

## ContextVision

BUY

### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	774
Net debt (NOKm)	-35
EV (NOKm)	739
Net debt / equity	-54%
Issued shares (m)	7.7

### Share price



### Performance

	1m	3m	12m
COV	6%	33%	67%
OSEBX	2%	4%	5%

### Upcoming events

DP market entry	2019
4Q19 report	February 20, 2020

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

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## Solid and in-line 3Q figures, while DP on track for market launch soon

ContextVision's 3Q figures were solid and largely in line with our estimates. Progress in Digital Pathology seems to be good and the company is in the final stages before the market launch. Therefore, our estimates were not changed much and we reiterate NOK 150/sh TP and a Buy recommendation.

### Solid 3Q figures in line with expectations

ContextVision (COV) released its 3Q19 report on October 24<sup>th</sup> with sales of SEK 23.0m being 3% higher than our SEK 22.3m estimate, while EBITDA of SEK 6.8m was spot on our estimate. Cash position was at SEK 37m at the end of the quarter, only SEK 2m lower QoQ despite the significant spending on (CAPEX and OPEX) Digital Pathology.

3Q/19 results	3Q/18	2Q/19	3Q/19 Reported	3Q/19E Norne	Deviation
SEKm					
Revenues	21.9	23.1	23.0	22.3	3%
EBITDA	1.6	7.3	6.8	6.8	1%
EBITDA margin	7%	31%	30%	30%	-0.6%p
EBIT	0.4	5.4	4.6	4.4	3%
Pre-tax profit	0.4	5.3	4.5	4.3	3%
Net earnings	0.4	4.1	3.4	3.4	-1%
EPS reported (SEK)	0.05	0.53	0.44	0.44	-1%
EPS adjusted (SEK)	0.04	0.54	0.45	0.44	3%

### Image Enhancement doing great

The existing Image Enhancement business is doing well, delivering a healthy 5% growth YoY and close to 45% EBITDA margin. Three new client contracts were signed during the quarter, all in the growing Asian market.

### Digital Pathology in beta testing – market launch soon

First Digital Pathology product (INIFY Prostate) is still in Beta testing phase. Ethical approvals are taking more time than was initially expected. However, the project seems to be well on track for market launch soon. Lung Cancer decision support tool (second likely product in Digital Pathology) is also moving forward and research project partly funded by Swedish innovation agency was completed.

### Positive stance and NOK 150/sh TP reiterated

We keep our estimates largely unchanged following the 3Q report. Our TP of NOK 150/sh and Buy recommendation also stays awaiting market launch of the first Digital Pathology product INIFY Prostate that has a potential to completely reshape the company's growth profile in not too distant future.

Estimate changes (SEKm)	3Q19		4Q19E		2019E		2020E		2021E		2022E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old	New	Old
Operating revenues	23.0	22.3	29.2	29.6	96.4	96.1	112.5	111.6	174.0	173.6	254.4	254.8
EBITDA adj.	6.8	6.8	9.3	10.1	29.5	30.3	38.0	37.1	90.3	91.0	162.3	164.0
EBITDA adj. margin	30%	30%	32%	34%	31%	32%	34%	33%	52%	52%	64%	64%
EBIT (adj)	4.6	4.4	6.6	7.3	20.8	21.4	22.0	20.7	67.3	67.6	133.8	135.2
EBIT adj. margin	20%	20%	22%	25%	22%	22%	20%	19%	39%	39%	53%	53%
Non-recurring items	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	4.6	4.4	6.6	7.3	20.8	21.4	22.0	20.7	67.3	67.6	133.8	135.2
Pre-tax profit	4.5	4.3	6.5	7.2	20.5	21.1	21.7	20.4	67.0	67.3	133.5	134.8
Tax	-1.1	-0.9	-1.4	-1.5	-4.6	-4.6	-4.6	-4.4	-13.8	-13.9	-27.5	-27.8
Tax rate	24%	21%	21%	21%	23%	22%	21%	21%	21%	21%	21%	21%
Profit after tax	3.4	3.4	5.1	5.7	15.9	16.5	17.0	16.0	53.2	53.4	106.0	107.1
<b>Revenue split by segment</b>												
Medical Imaging	23.0	22.3	22.7	22.4	96.4	96.1	100.8	99.9	105.4	104.3	108.9	107.8
X-ray	5.0	3.4	4.1	3.5	14.9	12.9	16.4	14.1	17.6	15.2	18.5	16.0
Ultrasound 2D	14.4	13.4	13.8	13.8	58.5	57.5	61.4	60.3	63.9	62.8	65.8	64.6
Ultrasound 3D	2.4	3.0	2.6	2.6	13.2	14.4	14.0	15.3	14.7	16.1	15.3	16.7
Magnetic Resonance Imaging	0.7	1.8	1.6	1.8	7.5	8.7	6.6	7.2	6.7	7.4	6.9	7.5
Others (iRV, CT, Mammo)	0.5	0.7	0.6	0.7	2.4	2.6	2.4	2.9	2.5	2.9	2.5	3.0
Digital Pathology	-	-	0.5	0.5	-	-	11.6	11.8	68.6	69.3	145.5	147.0
Total	23.0	22.3	23.2	22.9	96.4	96.1	112.5	111.6	174.0	173.6	254.4	254.8

## DCF model

SEKm	4Q 2019E	2020E	2021E	2022E	2023E	2024E
Revenues	29	112	174	254	274	318
EBIT*	6	18	66	134	143	176
Tax on EBIT	-1	-4	-14	-28	-29	-36
NOPLAT (+)	4	14	53	106	114	140
Depreciation & amortization (+)	3	16	23	28	33	38
Capital expenditure (-)	-7	-32	-35	-37	-39	-42
Change in working capital (- or +)	-4	-6	-11	-17	-4	-9
<b>Free Cash Flow to the Firm</b>	<b>-5</b>	<b>-8</b>	<b>30</b>	<b>80</b>	<b>103</b>	<b>127</b>
NPV of FCFF	-4	-7	24	58	68	76

\* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-37	L.t. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	21%
				SEK/NOK	0.94
Risk free rate	3.0%	NPV cash flow			
Beta	1.2	4Q 2019-2024E	216	# shares, m	7.7
Market risk premium	6.0%	2025E-	1,015		
Cost of equity	10.2%	Total NPV cash flow	1,230		
<b>WACC</b>	<b>10.2%</b>	Equity value	1,268		
		<b>Value per share, SEK</b>	<b>163.87</b>		
		<b>Value per share, NOK</b>	<b>154.04</b>		

## Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	8%	193.9	208.2	225.0	269.9	300.8
	9%	164.8	175.0	186.7	216.6	236.1
	10%	138.8	146.0	154.0	173.8	186.1
	12%	111.2	115.8	120.8	132.6	139.6
	15%	82.0	84.5	87.1	93.0	96.4

<b>Profit &amp; Loss (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>Operating revenues</b>	<b>72.2</b>	<b>81.9</b>	<b>80.5</b>	<b>90.9</b>	<b>96.4</b>	<b>112.5</b>	<b>174.0</b>	<b>254.4</b>
Operating expenses	-61.7	-71.3	-78.9	-86.1	-66.9	-74.5	-83.6	-92.2
<b>EBITDA</b>	<b>10.5</b>	<b>10.6</b>	<b>1.6</b>	<b>4.8</b>	<b>29.5</b>	<b>38.0</b>	<b>90.3</b>	<b>162.3</b>
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.7	-16.0	-23.0	-28.4
<b>EBIT (adj)</b>	<b>6.3</b>	<b>5.8</b>	<b>-3.3</b>	<b>-0.2</b>	<b>20.8</b>	<b>22.0</b>	<b>67.3</b>	<b>133.8</b>
Non-recurring items	0.7	-	1.3	-1.1	-	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	20.8	22.0	67.3	133.8
Net interest & other financial effects	-	-0.0	-0.0	0.0	-0.3	-0.3	-0.3	-0.3
<b>Pre-tax profit</b>	<b>7.0</b>	<b>5.8</b>	<b>-2.0</b>	<b>-1.3</b>	<b>20.5</b>	<b>21.7</b>	<b>67.0</b>	<b>133.5</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-4.6	-4.6	-13.8	-27.5
<b>Profit after tax</b>	<b>5.3</b>	<b>4.3</b>	<b>-1.7</b>	<b>-1.2</b>	<b>15.9</b>	<b>17.0</b>	<b>53.2</b>	<b>106.0</b>
<b>EPS rep. (SEK)</b>	<b>0.69</b>	<b>0.55</b>	<b>-0.22</b>	<b>-0.15</b>	<b>2.05</b>	<b>2.20</b>	<b>6.88</b>	<b>13.70</b>
<b>EPS adj. (SEK)</b>	<b>0.63</b>	<b>0.58</b>	<b>-0.33</b>	<b>-0.02</b>	<b>2.08</b>	<b>2.20</b>	<b>6.88</b>	<b>13.70</b>
<b>Margins</b>								
Operating margin	9%	7%	-4%	0%	22%	20%	39%	53%
ROE	9%	8%	-4%	0%	24%	21%	45%	54%
ROCE	11%	10%	-5%	0%	30%	25%	57%	68%
Tax rate	23%	26%	14%	9%	23%	21%	21%	21%
<b>Growth rates (YoY)</b>								
Operating revenues	12%	13%	-2%	13%	6%	17%	55%	46%
EBIT (adj)	-36%	-8%	nm	nm	nm	5%	>100%	99%
EPS (adj)	-38%	-8%	nm	nm	nm	6%	>100%	99%

<b>Cash flow (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Pre-tax profit	7.0	5.8	-2.0	-1.3	18.7	21.7	67.0	133.5
Depreciation and amortisation	4.3	6.2	5.0	6.7	8.7	16.0	23.0	28.4
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	-0.5	-	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	0.5	-4.6	-13.8	-27.5
Other	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-2.8	-6.0	-10.9	-17.4
<b>Operating cash flow (OCF)</b>	<b>9.2</b>	<b>9.5</b>	<b>1.9</b>	<b>5.1</b>	<b>24.5</b>	<b>27.1</b>	<b>65.3</b>	<b>117.0</b>
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-26.0	-32.2	-34.9	-37.1
Other cash flow from investments	0.7	-0.1	-	-	-0.2	-	-	-
<b>Free Cash Flow (FCF)</b>	<b>4.5</b>	<b>7.3</b>	<b>-2.6</b>	<b>-2.4</b>	<b>-1.7</b>	<b>-5.1</b>	<b>30.4</b>	<b>79.9</b>
Cash flow from financing activities	-	-	-	-	-3.7	-3.7	-1.1	-
<b>Change in cash</b>	<b>4.5</b>	<b>7.3</b>	<b>-2.6</b>	<b>-2.4</b>	<b>-5.3</b>	<b>-8.8</b>	<b>29.4</b>	<b>79.9</b>

Balance sheet (SEKm)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	35.2	51.4	63.3	72.0
Other intangible assets	0.3	0.3	0.4	0.3	11.1	11.1	11.1	11.1
<b>Non-current Assets</b>	<b>18.3</b>	<b>15.5</b>	<b>14.9</b>	<b>15.4</b>	<b>46.4</b>	<b>62.6</b>	<b>74.5</b>	<b>83.2</b>
Inventory	0.4	0.3	0.6	0.7	1.1	1.3	1.8	2.6
Receivables	18.1	20.6	23.3	22.8	23.9	29.7	40.1	56.7
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	32.6	23.8	53.1	133.1
<b>Current Assets</b>	<b>54.2</b>	<b>63.8</b>	<b>64.2</b>	<b>61.5</b>	<b>57.6</b>	<b>54.8</b>	<b>95.0</b>	<b>192.3</b>
<b>Total assets</b>	<b>72.5</b>	<b>79.3</b>	<b>79.1</b>	<b>76.8</b>	<b>104.0</b>	<b>117.3</b>	<b>169.5</b>	<b>275.5</b>
Shareholders equity	57.0	61.4	59.3	58.6	74.0	91.0	144.2	250.3
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>57.0</b>	<b>61.4</b>	<b>59.3</b>	<b>58.6</b>	<b>74.0</b>	<b>91.0</b>	<b>144.2</b>	<b>250.3</b>
Deferred tax liability	-	-	-	1.0	0.9	0.9	0.9	0.9
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	1.2	1.5	1.1	-	4.7	1.1	0.0	0.0
<b>Non-current liabilities</b>	<b>1.2</b>	<b>1.5</b>	<b>1.1</b>	<b>1.0</b>	<b>5.7</b>	<b>2.0</b>	<b>0.9</b>	<b>0.9</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	24.3	24.3	24.3	24.3
<b>Current liabilities</b>	<b>14.3</b>	<b>16.4</b>	<b>18.6</b>	<b>17.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>
<b>Total liabilities</b>	<b>15.5</b>	<b>17.9</b>	<b>19.7</b>	<b>18.3</b>	<b>30.0</b>	<b>26.3</b>	<b>25.2</b>	<b>25.2</b>
<b>Total liabilities and equity</b>	<b>72.5</b>	<b>79.3</b>	<b>79.1</b>	<b>76.8</b>	<b>104.0</b>	<b>117.3</b>	<b>169.5</b>	<b>275.5</b>
Working capital	18.5	20.9	23.8	23.5	25.0	31.0	41.9	59.3
Net IB debt	-35.6	-42.9	-40.3	-37.9	-32.6	-23.8	-53.1	-133.1
Capital employed	58.2	62.9	60.5	59.5	79.7	93.0	145.2	251.2
Net IB debt / equity	-62%	-70%	-68%	-65%	-44%	-26%	-37%	-53%
Equity / total assets	79%	77%	75%	76%	71%	78%	85%	91%

Share data	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
Share price, year end (NOK)	26.40	49.50	57.50	55.20	100.00	100.00	100.00	100.00
Market cap (NOKm)	204	383	445	427	774	774	774	774
Enterprise value (NOKm)	169	343	405	392	743	751	724	649
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	2.05	2.20	6.88	13.70
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.08	2.20	6.88	13.70
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019E	2020E	2021E	2022E
EV/Sales	2.3	4.5	5.1	4.6	8.2	7.1	4.4	2.7
EV/EBITDA	16.0	34.8	>100	87.8	26.8	21.0	8.5	4.3
EV/EBIT (adj)	26.9	63.9	neg	neg	37.9	36.4	11.4	5.2
P/E (adj)	41.7	91.5	neg	neg	51.1	48.4	15.5	7.8
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	11.1	9.0	5.7	3.3

Growth (YoY)	2015	2016	2017	2018	2019E	2020E	2021E	2022E
Revenues	12%	13%	-2%	13%	6%	17%	55%	46%
EBITDA	-23%	1%	-85%	199%	515%	29%	138%	80%
EBIT (adj)	-36%	-8%	nm	nm	nm	5%	206%	99%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	6%	209%	99%
Net profit (rep)	-2%	-20%	nm	nm	nm	7%	213%	99%
EPS (rep)	-2%	-20%	nm	nm	nm	7%	213%	99%
EPS (adj)	-38%	-8%	nm	nm	nm	6%	213%	99%

Margins	2015	2016	2017	2018	2019E	2020E	2021E	2022E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	30.6 %	33.8 %	51.9 %	63.8 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.6 %	19.5 %	38.7 %	52.6 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	21.3 %	19.3 %	38.5 %	52.5 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	16.5 %	15.1 %	30.6 %	41.7 %

Profitability	2015	2016	2017	2018	2019E	2020E	2021E	2022E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.3 %	20.6 %	45.2 %	53.8 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	29.9 %	25.4 %	56.5 %	67.5 %
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)
28/10/2019	Buy	150.00
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

### 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.

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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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