

## ContextVision

BUY

### Key share data

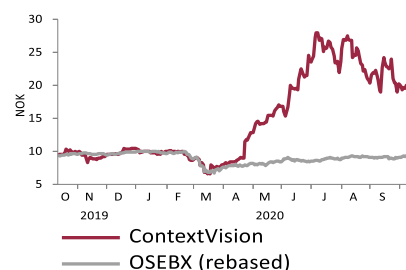
Sector	Health Care
Reuters	COVI.OL
Bloomberg	COVNO

Market Cap (NOKm)	1,516
Net debt (NOKm)	-47
EV (NOKm)	1,469
Net debt / equity	-59%

Issued shares (m) 77.4

\* 10:1 share split effective August 19th, 2020

### Share price



### Performance

	1m	3m	12m
COV	2%	-28%	110%
OSEBX	3%	9%	0%

### Upcoming events

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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## Opportunity to ride digitalization wave in pathology

After the recent weakness in the share, we upgrade our recommendation from Hold to Buy on COV stock at an unchanged target price of NOK 26/sh. ContextVision is clearly at the forefront of the ongoing digitalization of pathology with probably the most advanced product on the market that is CE-marked and was just released for sale. The pipeline is even more exciting, while many insider buys during the year is also supportive of our bullish stance.

### Improved figures QoQ expected for 3Q

ContextVision (COV) will release its 3Q report on October 22<sup>nd</sup>. We expect sales of SEK 23m, flat YoY and better than a quarter ago. Our EBITDA estimate is at SEK 4.8m, which is down YoY, but an improvement QoQ. No major sales from Digital Pathology market release is expected this year, while notable sales should appear from next year.

3Q/20 results	3Q/19	2Q/20	3Q/20E
SEKm			Norne
Revenues	23.0	20.1	23.3
EBITDA	6.8	3.7	4.8
EBITDA margin	30%	19%	21%
EBIT	4.6	1.6	1.9
Pre-tax profit	4.5	1.5	1.8
Net earnings	3.4	1.2	1.4
EPS reported (SEK)*	0.04	0.02	0.02
EPS adjusted (SEK)*	0.05	0.02	0.02

### Good entry opportunity after the share price drop; insiders agree

We have made only minor adjustments to our model ahead of 3Q report later this month. Our TP is also unchanged at NOK 26/sh, but the recent drop in the share price provides a good buying opportunity in our view and we upgrade the stock from Hold to Buy.

ContextVision is at the forefront of the digitalization of pathology. The trend could become a USD 1bn worth market in the long-run according to the company. Our estimates include that ContextVision manages to achieve 5% of the market by 2024, when the market is estimated to be USD 0.7bn. Notably, small changes to market estimates and market share estimates have a significant impact on valuation. Also worth highlighting that more significant Digital Pathology sales are not expected until next year.

The recent insider buys are also supportive of our positive stance:

- CEO, Fredrik Palm has made numerous purchases of COV share this year with the latest purchase in August (previous in April & May)
- Ola Lindblad, VP Medical Imaging purchased 1,800 shares in August
- The largest shareholder Monsun AS has also increased the holding to 2.3m shares in April, which is maximum holding without obligation to launch a bid according to Swedish law.

Estimate changes (SEKm)	3Q20E		2020E		2021E		2022E	
	New	Old	New	Old	New	Old	New	Old
Operating revenues	23.3	23.3	98.7	98.7	115.0	114.9	241.5	240.0
EBITDA adj.	4.8	2.8	25.6	23.6	32.0	31.9	153.0	151.5
EBITDA adj. margin	21%	12%	26%	24%	28%	28%	63%	63%
EBIT (adj)	1.9	-0.1	15.3	13.3	18.3	18.2	136.1	134.7
EBIT adj. margin	8%	-1%	16%	14%	16%	16%	56%	56%
Non-recurring items	-	-	-	-	-	-	-	-
EBIT	1.9	-0.1	15.3	13.3	18.3	18.2	136.1	134.7
Pre-tax profit	1.8	-0.2	15.1	13.1	18.0	17.9	135.8	134.4
Tax	-0.4	0.0	-3.4	-2.9	-3.7	-3.7	-28.0	-27.7
Tax rate	21%	21%	22%	23%	21%	21%	21%	21%
<b>Profit after tax</b>	<b>1.4</b>	<b>-0.2</b>	<b>11.7</b>	<b>10.1</b>	<b>14.3</b>	<b>14.2</b>	<b>107.8</b>	<b>106.7</b>
<b>Revenue split by segment</b>								
<b>Medical Imaging</b>	<b>23.3</b>	<b>23.3</b>	<b>98.5</b>	<b>98.5</b>	<b>103.3</b>	<b>103.3</b>	<b>109.5</b>	<b>109.5</b>
X-ray	5.5	5.5	26.5	26.5	27.7	27.7	29.3	29.3
Ultrasound 2D	15.1	15.1	59.9	59.9	64.3	64.3	68.2	68.2
Ultrasound 3D	0.6	0.6	4.5	4.5	3.6	3.6	4.2	4.2
Magnetic Resonance Imaging	1.6	1.6	6.3	6.3	6.4	6.4	6.3	6.3
Others (iRV, CT, Mammo)	0.4	0.4	1.3	1.3	1.3	1.3	1.4	1.4
<b>Digital Pathology</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>0.3</b>	<b>11.7</b>	<b>11.5</b>	<b>132.0</b>	<b>130.5</b>
<b>Total</b>	<b>23.3</b>	<b>23.3</b>	<b>98.7</b>	<b>98.7</b>	<b>115.0</b>	<b>114.9</b>	<b>241.5</b>	<b>240.0</b>

## DCF model

SEKm	3Q-4Q 2020E	2021E	2022E	2023E	2024E
Revenues	49	115	241	299	427
EBIT*	0	17	136	183	302
Tax on EBIT	0	-3	-28	-38	-62
NOPLAT (+)	0	13	108	145	240
Depreciation & amortization (+)	6	14	17	20	21
Capital expenditure (-)	-1	-11	-19	-22	-24
Change in working capital (- or +)	5	-5	-24	-11	-25
<b>Free Cash Flow to the Firm</b>	<b>10</b>	<b>11</b>	<b>82</b>	<b>132</b>	<b>211</b>
NPV of FCF	10	9	63	91	132

\* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-45	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	20.6%
Risk free rate	2.0%	NPV cash flow		SEK/NOK	1.04
Beta	1.5	3Q-4Q 2020-2024E	305	# shares, m*	77.4
Market risk premium	6.0%	2025E-	1,591	<i>10:1 split effective August 19th.</i>	
Cost of equity	11.0%	Total NPV cash flow	1,896		
<b>WACC</b>	<b>11.0%</b>	Equity value	1,941		
		<b>Value per share, SEK</b>	<b>25.09</b>		
		<b>Value per share, NOK</b>	<b>26.09</b>		

## Sensitivity analysis

WACC	Lt. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9%	31.0	33.0	35.3	41.2	45.0
10%	26.9	28.4	30.1	34.3	36.9
11%	23.7	24.8	26.1	29.2	31.1
12%	21.0	22.0	23.0	25.3	26.7
13%	18.9	19.6	20.4	22.3	23.4

<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>2023E</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>98.7</b>	<b>115.0</b>	<b>241.5</b>	<b>298.6</b>
Operating expenses	-61.7	-71.3	-78.9	-86.1	-67.1	-73.1	-83.0	-88.5	-96.1
<b>EBITDA</b>	<b>10.5</b>	<b>10.6</b>	<b>1.6</b>	<b>4.8</b>	<b>28.2</b>	<b>25.6</b>	<b>32.0</b>	<b>153.0</b>	<b>202.5</b>
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.2	-10.2	-13.7	-16.8	-19.8
<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>15.3</b>	<b>18.3</b>	<b>136.1</b>	<b>182.7</b>
Non-recurring items	0.7	-	1.3	-1.1	-10.0	-	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	10.1	15.3	18.3	136.1	182.7
Net interest & other financial effects	-	-0.0	-0.0	0.0	-0.3	-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>15.1</b>	<b>18.0</b>	<b>135.8</b>	<b>182.4</b>
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-2.4	-3.4	-3.7	-28.0	-37.6
<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>11.7</b>	<b>14.3</b>	<b>107.8</b>	<b>144.8</b>
<b>EPS rep. (SEK)</b>	<b>0.07</b>	<b>0.05</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.10</b>	<b>0.15</b>	<b>0.18</b>	<b>1.39</b>	<b>1.87</b>
<b>EPS adj. (SEK)</b>	<b>0.06</b>	<b>0.06</b>	<b>-0.03</b>	<b>-0.00</b>	<b>0.20</b>	<b>0.15</b>	<b>0.18</b>	<b>1.39</b>	<b>1.87</b>
<b>Margins</b>									
Operating margin	9%	7%	-4%	0%	21%	16%	16%	56%	61%
ROE	9%	8%	-4%	0%	25%	16%	17%	73%	53%
ROCE	11%	10%	-5%	0%	30%	20%	21%	92%	67%
Tax rate	23%	26%	14%	9%	24%	22%	21%	21%	21%
<b>Growth rates (YoY)</b>									
Operating revenues	12%	13%	-2%	13%	5%	4%	17%	110%	24%
EBIT (adj)	-36%	-8%	nm	nm	nm	-24%	19%	>100%	34%
EPS (adj)	-38%	-8%	nm	nm	nm	-24%	21%	>100%	34%

\* Adj. for share split effective August 19th, 2020

<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>	<b>2023E</b>
Pre-tax profit	7.0	5.8	-2.0	-1.3	7.9	15.1	18.0	135.8	182.4
Depreciation and amortisation	4.3	6.2	5.0	6.7	18.2	10.2	13.7	16.8	19.8
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	0.1	0.7	-	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	1.8	-2.6	-3.7	-28.0	-37.6
Other	-	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-3.0	7.5	-5.5	-23.7	-11.4
<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>30.9</b>	<b>22.5</b>	<b>101.0</b>	<b>153.2</b>
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-22.8	-8.8	-10.6	-19.3	-21.9
Other cash flow from investments	0.7	-0.1	-	-	-0.2	-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>21.9</b>	<b>11.9</b>	<b>81.7</b>	<b>131.4</b>
Cash flow from financing activities	-	-	-	-	-3.7	-3.4	-1.7	-	-
<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>18.6</b>	<b>10.2</b>	<b>81.7</b>	<b>131.4</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>	<b>2023E</b>
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	23.5	24.0	21.0	23.4	25.5
Other intangible assets	0.3	0.3	0.4	0.3	10.0	8.2	8.2	8.2	8.2
<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>32.3</b>	<b>29.2</b>	<b>31.7</b>	<b>33.7</b>
Inventory	0.4	0.3	0.6	0.7	0.9	0.9	1.2	2.2	2.8
Receivables	18.1	20.6	23.3	22.8	23.4	19.8	25.0	47.6	58.5
Other current assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	36.3	54.9	65.1	146.8	278.1
<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>75.6</b>	<b>91.3</b>	<b>196.7</b>	<b>339.4</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>107.9</b>	<b>120.5</b>	<b>228.3</b>	<b>373.1</b>
Shareholders equity	57.0	61.4	59.3	58.6	66.1	78.5	92.8	200.7	345.5
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>78.5</b>	<b>92.8</b>	<b>200.7</b>	<b>345.5</b>
Deferred tax liability	-	-	-	1.0	1.6	1.8	1.8	1.8	1.8
Long-term interest bearing debt	-	-	-	-	-	-	-	-	-
Other long-term liabilities	1.2	1.5	1.1	-	4.7	1.3	-0.4	-0.4	-0.4
<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>3.1</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>
Current interest bearing debt	-	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	21.7	26.3	26.3	26.3	26.3
<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>26.3</b>	<b>26.3</b>	<b>26.3</b>	<b>26.3</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>29.3</b>	<b>27.7</b>	<b>27.7</b>	<b>27.7</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>107.9</b>	<b>120.5</b>	<b>228.3</b>	<b>373.1</b>
Working capital	18.5	20.9	23.8	23.5	24.3	20.7	26.2	49.9	61.3
Net IB debt	-35.6	-42.9	-40.3	-37.9	-36.3	-54.9	-65.1	-146.8	-278.1
Capital employed	58.2	62.9	60.5	59.5	72.4	81.6	94.2	202.1	346.9
Net IB debt / equity	-62%	-70%	-68%	-65%	-55%	-70%	-70%	-73%	-81%
Equity / total assets	79%	77%	75%	76%	70%	73%	77%	88%	93%

Share data	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Shares outstanding, year end (mill.)	77.368	77.368	77.368	77.368	77.368	77.368	77.368	77.368	77.368
Share price, year end (NOK)	2.64	4.95	5.75	5.52	10.40	19.60	19.60	19.60	19.60
Market cap (NOKm)	204	383	445	427	805	1,516	1,516	1,516	1,516
Enterprise value (NOKm)	169	343	405	392	770	1,459	1,449	1,364	1,227
EPS rep. (SEK)	0.07	0.05	-0.02	-0.02	0.10	0.15	0.18	1.39	1.87
EPS adj. (SEK)	0.06	0.06	-0.03	-0.00	0.20	0.15	0.18	1.39	1.87
DPS. (SEK)	-	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EV/Sales	2.3	4.5	5.1	4.6	8.5	14.2	12.1	5.4	4.0
EV/EBITDA	16.0	34.8	>100	87.8	28.8	54.9	43.5	8.6	5.8
EV/EBIT (adj)	26.9	63.9	neg	neg	40.5	91.4	76.1	9.6	6.5
P/E (adj)	41.7	91.5	neg	neg	54.7	>100	>100	13.5	10.1
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	12.8	18.6	15.7	7.3	4.2

Growth (YoY)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Revenues	12%	13%	-2%	13%	5%	4%	17%	110%	24%
EBITDA	-23%	1%	-85%	199%	489%	-9%	25%	377%	32%
EBIT (adj)	-36%	-8%	nm	nm	nm	-24%	19%	643%	34%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	54%	20%	654%	34%
Net profit (rep)	-2%	-20%	nm	nm	nm	58%	22%	654%	34%
EPS (rep)	-2%	-20%	nm	nm	nm	58%	22%	654%	34%
EPS (adj)	-38%	-8%	nm	nm	nm	-24%	21%	654%	34%

Margins	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	29.6 %	25.9 %	27.9 %	63.3 %	67.8 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.1 %	15.5 %	15.9 %	56.4 %	61.2 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	10.2 %	15.3 %	15.7 %	56.3 %	61.1 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	7.8 %	11.8 %	12.4 %	44.7 %	48.5 %

Profitability	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.9 %	16.4 %	16.7 %	73.5 %	53.0 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	30.4 %	19.9 %	20.8 %	91.9 %	66.6 %
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

\* Adj. for share split effective August 19th, 2020

# Recommendation, valuation, risk and sources

## Recommendation and target price

Recommendation history for ContextVision during the last 12 months:

Date	Recommendation	Target price (NOK)*
12/10/2020	Buy	26.00
19/08/2020	Hold	26.00
31/07/2020	Hold	25.00
29/04/2020	Hold	13.00
20/04/2020	Buy	12.00
25/02/2020	Buy	14.00
10/02/2020	Buy	15.00
28/10/2019	Buy	15.00
21/10/2019	Buy	15.00
22/08/2019	Buy	10.00

\* Adj. for share 10:1 share split effective August 19<sup>th</sup>, 2020

## 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 of the existing Medical Imaging business, 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;
- Digital Pathology is a rapidly developing field and relevant market for ContextVision is expected to grow from USD 20m in 2020 to USD 700m by 2024 (company's estimates). Our estimates are based on company achieving certain market share of the Digital Pathology market and failure for the market to develop according to expectations would impact estimates and valuation negatively.
- 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.

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All Norne analysts	0
Other Norne employees	0
Norne Securities AS	0

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	Buy	Hold	Sell
Total recommendations	59	32	2
% of total	63%	34%	2%
Corporate clients*	29	12	0
% of corporate clients*	71%	29%	0%

\* 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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