NORNE SECURITIES

3Q20 Results analysis
October 23rd 2020
Share price: NOK 18.60
Target: NOK 27.00 (previously 26)
Risk: Medium

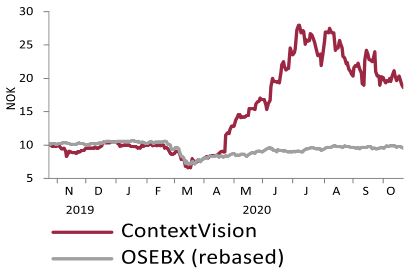
ContextVision

BUY

Key share data	
Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO
Market Cap (NOKm)	1,439
Net debt (NOKm)	-47
EV (NOKm)	1,392
Net debt / equity	-57%
Issued shares (m)	77.4

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

Share price



Performance	1m	3m	12m
COV	-19%	-28%	82%
OSEBX	0%	0%	-6%

Upcoming events	
4Q20 report	February 18, 2021

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

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3Q in line, DP on track, new contracts signed

ContextVision's 3Q report brought no major surprises. Figures were in line, Digital Pathology market entry is going as planned, while contracts continue to be signed within the existing and profitable Image Enhancement business. Therefore, we keep our Buy recommendation at a bit higher TP of NOK 27/sh (26) awaiting exciting developments within the entry of Digital Pathology market in the coming quarters and years.

3Q figures in line with expectations

ContextVision (COV) released its 3Q20 report on October 22nd with figures in line with expectations. Sales of SEK 22m were a bit lower than SEK 23m expected by us. However, profitability was slightly better and EBITDA came in at SEK 4.9m, a tad above our SEK 4.8m expectation. EPS landed at SEK 0.02, which was also in line with our projections. Cash position remained solid at SEK 44.5m at the end of the quarter, but was below our estimate mainly due to changes in WC that were different to our expectations.

3Q/20 results SEKm	3Q/19	2Q/20	3Q/20 Reported	3Q/20E Norne	Deviation
Revenues	**23.0**	**20.1**	**22.0**	**23.3**	***-6%***
EBITDA	**6.8**	**3.7**	**4.9**	**4.8**	***2%***
EBITDA margin	*30%*	*19%*	*22%*	*21%*	*2%p*
EBIT	4.6	1.6	1.9	1.9	*1%*
Pre-tax profit	4.5	1.5	1.8	1.8	*2%*
Net earnings	3.4	1.2	1.5	1.4	*3%*
EPS reported (SEK)*	0.044	0.016	0.019	0.018	*3%*
EPS adjusted (SEK)*	**0.045**	**0.016**	**0.020**	**0.018**	***7%***

** Adj. for share split of 10 for 1 effective August 19th, 2020*

Digital Pathology development on track

Digital Pathology field is developing as expected. The company is focused on installing more of its first product in the DP field at reference centers and several installations have been completed in 3Q. In addition, R&D activities continue with the next-generation product for prostate cancer, as well as other cancer types.

Contracts being signed despite working remotely

COV emphasized that despite mostly working remotely with customers, the existing Image Enhancement business is able to sign new contracts - *Several new agreements, as well as a regional extension with an existing strategic customer, have been signed during the quarter.* The company also attended virtual European Congress of Radiology. Notably, this actually saves costs and time for the company.

No major changes to the case after 3Q – all developing according to plan

We find 3Q report from ContextVision as expected and did not change our estimates much. Thus, our Buy recommendation stays the same under a bit higher TP of NOK 27/sh (26 previously).

Estimate changes (SEKm)	3Q20		4Q20E	2020E		2021E		2022E	
	Act.	Est.	New	New	Old	New	Old	New	Old
Operating revenues	**22.0**	**23.3**	**28.0**	**99.2**	**98.7**	**115.1**	**115.0**	**243.8**	**241.5**
EBITDA adj.	**4.9**	**4.8**	**6.1**	**28.5**	**25.6**	**32.8**	**32.0**	**155.5**	**153.0**
EBITDA adj. margin	*22%*	*21%*	*22%*	*29%*	*26%*	*29%*	*28%*	*64%*	*63%*
EBIT (adj)	2.0	1.9	3.0	18.4	15.3	19.2	18.3	138.8	136.1
EBIT adj. margin	*9%*	*8%*	*11%*	*19%*	*16%*	*17%*	*16%*	*57%*	*56%*
Non-recurring items	-0.1	-	-	-0.1	-	-	-	-	-
EBIT	1.9	1.9	3.0	18.3	15.3	19.2	18.3	138.8	136.1
Pre-tax profit	1.8	1.8	2.9	18.0	15.1	18.9	18.0	138.5	135.8
Tax	-0.4	-0.4	-0.6	-4.0	-3.4	-3.9	-3.7	-28.5	-28.0
Tax rate	21%	21%	21%	22%	22%	21%	21%	21%	21%
Profit after tax	**1.5**	**1.4**	**2.3**	**14.0**	**11.7**	**15.0**	**14.3**	**110.0**	**107.8**
Revenue split by segment									
Medical Imaging	**22.0**	**23.3**	**28.0**	**99.3**	**98.5**	**105.8**	**103.3**	**111.8**	**109.5**
X-ray	5.9	5.5	6.2	27.0	26.5	27.8	27.7	29.9	29.3
Ultrasound 2D	11.4	15.1	17.5	56.6	59.9	60.8	64.3	63.8	68.2
Ultrasound 3D	2.7	0.6	2.2	8.1	4.5	9.5	3.6	10.4	4.2
Magnetic Resonance Imaging	1.5	1.6	1.6	6.2	6.3	6.2	6.4	6.2	6.3
Others (iRV, CT, Mammo)	0.5	0.4	0.4	1.3	1.3	1.4	1.3	1.5	1.4
Digital Pathology	-	**0.0**	**0.0**	**0.0**	**0.3**	**9.3**	**11.7**	**132.0**	**132.0**
Total	**22.0**	**23.3**	**28.0**	**99.3**	**98.7**	**115.1**	**115.0**	**243.8**	**241.5**

DCF model

SEKm	4Q 2020E	2021E	2022E	2023E	2024E
Revenues	**28**	**115**	**244**	**300**	**428**
EBIT*	2	18	139	184	303
Tax on EBIT	0	-4	-29	-38	-63
NOPLAT (+)	2	14	110	146	241
Depreciation & amortization (+)	3	14	17	20	21
Capital expenditure (-)	-1	-11	-19	-22	-24
Change in working capital (- or +)	5	-6	-24	-11	-25
Free Cash Flow to the Firm	**9**	**12**	**84**	**133**	**212**
NPV of FCFF	9	10	66	95	136

** Includes office leasing agreements*

WACC calculation	
Debt ratio	0.0%
Cost of debt (after tax)	nm
Risk free rate	2.0%
Beta	1.5
Market risk premium	6.0%
Cost of equity	11.0%
WACC	**11.0%**

Valuation, SEKm	
Net debt	-44
Minority interest	0
NPV cash flow	
4Q 2020-2024E	316
2025E-	1,640
Total NPV cash flow	1,956
Equity value	2,001
Value per share, SEK	**25.86**
Value per share, NOK	**27.16**

Assumptions	
L.t. growth	2.5%
Tax rate	20.6%
SEK/NOK	1.05
# shares, m*	77.4

10:1 split effective August 19th.

Sensitivity analysis

WACC \ L.t. growth	**1.5%**	**2.0%**	**2.5%**	**3.5%**	**4.0%**
9%	32.2	34.2	36.6	42.7	46.6
10%	27.9	29.5	31.2	35.6	38.3
11%	24.6	25.8	**27.2**	30.4	32.3
12%	21.9	22.9	23.9	26.4	27.9
13%	19.8	20.5	21.4	23.3	24.4

Profit & Loss (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Operating revenues	**72.2**	**81.9**	**80.5**	**90.9**	**95.3**	**99.2**	**115.1**	**243.8**	**300.3**
Operating expenses	-61.7	-71.3	-78.9	-86.1	-67.1	-70.7	-82.3	-88.3	-96.6
EBITDA	**10.5**	**10.6**	**1.6**	**4.8**	**28.2**	**28.5**	**32.8**	**155.5**	**203.7**
Depreciation & Amortisation	-4.3	-4.8	-4.9	-5.0	-8.2	-10.2	-13.6	-16.7	-19.7
EBIT (adj)	**6.3**	**5.8**	**-3.3**	**-0.2**	**20.1**	**18.4**	**19.2**	**138.8**	**184.0**
Non-recurring items	0.7	-	1.3	-1.1	-10.0	-0.1	-	-	-
EBIT	7.0	5.8	-2.0	-1.3	10.1	18.3	19.2	138.8	184.0
Net interest & other financial effects	-	-0.0	-0.0	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Pre-tax profit	**7.0**	**5.8**	**-2.0**	**-1.3**	**9.8**	**18.0**	**18.9**	**138.5**	**183.7**
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-1.6	-1.5	0.3	0.1	-2.4	-4.0	-3.9	-28.5	-37.8
Profit after tax	**5.3**	**4.3**	**-1.7**	**-1.2**	**7.4**	**14.0**	**15.0**	**110.0**	**145.9**
EPS rep. (SEK)	**0.07**	**0.05**	**-0.02**	**-0.02**	**0.10**	**0.18**	**0.19**	**1.42**	**1.89**
EPS adj. (SEK)	**0.06**	**0.06**	**-0.03**	**-0.00**	**0.20**	**0.18**	**0.19**	**1.42**	**1.89**
Margins									
Operating margin	9%	7%	-4%	0%	21%	19%	17%	57%	61%
ROE	9%	8%	-4%	0%	25%	19%	17%	73%	52%
ROCE	11%	10%	-5%	0%	30%	24%	21%	91%	66%
Tax rate	23%	26%	14%	9%	24%	22%	21%	21%	21%
Growth rates (YoY)									
Operating revenues	12%	13%	-2%	13%	5%	4%	16%	112%	23%
EBIT (adj)	-36%	-8%	nm	nm	nm	-8%	5%	>100%	33%
EPS (adj)	-38%	-8%	nm	nm	nm	-8%	6%	>100%	33%

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

Cash flow (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Pre-tax profit	7.0	5.8	-2.0	-1.3	7.9	18.0	18.9	138.5	183.7
Depreciation and amortisation	4.3	6.2	5.0	6.7	18.2	10.3	13.6	16.7	19.7
Unrealized g/l on current investments	0.8	-0.0	-0.2	0.3	0.1	-0.0	-	-	-
Paid taxes	-2.0	-3.5	-3.4	0.4	1.8	-3.7	-3.9	-28.5	-37.8
Other	-	-	-	-	-	-	-	-	-
Change in working capital	-0.9	1.1	2.6	-1.0	-3.0	5.1	-5.7	-23.8	-11.4
Operating cash flow (OCF)	**9.2**	**9.5**	**1.9**	**5.1**	**25.1**	**29.7**	**22.9**	**102.9**	**154.2**
Capital expenditures	-5.4	-2.2	-4.5	-7.5	-22.8	-8.8	-10.6	-19.2	-21.8
Other cash flow from investments	0.7	-0.1	-	-	-0.2	-0.2	-	-	-
Free Cash Flow (FCF)	**4.5**	**7.3**	**-2.6**	**-2.4**	**2.0**	**20.7**	**12.3**	**83.7**	**132.4**
Cash flow from financing activities	-	-	-	-	-3.7	-3.5	-1.2	-	-
Change in cash	**4.5**	**7.3**	**-2.6**	**-2.4**	**-1.6**	**17.3**	**11.1**	**83.7**	**132.4**

Balance sheet (SEKm)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	18.1	15.2	14.5	15.0	23.5	25.0	22.0	24.5	26.6
Other intangible assets	0.3	0.3	0.4	0.3	10.0	7.2	7.2	7.2	7.2
Non-current Assets	**18.3**	**15.5**	**14.9**	**15.4**	**33.5**	**32.2**	**29.2**	**31.7**	**33.8**
Inventory	0.4	0.3	0.6	0.7	0.9	1.1	1.3	2.4	3.0
Receivables	18.1	20.6	23.3	22.8	23.4	21.2	26.6	49.3	60.1
Other current assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	35.6	42.9	40.3	37.9	36.3	53.6	64.7	148.4	280.9
Current Assets	**54.2**	**63.8**	**64.2**	**61.5**	**60.6**	**75.8**	**92.7**	**200.1**	**343.9**
Total assets	**72.5**	**79.3**	**79.1**	**76.8**	**94.1**	**108.0**	**121.9**	**231.9**	**377.7**
Shareholders equity	57.0	61.4	59.3	58.6	66.1	80.1	95.2	205.2	351.0
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	**57.0**	**61.4**	**59.3**	**58.6**	**66.1**	**80.1**	**95.2**	**205.2**	**351.0**
Deferred tax liability	-	-	-	1.0	1.6	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	1.2	-	-	-
Non-current liabilities	**1.2**	**1.5**	**1.1**	**1.0**	**6.3**	**2.8**	**1.6**	**1.6**	**1.6**
Current interest bearing debt	-	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-	-
Other current liabilities	14.3	16.4	18.6	17.3	21.7	25.1	25.1	25.1	25.1
Current liabilities	**14.3**	**16.4**	**18.6**	**17.3**	**21.7**	**25.1**	**25.1**	**25.1**	**25.1**
Total liabilities	**15.5**	**17.9**	**19.7**	**18.3**	**28.0**	**27.9**	**26.7**	**26.7**	**26.7**
Total liabilities and equity	**72.5**	**79.3**	**79.1**	**76.8**	**94.1**	**108.0**	**121.9**	**231.9**	**377.7**
Working capital	18.5	20.9	23.8	23.5	24.3	22.2	27.9	51.7	63.1
Net IB debt	-35.6	-42.9	-40.3	-37.9	-36.3	-53.6	-64.7	-148.4	-280.9
Capital employed	58.2	62.9	60.5	59.5	72.4	82.9	96.7	206.8	352.6
Net IB debt / equity	-62%	-70%	-68%	-65%	-55%	-67%	-68%	-72%	-80%
Equity / total assets	79%	77%	75%	76%	70%	74%	78%	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	18.60	18.60	18.60	18.60
Market cap (NOKm)	204	383	445	427	805	1,439	1,439	1,439	1,439
Enterprise value (NOKm)	169	343	405	392	770	1,383	1,371	1,283	1,144
EPS rep. (SEK)	0.07	0.05	-0.02	-0.02	0.10	0.18	0.19	1.42	1.89
EPS adj. (SEK)	0.06	0.06	-0.03	-0.00	0.20	0.18	0.19	1.42	1.89
DPS. (SEK)	-	-	-	-	-	-	-	-	-

Valuation	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EV/Sales	2.3	4.5	5.1	4.6	8.5	13.3	11.3	5.0	3.6
EV/EBITDA	16.0	34.8	>100	87.8	28.8	46.1	39.8	7.9	5.3
EV/EBIT (adj)	26.9	63.9	neg	neg	40.5	71.7	67.9	8.8	5.9
P/E (adj)	41.7	91.5	neg	neg	54.7	96.3	91.2	12.5	9.4
P/B (excl. goodwill)	3.6	6.7	7.6	7.8	12.8	17.1	14.4	6.7	3.9

Growth (YoY)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Revenues	12%	13%	-2%	13%	5%	4%	16%	112%	23%
EBITDA	-23%	1%	-85%	199%	489%	1%	15%	374%	31%
EBIT (adj)	-36%	-8%	nm	nm	nm	-8%	5%	622%	33%
Pre-tax profit (rep)	-1%	-17%	nm	nm	nm	85%	5%	632%	33%
Net profit (rep)	-2%	-20%	nm	nm	nm	90%	7%	632%	33%
EPS (rep)	-2%	-20%	nm	nm	nm	90%	7%	632%	33%
EPS (adj)	-38%	-8%	nm	nm	nm	-8%	6%	632%	33%

Margins	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EBITDA	14.6 %	12.9 %	2.0 %	5.3 %	29.6 %	28.8 %	28.5 %	63.8 %	67.8 %
EBIT (adj)	8.7 %	7.0 %	-4.1 %	-0.3 %	21.1 %	18.5 %	16.7 %	56.9 %	61.3 %
Pre-tax profit	9.6 %	7.0 %	-2.5 %	-1.4 %	10.2 %	18.2 %	16.4 %	56.8 %	61.2 %
Net profit	7.4 %	5.2 %	-2.1 %	-1.3 %	7.8 %	14.1 %	13.1 %	45.1 %	48.6 %

Profitability	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
ROE	9.1 %	7.6 %	-4.2 %	-0.3 %	24.9 %	19.5 %	17.1 %	73.3 %	52.5 %
ROCE	11.4 %	9.5 %	-5.3 %	-0.4 %	30.4 %	23.7 %	21.4 %	91.5 %	65.8 %
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)*
23/10/2020	Buy	27.00
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

** Adj. for share 10:1 share split effective August 19th, 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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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:

	Total return next 12 months (upside to target price)		
Risk	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

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

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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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