

ContextVision

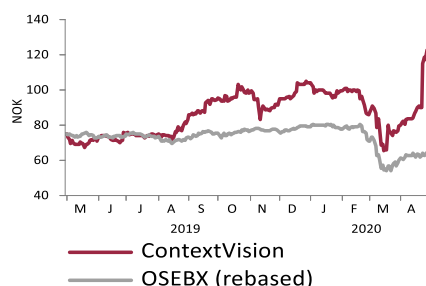
HOLD

Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	948
Net debt (NOKm)	-35
EV (NOKm)	913
Net debt /equity	-45%
Issued shares (m)	7.7

Share price



Performance

	1m	3m	12m
COV	61%	23%	56%
OSEBX	14%	-18%	-14%

Upcoming events

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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Share price reflects value well at this point

ContextVision presented record quarterly figures for 1Q, as the Image Enhancement business continues doing great and even better than expected. At the same time, Digital Pathology is progressing well and soon to reach significant milestones. Still, due to the recent and justified rally in the share price we decided to downgrade the share from Buy to Hold. The long-term valuation is likely to be even higher, but value is reflected rather well at this point, in our view.

Big positive surprise in 1Q numbers – Image Enhancement doing great

ContextVision (COV) released its 1Q20 report last Thursday, with figures being very much above our expectations. Sales of SEK 29m exceeded our estimates by 23%, while EBITDA of SEK 14m was basically double our projection. The company indicated that the quarter is going to be strong earlier, but it was difficult to imagine it would be this strong. EPS of SEK 1.17 was way above our SEK 0.47 estimate. Cash position remained strong at SEK 33m, but SEK 3m lower vs end of 2019 due to WC build-up, while investments in intangibles was rather low and in line with the past several quarters.

Digital Pathology progressing smoothly, but no launch date yet

According to COV, the Digital Pathology product development continues to go smoothly and integrations with strategic partners are almost completed (several well-known PACS (picture archiving and communication systems) and LIS (laboratory information systems)). This provides for a wide distribution of the upcoming decision support tools. Even though the progress is quite significant in our view, ContextVision did not announce a launch date yet.

Value reflected well at current price; downgrade to Hold@NOK 130/sh TP

1Q report was a major positive surprise for us, but we were careful with estimate revisions, especially for the long term. Therefore, our TP is only slightly up from NOK 120/sh to NOK 130/sh (DCF with 20% discount). The company's stock rose dramatically on record figures and we see the jump as justified. At the same time, we believe the value of the share is rather well reflected at current price even if long-term potential is even greater, in our view. Therefore, we downgrade the stock from Buy to Hold. Once the Digital Pathology market launch commences and the negative consequences of global health crisis are more visible, we are likely to reconsider our stance again.

Notably, COVID-19 increases demand for products with ContextVision software, but production/demand for some other products is curtailed and it will be interesting to watch how the pandemic plays out for the company overall. Still, we do not expect major negative consequences financially.

Estimate changes (SEKm)	1Q20		2Q20E		2020E		2021E		2022E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	29.2	23.7	23.1	23.4	107.1	98.1	123.8	113.9	249.7	238.9
EBITDA adj.	13.8	7.0	5.9	6.4	33.9	24.3	39.9	31.7	154.2	145.9
EBITDA adj. margin	47%	30%	26%	27%	32%	25%	32%	28%	62%	61%
EBIT (adj)	11.8	4.7	3.8	3.9	24.5	13.4	25.9	16.1	135.4	125.5
EBIT adj. margin	41%	20%	16%	16%	23%	14%	21%	14%	54%	53%
Non-recurring items	-	-	-	-	-	-	-	-	-	-
EBIT	11.8	4.7	3.8	3.9	24.5	13.4	25.9	16.1	135.4	125.5
Pre-tax profit	11.8	4.6	3.7	3.8	24.2	13.0	25.6	15.7	135.1	125.2
Tax	-2.7	-1.0	-0.8	-0.8	-5.4	-2.8	-5.3	-3.2	-27.8	-25.8
Tax rate	23%	21%	21%	21%	22%	21%	21%	21%	21%	21%
Profit after tax	9.1	3.6	2.9	3.0	18.9	10.3	20.3	12.5	107.3	99.4
Revenue split by segment										
Medical Imaging	29.2	23.7	23.1	23.4	107.1	98.1	113.2	103.3	118.5	107.6
X-ray	9.2	4.7	5.0	4.2	25.7	18.2	27.6	20.1	29.3	21.6
Ultrasound 2D	15.5	14.4	13.5	13.5	62.8	60.2	66.6	63.2	69.9	65.8
Ultrasound 3D	2.6	2.4	2.5	3.4	10.3	10.8	10.7	11.2	11.0	11.5
Magnetic Resonance Imaging	1.8	1.7	1.6	1.7	6.7	6.7	6.7	6.7	6.6	6.6
Others (iRV, CT, Mammo)	0.1	0.5	0.5	0.5	1.6	2.1	1.6	2.2	1.7	2.2
Digital Pathology	-	-	-	-	-	-	10.6	10.6	131.3	131.3
Total	29.2	23.7	23.1	23.4	107.1	98.1	123.8	113.9	249.7	238.9

DCF model

SEKm	2Q-4Q 2020E	2021E	2022E	2023E	2024E
Revenues	78	124	250	290	336
EBIT*	10	25	135	164	198
Tax on EBIT	-2	-5	-28	-34	-41
NOPLAT (+)	8	20	107	130	157
Depreciation & amortization (+)	7	14	19	24	28
Capital expenditure (-)	-17	-25	-27	-29	-30
Change in working capital (- or +)	16	-5	-27	-4	-9
Free Cash Flow to the Firm	14	3	72	121	147
NPV of FCF	13	2	53	79	86

* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-33	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	20.6%
				SEK/NOK	1.06
Risk free rate	3.0%	NPV cash flow			
Beta	1.5	2Q-4Q 2020-2024E	233	# shares, m	7.7
Market risk premium	6.0%	2025E-	926		
Cost of equity	12.0%	Total NPV cash flow	1,158		
WACC	12.0%	Equity value	1,192		
		Value per share, SEK	154.01		
		Value per share, NOK	163.25		

Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	10%	191.5	201.9	213.6	242.5	260.6
	11%	168.6	176.5	185.4	206.8	219.7
	12%	150.1	156.3	163.3	179.6	189.2
	13%	134.9	139.9	145.4	158.2	165.6
	15%	111.4	114.8	118.5	126.8	131.5

Profit & Loss (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Operating revenues	72.2	81.9	80.5	90.9	95.3	107.1	123.8	249.7
Operating expenses	-61.7	-71.3	-78.9	-86.1	-67.1	-73.2	-83.8	-95.5
EBITDA	10.5	10.6	1.6	4.8	28.2	33.9	39.9	154.2
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.2	-9.4	-14.1	-18.9
EBIT (adj)	6.3	5.8	-3.3	-0.2	20.1	24.5	25.9	135.4
Non-recurring items	0.7	-	1.3	-1.1	-10.0	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	10.1	24.5	25.9	135.4
Net interest & other financial effects	-	-0.0	-0.0	0.0	-0.3	-0.3	-0.3	-0.3
Pre-tax profit	7.0	5.8	-2.0	-1.3	9.8	24.2	25.6	135.1
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-2.4	-5.4	-5.3	-27.8
Profit after tax	5.3	4.3	-1.7	-1.2	7.4	18.9	20.3	107.3
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	0.96	2.44	2.63	13.87
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.01	2.46	2.63	13.87
Margins								
Operating margin	9%	7%	-4%	0%	21%	23%	21%	54%
ROE	9%	8%	-4%	0%	25%	25%	22%	68%
ROCE	11%	10%	-5%	0%	30%	31%	27%	85%
Tax rate	23%	26%	14%	9%	24%	22%	21%	21%
Growth rates (YoY)								
Operating revenues	12%	13%	-2%	13%	5%	12%	16%	102%
EBIT (adj)	-36%	-8%	nm	nm	nm	22%	6%	>100%
EPS (adj)	-38%	-8%	nm	nm	nm	23%	7%	>100%

Cash flow (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Pre-tax profit	7.0	5.8	-2.0	-1.3	7.9	24.2	25.6	135.1
Depreciation and amortisation	4.3	6.2	5.0	6.7	18.2	9.4	14.1	18.9
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	0.1	-1.2	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	1.8	-4.8	-5.3	-27.8
Other	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-3.0	7.3	-5.5	-26.6
Operating cash flow (OCF)	9.2	9.5	1.9	5.1	25.1	35.0	28.9	99.5
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-22.8	-21.2	-25.2	-27.3
Other cash flow from investments	0.7	-0.1	-	-	-0.2	-0.3	-	-
Free Cash Flow (FCF)	4.5	7.3	-2.6	-2.4	2.0	13.5	3.7	72.2
Cash flow from financing activities	-	-	-	-	-3.7	-3.6	-1.1	-
Change in cash	4.5	7.3	-2.6	-2.4	-1.6	9.9	2.6	72.2

Balance sheet (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	23.5	36.3	47.5	56.0
Other intangible assets	0.3	0.3	0.4	0.3	10.0	9.3	9.3	9.3
Non-current Assets	18.3	15.5	14.9	15.4	33.5	45.6	56.8	65.2
Inventory	0.4	0.3	0.6	0.7	0.9	1.0	1.3	2.5
Receivables	18.1	20.6	23.3	22.8	23.4	21.8	27.1	52.5
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	36.3	46.2	48.8	121.0
Current Assets	54.2	63.8	64.2	61.5	60.6	69.1	77.1	175.9
Total assets	72.5	79.3	79.1	76.8	94.1	114.7	133.9	241.2
Shareholders equity	57.0	61.4	59.3	58.6	66.1	83.9	104.3	211.5
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	57.0	61.4	59.3	58.6	66.1	83.9	104.3	211.5
Deferred tax liability	-	-	-	1.0	1.6	1.5	1.5	1.5
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	1.2	1.5	1.1	-	4.7	1.1	-0.0	-0.0
Non-current liabilities	1.2	1.5	1.1	1.0	6.3	2.6	1.5	1.5
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	21.7	28.2	28.2	28.2
Current liabilities	14.3	16.4	18.6	17.3	21.7	28.2	28.2	28.2
Total liabilities	15.5	17.9	19.7	18.3	28.0	30.8	29.6	29.6
Total liabilities and equity	72.5	79.3	79.1	76.8	94.1	114.7	133.9	241.2
Working capital	18.5	20.9	23.8	23.5	24.3	22.9	28.4	55.0
Net IB debt	-35.6	-42.9	-40.3	-37.9	-36.3	-46.2	-48.8	-121.0
Capital employed	58.2	62.9	60.5	59.5	72.4	86.5	105.7	213.0
Net IB debt / equity	-62%	-70%	-68%	-65%	-55%	-55%	-47%	-57%
Equity / total assets	79%	77%	75%	76%	70%	73%	78%	88%

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	122.50	122.50	122.50
Market cap (NOKm)	204	383	445	427	805	948	948	948
Enterprise value (NOKm)	169	343	405	392	770	899	896	820
EPS rep. (SEK)	0.69	0.55	-0.22	-0.15	0.96	2.44	2.63	13.87
EPS adj. (SEK)	0.63	0.58	-0.33	-0.02	2.01	2.46	2.63	13.87
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019	2020E	2021E	2022E
EV/Sales	2.3	4.5	5.1	4.6	8.5	7.9	6.8	3.1
EV/EBITDA	16.0	34.8	>100	87.8	28.8	25.0	21.2	5.0
EV/EBIT (adj)	26.9	63.9	neg	neg	40.5	34.6	32.7	5.7
P/E (adj)	41.7	91.5	neg	neg	54.7	47.0	43.9	8.3
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	12.8	10.7	8.6	4.2

Growth (YoY)	2015	2016	2017	2018	2019	2020E	2021E	2022E
Revenues	12%	13%	-2%	13%	5%	12%	16%	102%
EBITDA	-23%	1%	-85%	199%	489%	20%	18%	286%
EBIT (adj)	-36%	-8%	nm	nm	nm	22%	6%	423%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	148%	6%	427%
Net profit (rep)	-2%	-20%	nm	nm	nm	155%	8%	427%
EPS (rep)	-2%	-20%	nm	nm	nm	155%	8%	427%
EPS (adj)	-38%	-8%	nm	nm	nm	23%	7%	427%

Margins	2015	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	29.6 %	31.6 %	32.3 %	61.8 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.1 %	22.9 %	20.9 %	54.2 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	10.2 %	22.6 %	20.7 %	54.1 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	7.8 %	17.6 %	16.4 %	43.0 %

Profitability	2015	2016	2017	2018	2019	2020E	2021E	2022E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.9 %	25.4 %	21.6 %	67.9 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	30.4 %	30.8 %	26.9 %	85.0 %
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)
29/04/2020	Hold	130.00
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/X-Ray segments;
- 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 March 31, 2020:

	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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