

## ContextVision

BUY

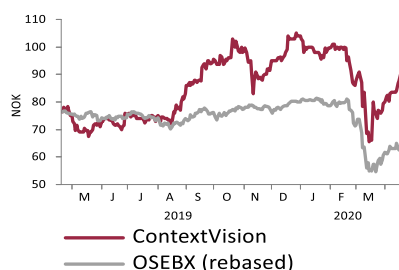
### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	696
Net debt (NOKm)	-38
EV (NOKm)	658
Net debt / equity	-55%

Issued shares (m)	7.7
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### Share price



### Performance

	1m	3m	12m
COV	13%	-8%	18%
OSEBX	12%	-21%	-16%

### Upcoming events

1Q20 report	April 23, 2020
AGM	May 6, 2020
2Q20 report	August 13, 2020
3Q20 report	October 22, 2020
4Q20 report	February 18, 2021

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

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## Strong 1Q expected; products help in COVID-19 crisis

We stay positive on COV share ahead of 1Q report on April 23<sup>rd</sup>. The existing Image Enhancement business should not be much affected by the ongoing health crisis, while Digital Pathology remains the key long-term driver of the share price. Therefore, our Buy recommendation stays at a slightly lower TP of NOK 120/sh (140) as we apply a 20% discount to our DCF valuation.

### Strong 1Q expected due to new global customer signings

ContextVision (COV) will release its 1Q report on April 23<sup>rd</sup>. We expect strong sales of SEK 24m, representing 13% YoY growth. Sales, however, might end up even higher, as on February 27<sup>th</sup> the company issued a rather bullish press release about new global customers in the US and Asia, which are driving increased revenue in Q1 2020 and beyond. The contracts are within X-ray and Ultrasound segments. EBITDA and EPS for the quarter are estimated at SEK 7.0m and SEK 0.47.

1Q/20 results	1Q/19	4Q/19	1Q/20E
SEKm			Norne
Revenues	21.1	28.1	23.7
EBITDA	6.1	8.1	7.0
EBITDA margin	29%	29%	30%
EBIT adj.	4.3	5.8	4.7
EBIT	4.3	-4.2	4.7
Pre-tax profit	4.2	-4.2	4.6
Net earnings	3.3	-3.4	3.6
EPS reported (SEK)	0.43	-0.44	0.47
EPS adjusted (SEK)	0.43	0.58	0.47

### Limited COVID-19 crisis impact; COV's products help in detection of virus

ContextVision indicated that they are not too much affected by the ongoing health crisis globally – we are fortunate to have a business that can remain fully operational and keep our financial situation stable. We are fully staffed; however ... we now handle all customer services remotely. What is more, the company's Medical Imaging products within Ultrasound and X-ray segments can provide clinicians with valuable support in the detection of the coronavirus.

### Some estimate adj. with hopefully not too delayed DP market launch

We have not made major adjustments to our near-term estimates, as the company seems to have a good first quarter, but reduced the existing Image Enhancement business estimates for 2Q due to uncertainty. We also decided to further delay more significant sales from Digital Pathology from early 2021 to 2H2021, as the ongoing crisis might affect the launch of the product in the Digital Pathology field. All in all, Buy is maintained at a slightly lower TP of NOK 120/sh. Our long-term estimates (after 2022) are actually affected positively due to the USD strength and weakness of NOK vs SEK, but we decided to apply a 20% discount due to uncertainty globally.

Estimate changes (SEKm)	1Q20E		2Q20E		2020E		2021E		2022E	
	New	Old	New	Old	New	Old	New	Old	New	Old
Operating revenues	23.7	23.4	23.4	24.4	98.1	99.6	113.9	146.5	238.9	256.2
EBITDA adj.	7.0	6.7	6.4	7.4	24.3	25.8	31.7	64.0	145.9	164.8
EBITDA adj. margin	30%	29%	27%	30%	25%	26%	28%	44%	61%	64%
EBIT (adj)	4.7	4.4	3.9	4.9	13.4	14.9	16.1	48.4	125.5	144.4
EBIT adj. margin	20%	19%	16%	20%	14%	15%	14%	33%	53%	56%
Non-recurring items	-	-	-	-	-	-	-	-	-	-
EBIT	4.7	4.4	3.9	4.9	13.4	14.9	16.1	48.4	125.5	144.4
Pre-tax profit	4.6	4.3	3.8	4.8	13.0	14.5	15.7	48.0	125.2	144.1
Tax	-1.0	-0.9	-0.8	-1.0	-2.8	-3.1	-3.2	-9.9	-25.8	-29.7
Tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Profit after tax	3.6	3.4	3.0	3.8	10.3	11.4	12.5	38.1	99.4	114.4
<b>Revenue split by segment</b>										
Medical Imaging	23.7	23.4	23.4	24.4	98.1	99.6	103.3	104.9	107.6	109.2
X-ray	4.7	4.7	4.2	4.7	18.2	18.7	20.1	20.6	21.6	22.1
Ultrasound 2D	14.4	13.9	13.5	13.7	60.2	60.1	63.2	63.1	65.8	65.7
Ultrasound 3D	2.4	2.5	3.4	3.7	10.8	11.5	11.2	11.8	11.5	12.2
Magnetic Resonance Imaging	1.7	1.8	1.7	1.8	6.7	7.1	6.7	7.0	6.6	6.9
Others (iRV, CT, Mammo)	0.5	0.6	0.5	0.6	2.1	2.3	2.2	2.3	2.2	2.4
Digital Pathology	-	-	-	-	-	-	10.6	41.6	131.3	147.0
Total	23.7	23.4	23.4	24.4	98.1	99.6	113.9	146.5	238.9	256.2

## DCF model

SEKm	2020E	2021E	2022E	2023E	2024E
Revenues	98	114	239	278	324
EBIT*	10	15	126	154	188
Tax on EBIT	-2	-3	-26	-32	-39
NOPLAT (+)	8	12	100	122	149
Depreciation & amortization (+)	11	16	20	25	30
Capital expenditure (-)	-24	-26	-27	-28	-29
Change in working capital (- or +)	3	-5	-26	-4	-9
Free Cash Flow to the Firm	-2	-3	67	115	141
NPV of FCFE	-2	-3	47	73	80

\* 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	20.6%
				SEK/NOK	1.05
Risk free rate	3.0%	NPV cash flow			
Beta	1.5	2020-2024E	196	# shares, m	7.7
Market risk premium	6.0%	2025E-	864		
Cost of equity	12.0%	Total NPV cash flow	1,060		
WACC	12.0%	Equity value	1,097		
		Value per share, SEK	141.83		
		Value per share, NOK	148.92		

## Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	10%	175.8	185.4	196.3	223.1	239.9
	11%	154.1	161.5	169.8	189.5	201.6
	12%	136.7	142.5	148.9	164.0	172.9
	13%	122.4	127.1	132.2	143.9	150.8
	15%	100.4	103.6	106.9	114.6	118.9

<b>Profit &amp; Loss (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</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>95.3</b>	<b>98.1</b>	<b>113.9</b>	<b>238.9</b>
Operating expenses	-61.7	-71.3	-78.9	-86.1	-67.1	-73.8	-82.2	-92.9
<b>EBITDA</b>	<b>10.5</b>	<b>10.6</b>	<b>1.6</b>	<b>4.8</b>	<b>28.2</b>	<b>24.3</b>	<b>31.7</b>	<b>145.9</b>
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.2	-10.9	-15.6	-20.4
<b>EBIT (adj)</b>	<b>6.3</b>	<b>5.8</b>	<b>-3.3</b>	<b>-0.2</b>	<b>20.1</b>	<b>13.4</b>	<b>16.1</b>	<b>125.5</b>
Non-recurring items	0.7	-	1.3	-1.1	-10.0	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	10.1	13.4	16.1	125.5
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>9.8</b>	<b>13.0</b>	<b>15.7</b>	<b>125.2</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-2.4	-2.8	-3.2	-25.8
<b>Profit after tax</b>	<b>5.3</b>	<b>4.3</b>	<b>-1.7</b>	<b>-1.2</b>	<b>7.4</b>	<b>10.3</b>	<b>12.5</b>	<b>99.4</b>
<b>EPS rep. (SEK)</b>	<b>0.69</b>	<b>0.55</b>	<b>-0.22</b>	<b>-0.15</b>	<b>0.96</b>	<b>1.33</b>	<b>1.61</b>	<b>12.85</b>
<b>EPS adj. (SEK)</b>	<b>0.63</b>	<b>0.58</b>	<b>-0.33</b>	<b>-0.02</b>	<b>2.01</b>	<b>1.33</b>	<b>1.61</b>	<b>12.85</b>
<b>Margins</b>								
Operating margin	9%	7%	-4%	0%	21%	14%	14%	53%
ROE	9%	8%	-4%	0%	25%	14%	15%	72%
ROCE	11%	10%	-5%	0%	30%	18%	19%	90%
Tax rate	23%	26%	14%	9%	24%	21%	21%	21%
<b>Growth rates (YoY)</b>								
Operating revenues	12%	13%	-2%	13%	5%	3%	16%	110%
EBIT (adj)	-36%	-8%	nm	nm	nm	-33%	20%	>100%
EPS (adj)	-38%	-8%	nm	nm	nm	-34%	22%	>100%

<b>Cash flow (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Pre-tax profit	7.0	5.8	-2.0	-1.3	7.9	13.0	15.7	125.2
Depreciation and amortisation	4.3	6.2	5.0	6.7	18.2	10.9	15.6	20.4
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	0.1	-	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	1.8	-2.8	-3.2	-25.8
Other	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-3.0	3.2	-5.3	-26.4
<b>Operating cash flow (OCF)</b>	<b>9.2</b>	<b>9.5</b>	<b>1.9</b>	<b>5.1</b>	<b>25.1</b>	<b>24.4</b>	<b>22.8</b>	<b>93.4</b>
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-22.8	-23.7	-25.6	-27.1
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>2.0</b>	<b>0.7</b>	<b>-2.9</b>	<b>66.2</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>-1.6</b>	<b>-3.0</b>	<b>-3.9</b>	<b>66.2</b>

<b>Balance sheet (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	23.5	36.3	46.3	53.1
Other intangible assets	0.3	0.3	0.4	0.3	10.0	10.0	10.0	10.0
<b>Non-current Assets</b>	<b>18.3</b>	<b>15.5</b>	<b>14.9</b>	<b>15.4</b>	<b>33.5</b>	<b>46.3</b>	<b>56.3</b>	<b>63.0</b>
Inventory	0.4	0.3	0.6	0.7	0.9	1.0	1.2	2.4
Receivables	18.1	20.6	23.3	22.8	23.4	20.1	25.2	50.4
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	36.3	33.4	29.4	95.7
<b>Current Assets</b>	<b>54.2</b>	<b>63.8</b>	<b>64.2</b>	<b>61.5</b>	<b>60.6</b>	<b>54.4</b>	<b>55.8</b>	<b>148.5</b>
<b>Total assets</b>	<b>72.5</b>	<b>79.3</b>	<b>79.1</b>	<b>76.8</b>	<b>94.1</b>	<b>100.7</b>	<b>112.1</b>	<b>211.5</b>
Shareholders equity	57.0	61.4	59.3	58.6	66.1	76.4	88.9	188.3
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>57.0</b>	<b>61.4</b>	<b>59.3</b>	<b>58.6</b>	<b>66.1</b>	<b>76.4</b>	<b>88.9</b>	<b>188.3</b>
Deferred tax liability	-	-	-	1.0	1.6	1.6	1.6	1.6
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>6.3</b>	<b>2.6</b>	<b>1.6</b>	<b>1.6</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	21.7	21.7	21.7	21.7
<b>Current liabilities</b>	<b>14.3</b>	<b>16.4</b>	<b>18.6</b>	<b>17.3</b>	<b>21.7</b>	<b>21.7</b>	<b>21.7</b>	<b>21.7</b>
<b>Total liabilities</b>	<b>15.5</b>	<b>17.9</b>	<b>19.7</b>	<b>18.3</b>	<b>28.0</b>	<b>24.3</b>	<b>23.2</b>	<b>23.2</b>
<b>Total liabilities and equity</b>	<b>72.5</b>	<b>79.3</b>	<b>79.1</b>	<b>76.8</b>	<b>94.1</b>	<b>100.7</b>	<b>112.1</b>	<b>211.5</b>
Working capital	18.5	20.9	23.8	23.5	24.3	21.1	26.4	52.8
Net IB debt	-35.6	-42.9	-40.3	-37.9	-36.3	-33.4	-29.4	-95.7
Capital employed	58.2	62.9	60.5	59.5	72.4	79.0	90.5	189.9
Net IB debt / equity	-62%	-70%	-68%	-65%	-55%	-44%	-33%	-51%
Equity / total assets	79%	77%	75%	76%	70%	76%	79%	89%

Share data	2015	2016	2017	2018	2019	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	104.00	90.00	90.00	90.00
Market cap (NOKm)	204	383	445	427	805	696	696	696
Enterprise value (NOKm)	169	343	405	392	770	661	665	596
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	0.96	1.33	1.61	12.85
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.01	1.33	1.61	12.85
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019	2020E	2021E	2022E
EV/Sales	2.3	4.5	5.1	4.6	8.5	6.4	5.6	2.4
EV/EBITDA	16.0	34.8	>100	87.8	28.8	25.9	20.0	3.9
EV/EBIT (adj)	26.9	63.9	neg	neg	40.5	47.1	39.4	4.5
P/E (adj)	41.7	91.5	neg	neg	54.7	64.7	53.1	6.7
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	12.8	8.7	7.5	3.5

Growth (YoY)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Revenues	12%	13%	-2%	13%	5%	3%	16%	110%
EBITDA	-23%	1%	-85%	199%	489%	-14%	30%	361%
EBIT (adj)	-36%	-8%	nm	nm	nm	-33%	20%	681%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	34%	21%	696%
Net profit (rep)	-2%	-20%	nm	nm	nm	39%	22%	696%
EPS (rep)	-2%	-20%	nm	nm	nm	39%	22%	696%
EPS (adj)	-38%	-8%	nm	nm	nm	-34%	22%	696%

Margins	2015	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	29.6 %	24.8 %	27.8 %	61.1 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.1 %	13.6 %	14.1 %	52.6 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	10.2 %	13.3 %	13.8 %	52.4 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	7.8 %	10.5 %	11.0 %	41.6 %

Profitability	2015	2016	2017	2018	2019	2020E	2021E	2022E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.9 %	14.4 %	15.1 %	71.7 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	30.4 %	17.7 %	19.0 %	89.6 %
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)
20/04/2020	Buy	120.00
25/02/2020	Buy	140.00
10/02/2020	Buy	150.00
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

### Valuation

To arrive at our share price target we have used a rounded result from our DCF valuation with a 20% discount.

### 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

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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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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.

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	Buy	Hold	Sell
Total recommendations	55	40	7
% of total	54%	39%	7%
Corporate clients*	31	10	2
% of corporate clients*	72%	23%	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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