

## ContextVision

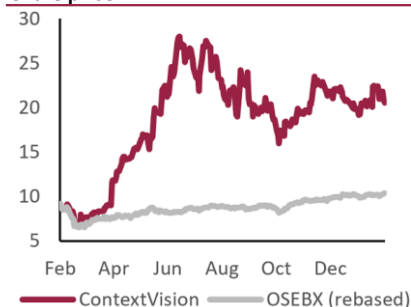
BUY

### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	1,586
Net debt (NOKm)	-47
EV (NOKm)	1,539
Net debt / equity	-58%
Issued shares (m)	77.4

### Share price



### Performance

	1m	3m	12m
COV	3%	5%	112%
OSEBX	2%	10%	8%

### Upcoming events

1Q21 report	April 22, 2021
AGM	May 5, 2021
2Q21 report	August 12, 2021
3Q21 report	October 21, 2021

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

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## Pandemic slows down progress, but great potential still there

ContextVision reported weaker-than-expected 4Q figures last week. The business is slowed by the pandemic, but the company is holding up rather well indicating a strong position after the pandemic ends. Despite more conservative approach towards commercial progress within Digital Pathology, we keep our positive stance seeing ContextVision in a pole position to benefit from the ongoing digitalization trends in health care. At the same time, the existing Medical Imaging business is highly profitable and supports expansion ambitions. We repeat Buy and TP of NOK 25/sh.

### 4Q figures on the weak side affected by the pandemic

ContextVision released its 4Q20 report last week. Revenues were weaker than expected at SEK 24m vs SEK 27m in our model. EBITDA also fell short at SEK 3.0m vs SEK 4.7m expected. We see no drama in this weakness, as the pandemic affects the business and uncertainty ahead of 4Q was higher than usual. Notably, cash position grew further to SEK 46m (up from SEK 45m a quarter ago) at the end of the year.

### DP commercialization moves forward, but pace slowed by the pandemic

On the Digital Pathology side, the company completed several remote installations despite the limitations on physical meetings. The pandemic takes its toll and progress within the area is slower than would otherwise be. ContextVision focused on commencing clinical evaluations at the reference sites during the closed quarter. The latest center was at Vall d'Hebron University Hospital in Barcelona as announced recently.

### Medical Imaging matched record 2019 with 2020

Medical Imaging sales are held back by the pandemic, but the company managed to reach the record 2019 level in 2020 adjusting for currency effects, while EBIT margin stayed at historical levels of close to 50%. Not bad in a pandemic year and indicates the resilience of the company as well as a likely boost to revenues as the pandemic fades.

### Great long-term potential supported by profitable existing business keeps us positive

Following the report and comments from the management, we take a more conservative approach with our estimates. We now expect only minor Digital Pathology sales for this year and less next year, as progress is affected by the pandemic, while limited changes are applied to the existing Medical Imaging business. Seeing very strong long-term growth potential in an exciting field supported by the highly profitable existing business, we keep our positive stance on the share at an unchanged TP of NOK 25/sh.

Estimate changes (SEKm)	4Q20		1Q21E		2021E		2022E		2023E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	23.5	26.6	22.8	28.3	100.6	113.1	134.0	236.4	225.8	290.5
EBITDA adj.	3.0	4.7	4.9	7.5	21.3	30.9	44.9	148.3	126.3	194.1
EBITDA adj. margin	13%	18%	22%	27%	21%	27%	34%	63%	56%	67%
EBIT (adj)	0.1	1.5	2.0	4.2	9.3	17.3	31.2	131.6	109.7	174.4
EBIT adj. margin	1%	6%	9%	15%	9%	15%	23%	56%	49%	60%
Non-recurring items	-	-	-	-	-	-	-	-	-	-
EBIT	0.1	1.5	2.0	4.2	9.3	17.3	31.2	131.6	109.7	174.4
Pre-tax profit	0.1	1.5	1.9	4.1	9.1	17.0	30.9	131.3	109.4	174.1
Tax	0.2	-0.3	-0.4	-0.8	-1.9	-3.5	-6.4	-27.0	-22.5	-35.9
Tax rate	-226%	21%	21%	21%	21%	21%	21%	21%	21%	21%
<b>Profit after tax</b>	<b>0.3</b>	<b>1.2</b>	<b>1.5</b>	<b>3.3</b>	<b>7.2</b>	<b>13.5</b>	<b>24.6</b>	<b>104.2</b>	<b>86.9</b>	<b>138.2</b>
<b>Revenue split by segment</b>										
Medical Imaging	23.5	26.5	22.8	27.5	100.0	104.2	108.1	110.4	113.0	114.8
X-ray	4.6	6.2	5.4	7.4	25.4	27.8	28.6	29.9	30.1	31.4
Ultrasound 2D	13.5	16.3	13.2	16.3	56.7	59.9	59.5	62.9	62.5	65.4
Ultrasound 3D	2.7	2.0	2.2	2.1	9.6	8.9	11.6	9.9	12.0	10.3
Magnetic Resonance Imaging	1.7	1.6	1.6	1.7	6.3	6.2	6.2	6.2	6.2	6.2
Others (iRV, CT, Mammo)	1.0	0.4	0.5	0.1	2.1	1.4	2.2	1.5	2.2	1.5
Digital Pathology	-	0.0	-	0.7	0.5	8.9	25.9	126.0	112.8	175.7
<b>Total</b>	<b>23.5</b>	<b>26.6</b>	<b>22.8</b>	<b>28.3</b>	<b>100.6</b>	<b>113.1</b>	<b>134.0</b>	<b>236.4</b>	<b>225.8</b>	<b>290.5</b>

## DCF model

SEKm	2021E	2022E	2023E	2024E	2025E
Revenues	101	134	226	397	440
EBIT*	8	31	110	265	296
Tax on EBIT	-2	-6	-23	-55	-61
NOPLAT (+)	6	25	87	211	235
Depreciation & amortization (+)	12	14	17	20	25
Capital expenditure (-)	-4	-19	-28	-30	-32
Change in working capital (- or +)	-4	-13	-29	-45	-9
<b>Free Cash Flow to the Firm</b>	<b>10</b>	<b>7</b>	<b>47</b>	<b>156</b>	<b>219</b>
NPV of FCFE	9	6	34	103	130

\* Includes office leasing agreements

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0%	Net debt	-46	L.t. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	20.6%
				SEK/NOK	1.02
Risk free rate	2.0%	NPV cash flow		# shares, m	77.4
Beta	1.5	2021-2025E	281		
Market risk premium	6.0%	2026E-	1,566		
Cost of equity	11.0%	Total NPV cash flow	1,847		
<b>WACC</b>	<b>11.0%</b>	Equity value	1,893		
		<b>Value per share, SEK</b>	<b>24.47</b>		
		<b>Value per share, NOK</b>	<b>24.96</b>		

## Sensitivity analysis

	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9%	30.0	31.9	34.2	39.9	43.6
10%	25.9	27.3	28.9	33.0	35.5
11%	22.6	23.7	<b>25.0</b>	27.9	29.8
12%	20.0	20.9	21.8	24.1	25.5
13%	17.9	18.6	19.3	21.1	22.1

<b>Profit &amp; Loss (SEKm)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Operating revenues</b>	<b>81.9</b>	<b>80.5</b>	<b>90.9</b>	<b>95.3</b>	<b>94.7</b>	<b>100.6</b>	<b>134.0</b>	<b>225.8</b>
Operating expenses	-71.3	-78.9	-86.1	-67.1	-69.3	-79.3	-89.1	-99.5
<b>EBITDA</b>	<b>10.6</b>	<b>1.6</b>	<b>4.8</b>	<b>28.2</b>	<b>25.5</b>	<b>21.3</b>	<b>44.9</b>	<b>126.3</b>
Depreciation & Amortisation	-4.8	-4.9	-5.0	-8.2	-9.9	-12.0	-13.8	-16.7
<b>EBIT (adj)</b>	<b>5.8</b>	<b>-3.3</b>	<b>-0.2</b>	<b>20.1</b>	<b>15.6</b>	<b>9.3</b>	<b>31.2</b>	<b>109.7</b>
Non-recurring items	-	1.3	-1.1	-10.0	-0.1	-	-	-
EBIT	5.8	-2.0	-1.3	10.1	15.5	9.3	31.2	109.7
Net interest & other financial effects	-0.0	-0.0	0.0	-0.3	-0.2	-0.2	-0.2	-0.2
<b>Pre-tax profit</b>	<b>5.8</b>	<b>-2.0</b>	<b>-1.3</b>	<b>9.8</b>	<b>15.2</b>	<b>9.1</b>	<b>30.9</b>	<b>109.4</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.5	0.3	0.1	-2.4	-3.2	-1.9	-6.4	-22.5
<b>Profit after tax</b>	<b>4.3</b>	<b>-1.7</b>	<b>-1.2</b>	<b>7.4</b>	<b>12.1</b>	<b>7.2</b>	<b>24.6</b>	<b>86.9</b>
<b>EPS rep. (SEK)</b>	<b>0.05</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.10</b>	<b>0.16</b>	<b>0.09</b>	<b>0.32</b>	<b>1.12</b>
<b>EPS adj. (SEK)</b>	<b>0.06</b>	<b>-0.03</b>	<b>-0.00</b>	<b>0.20</b>	<b>0.16</b>	<b>0.09</b>	<b>0.32</b>	<b>1.12</b>
<b>Margins</b>								
Operating margin	7%	-4%	0%	21%	16%	9%	23%	49%
ROE	8%	-4%	0%	25%	17%	9%	25%	56%
ROCE	10%	-5%	0%	30%	20%	11%	31%	69%
Tax rate	26%	14%	9%	24%	21%	21%	21%	21%
<b>Growth rates (YoY)</b>								
Operating revenues	13%	-2%	13%	5%	-1%	6%	33%	68%
EBIT (adj)	-8%	nm	nm	nm	-22%	-40%	>100%	>100%
EPS (adj)	-8%	nm	nm	nm	-22%	-40%	>100%	>100%

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

<b>Cash flow (SEKm)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Pre-tax profit	5.8	-2.0	-1.3	7.9	15.2	9.1	30.9	109.4
Depreciation and amortisation	6.2	5.0	6.7	18.2	10.0	12.0	13.8	16.7
Unrealized g/l on current investments	-0.0	-0.2	0.3	0.1	1.7	-	-	-
Paid taxes	-3.5	-3.4	0.4	1.8	-2.8	-1.9	-6.4	-22.5
Other	-	-	-	-	-	-	-	-
Change in working capital	1.1	2.6	-1.0	-3.0	-1.8	-4.0	-12.7	-29.4
<b>Operating cash flow (OCF)</b>	<b>9.5</b>	<b>1.9</b>	<b>5.1</b>	<b>25.1</b>	<b>22.3</b>	<b>15.2</b>	<b>25.6</b>	<b>74.2</b>
Capital expenditures	-2.2	-4.5	-7.5	-22.8	-8.6	-4.2	-19.0	-27.7
Other cash flow from investments	-0.1	-	-	-0.2	-0.2	-	-	-
<b>Free Cash Flow (FCF)</b>	<b>7.3</b>	<b>-2.6</b>	<b>-2.4</b>	<b>2.0</b>	<b>13.6</b>	<b>11.0</b>	<b>6.7</b>	<b>46.5</b>
Cash flow from financing activities	-	-	-	-3.7	-3.6	-1.6	-	-
<b>Change in cash</b>	<b>7.3</b>	<b>-2.6</b>	<b>-2.4</b>	<b>-1.6</b>	<b>10.0</b>	<b>9.4</b>	<b>6.7</b>	<b>46.5</b>

<b>Balance sheet (SEKm)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	15.2	14.5	15.0	23.5	25.9	18.2	23.4	34.4
Other intangible assets	0.3	0.4	0.3	10.0	6.3	6.3	6.3	6.3
<b>Non-current Assets</b>	<b>15.5</b>	<b>14.9</b>	<b>15.4</b>	<b>33.5</b>	<b>32.2</b>	<b>24.4</b>	<b>29.7</b>	<b>40.7</b>
Inventory	0.3	0.6	0.7	0.9	0.8	1.1	1.6	2.6
Receivables	20.6	23.3	22.8	23.4	26.7	30.3	42.6	70.9
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	42.9	40.3	37.9	36.3	46.4	55.7	62.4	108.9
<b>Current Assets</b>	<b>63.8</b>	<b>64.2</b>	<b>61.5</b>	<b>60.6</b>	<b>73.8</b>	<b>87.2</b>	<b>106.5</b>	<b>182.4</b>
<b>Total assets</b>	<b>79.3</b>	<b>79.1</b>	<b>76.8</b>	<b>94.1</b>	<b>106.0</b>	<b>111.6</b>	<b>136.2</b>	<b>223.1</b>
Shareholders equity	61.4	59.3	58.6	66.1	79.8	87.0	111.6	198.4
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>61.4</b>	<b>59.3</b>	<b>58.6</b>	<b>66.1</b>	<b>79.8</b>	<b>87.0</b>	<b>111.6</b>	<b>198.4</b>
Deferred tax liability	-	-	1.0	1.6	2.9	2.9	2.9	2.9
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	1.5	1.1	-	4.7	1.6	-	-	-
<b>Non-current liabilities</b>	<b>1.5</b>	<b>1.1</b>	<b>1.0</b>	<b>6.3</b>	<b>4.5</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	16.4	18.6	17.3	21.7	21.8	21.8	21.8	21.8
<b>Current liabilities</b>	<b>16.4</b>	<b>18.6</b>	<b>17.3</b>	<b>21.7</b>	<b>21.8</b>	<b>21.8</b>	<b>21.8</b>	<b>21.8</b>
<b>Total liabilities</b>	<b>17.9</b>	<b>19.7</b>	<b>18.3</b>	<b>28.0</b>	<b>26.2</b>	<b>24.6</b>	<b>24.6</b>	<b>24.6</b>
<b>Total liabilities and equity</b>	<b>79.3</b>	<b>79.1</b>	<b>76.8</b>	<b>94.1</b>	<b>106.0</b>	<b>111.6</b>	<b>136.2</b>	<b>223.1</b>
Working capital	20.9	23.8	23.5	24.3	27.5	31.4	44.1	73.5
Net IB debt	-42.9	-40.3	-37.9	-36.3	-46.4	-55.7	-62.4	-108.9
Capital employed	62.9	60.5	59.5	72.4	84.3	89.9	114.4	201.3
Net IB debt / equity	-70%	-68%	-65%	-55%	-58%	-64%	-56%	-55%
Equity / total assets	77%	75%	76%	70%	75%	78%	82%	89%

Share data	2016	2017	2018	2019	2020	2021E	2022E	2023E
Shares outstanding, year end (mill.)	77.368	77.368	77.368	77.368	77.368	77.368	77.368	77.368
Share price, year end (NOK)	4.95	5.75	5.52	10.40	22.10	20.50	20.50	20.50
Market cap (NOKm)	383	445	427	805	1,710	1,586	1,586	1,586
Enterprise value (NOKm)	343	405	392	770	1,661	1,529	1,522	1,475
EPS rep. (SEK)	0.05	-0.02	-0.02	0.10	0.16	0.09	0.32	1.12
EPS adj. (SEK)	0.06	-0.03	-0.00	0.20	0.16	0.09	0.32	1.12
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2016	2017	2018	2019	2020	2021E	2022E	2023E
EV/Sales	4.5	5.1	4.6	8.5	16.7	14.9	11.1	6.4
EV/EBITDA	34.8	>100	87.8	28.8	62.2	70.5	33.2	11.4
EV/EBIT (adj)	63.9	neg	neg	40.5	>100	>100	47.9	13.2
P/E (adj)	91.5	neg	neg	54.7	>100	>100	63.3	17.9
P/B (excl. goodwill)	6.7	7.6	7.8	12.8	20.4	17.9	13.9	7.8

Growth (YoY)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Revenues	13%	-2%	13%	5%	-1%	6%	33%	68%
EBITDA	1%	-85%	199%	489%	-10%	-17%	111%	181%
EBIT (adj)	-8%	nm	nm	nm	-22%	-40%	235%	252%
Pre-tax profit (rep)	-17%	nm	nm	nm	56%	-40%	241%	254%
Net profit (rep)	-20%	nm	nm	nm	63%	-40%	241%	254%
EPS (rep)	-20%	nm	nm	nm	63%	-40%	241%	254%
EPS (adj)	-8%	nm	nm	nm	-22%	-40%	241%	254%

Margins	2016	2017	2018	2019	2020	2021E	2022E	2023E
EBITDA	12.9 %	2.0 %	5.3 %	29.6 %	26.9 %	21.1 %	33.5 %	55.9 %
EBIT (adj)	7.0 %	-4.1 %	-0.3 %	21.1 %	16.4 %	9.3 %	23.3 %	48.6 %
Pre-tax profit	7.0 %	-2.5 %	-1.4 %	10.2 %	16.1 %	9.0 %	23.1 %	48.5 %
Net profit	5.2 %	-2.1 %	-1.3 %	7.8 %	12.8 %	7.2 %	18.3 %	38.5 %

Profitability	2016	2017	2018	2019	2020	2021E	2022E	2023E
ROE	7.6 %	-4.2 %	-0.3 %	24.9 %	16.5 %	8.6 %	24.8 %	56.1 %
ROCE	9.5 %	-5.3 %	-0.4 %	30.4 %	19.9 %	10.7 %	30.5 %	69.5 %
Dividend yield	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)*
24/02/2021	Buy	25.00
09/02/2021	Buy	25.00
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

\* 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, Infront, Bloomberg 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.

### TARGET PRICE AND UPDATES

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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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 December 31, 2020:

	Buy	Hold	Sell
Total recommendations	61	32	2
% of total	64%	34%	2%
Corporate clients*	29	11	0
% of corporate clients*	73%	28%	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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