.0
P/E (adj)	23.0	41.7	91.5	neg	neg	48.2	49.9	15.0	7.5
P/B (excl. goodwill)	3.6	3.6	6.7	7.6	7.8	10.7	8.8	5.6	3.2

Growth (YoY)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Revenues	5%	12%	13%	-2%	13%	6%	16%	56%	47%
EBITDA	41%	-23%	1%	-85%	199%	531%	23%	145%	80%
EBIT (adj)	59%	-36%	-8%	nm	nm	nm	-3%	226%	100%
Pre-tax profit (rep)	11%	-1%	-17%	nm	nm	nm	-3%	230%	100%
Net profit (rep)	11%	-2%	-20%	nm	nm	nm	-3%	233%	100%
EPS (rep)	11%	-2%	-20%	nm	nm	nm	-3%	233%	100%
EPS (adj)	62%	-38%	-8%	nm	nm	nm	-3%	233%	100%

Margins	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
EBITDA	21.2 %	14.6 %	12.9 %	2.0 %	5.3 %	31.5 %	33.2 %	52.4 %	64.3 %
EBIT (adj)	15.2 %	8.7 %	7.0 %	-4.1 %	-0.3 %	22.3 %	18.6 %	38.9 %	53.1 %
Pre-tax profit	10.9 %	9.6 %	7.0 %	-2.5 %	-1.4 %	21.9 %	18.3 %	38.7 %	52.9 %
Net profit	8.4 %	7.4 %	5.2 %	-2.1 %	-1.3 %	17.1 %	14.3 %	30.8 %	42.0 %

Profitability	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
ROE	16.5 %	9.1 %	7.6 %	-4.2 %	-0.3 %	24.9 %	19.4 %	45.6 %	54.2 %
ROCE	20.1 %	11.4 %	9.5 %	-5.3 %	-0.4 %	30.7 %	24.0 %	57.0 %	68.2 %
Dividend yield	0.0 %	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)
21/10/2019	Buy	150.00
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

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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.

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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 September 30, 2019:

	Buy	Hold	Sell
Total recommendations	46	34	8
% of total	52%	39%	8%
Corporate clients*	27	10	1
% of corporate clients*	71%	26%	3%

* 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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