

ContextVision

BUY

Key share data

Sector	Health Care
Reuters	CONTX.OL
Bloomberg	CONTX NO

Market Cap (NOKm)	1,664
Net debt (NOKm)	-47
EV (NOKm)	1,617
Net debt / equity	-65%
Issued shares (m)	77.4

Share price



Performance

	1m	3m	12m
CONTX	-15%	17%	15%
OSEBX	5%	7%	42%

Upcoming events

4Q21 report	February 17, 2022
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Norne Securities AS is a market maker in the shares of ContextVision

Analyst

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Medical Imaging continues to impress; Digital Pathology lab to be established in Sweden

ContextVision delivered strong 3Q results last week and reported a good progress within the commercialization of the Digital Pathology business. Therefore, we continue to stay positive on the stock with the same TP of NOK 25/sh.

Record third quarter for Medical Imaging

ContextVision released its 3Q report last week with very strong results from the Medical Imaging business. Sales of SEK 26m were about 13% better than expected by us. This was record third quarter sales-wise and mostly driven by new contracts signed in the US. EBITDA came in at SEK 5.7m vs SEK 0.9m in our estimates. Cash position stayed strong at SEK 48m at the end of the quarter vs SEK 51m a quarter ago.

3Q/21 results	3Q/20	2Q/21	3Q/21	3Q/21E	Deviation
SEKm			Reported	Norne	
Revenues	22.0	24.4	26.0	23.1	13%
EBITDA	4.9	-0.1	5.7	0.9	nm
EBITDA margin	22%	0%	22%	4%	18%p
EBIT	1.9	-3.0	2.9	-2.0	nm
Pre-tax profit	1.8	-3.0	2.9	-2.1	nm
Net earnings	1.5	-2.3	2.3	-1.7	nm
EPS reported (SEK)	0.02	-0.03	0.03	-0.02	nm
EPS adjusted (SEK)	0.02	-0.03	0.03	-0.02	nm

Digital Pathology – great study results; digital pathology lab in Sweden

ContextVision is very happy about the recent studies in the US and Europe regarding INIFY Prostate that continues to prove how good the decision support tool that the company developed is. The company now is extending its scope to have a pathology laboratory in Sweden. This will be an ultra-modern pathology lab. At this point, no costs or timeline were revealed, but the decision seems to bring the company's Digital Pathology business to commercialization faster. While converting current analog pathology labs to digital is doable, it takes much time and is complex involving many parties. However, having own lab able to process biopsies in a very timely manner seems like a very good solution in many respects. At the same time, this would continuously improve the company's algorithm and bring it to an even higher level. The decision was also made to establish a subsidiary for the digital pathology lab, which we believe could also work as a potential vehicle for the spin-off of the business if that choice is made. Lastly, on the Digital Pathology part, the first evaluations were made related to Colon cancer and results of 30% time savings for pathologists are encouraging.

Positive stance stays at an unchanged TP of NOK 25/sh

All in all, 3Q report showed very strong figures from the existing Medical Imaging business, while Digital Pathology is moving forward with commercialization efforts that are now materializing with own state-of-the-art lab. Overall, we are impressed by both the existing business doing great, while the Digital Pathology story line keeps getting more tangible and even more exciting. Therefore, we keep our Buy recommendation at an unchanged TP of NOK 25/sh. Continuous insider buys (CEO and board member lately) also give additional confidence in our bullish stance.

Estimate changes (SEKm)	3Q21		4Q21E		2021E		2022E		2023E	
	Act.	Est.	New	New	Old	New	Old	New	Old	
Operating revenues	26.0	23.1	26.2	96.8	92.9	129.3	129.6	233.1	229.1	
EBITDA adj.	5.7	0.9	1.6	6.0	0.6	26.5	26.3	119.0	114.0	
EBITDA adj. margin	22%	4%	6%	6%	1%	20%	20%	51%	50%	
EBIT (adj)	2.9	-2.0	-1.2	-5.3	-11.1	13.6	12.9	103.3	97.7	
EBIT adj. margin	11%	-9%	-5%	-5%	-12%	11%	10%	44%	43%	
Non-recurring items	-	-	-	-	-	-	-	-	-	
EBIT	2.9	-2.0	-1.2	-5.3	-11.1	13.6	12.9	103.3	97.7	
Pre-tax profit	2.9	-2.1	-1.3	-5.5	-11.2	13.5	12.7	103.1	97.5	
Tax	-0.6	0.4	0.3	1.3	2.5	-2.8	-2.6	-21.2	-20.1	
Tax rate	21%	21%	21%	23%	22%	21%	21%	21%	21%	
Profit after tax	2.3	-1.7	-1.0	-4.2	-8.8	10.7	10.1	81.9	77.4	
Revenue split by segment										
Medical Imaging	26.0	23.1	24.5	97.0	92.6	105.9	102.1	113.5	109.4	
X-ray	4.5	5.2	5.7	19.8	20.6	22.1	23.1	24.3	25.4	
Ultrasound 2D	17.2	13.8	14.2	61.1	56.5	65.5	62.1	70.4	66.8	
Ultrasound 3D	2.2	2.2	2.4	9.0	8.9	9.6	9.2	10.0	9.5	
Magnetic Resonance Imaging	1.4	1.5	1.6	5.3	5.4	6.3	6.0	6.2	6.0	
Others (iRV, CT, Mammo)	0.7	0.4	0.6	1.8	1.3	2.3	1.7	2.4	1.7	
Digital Pathology	-	-	1.4	-	0.4	23.4	27.5	119.6	119.6	
Total	26.0	23.1	25.8	97.0	92.9	129.3	129.6	233.1	229.1	

DCF model

SEKm	4Q2021E	2022E	2023E	2024E	2025E
Revenues	26	129	233	416	464
EBIT*	-2	11	100	268	304
Tax on EBIT	0	-2	-21	-55	-63
NOPLAT (+)	-2	9	80	213	241
Depreciation & amortization (+)	3	13	16	19	24
Capital expenditure (-)	-1	-15	-28	-31	-33
Change in working capital (- or +)	-5	-15	-31	-47	-10
Free Cash Flow to the Firm	-5	-9	36	154	222
NPV of FCF	-5	-8	29	110	142

* Includes office leasing agreements

WACC calculation	
Debt ratio	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	-48
Minority interest	0
NPV cash flow	
4Q 2021-2025E	268
2026E-	1,717
Total NPV cash flow	1,986
Equity value	2,034
Value per share, SEK	26.29

Assumptions	
L.t. growth	2.5%
Tax rate	20.6%
SEK/NOK	0.97
# shares, m	77.4

Value per share, NOK 25.50

Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9%	30.3	32.3	34.6	40.5	44.3
10%	26.2	27.7	29.4	33.6	36.2
11%	23.0	24.2	25.5	28.6	30.5
12%	20.5	21.4	22.4	24.8	26.2
13%	18.4	19.1	19.9	21.8	22.9

Profit & Loss (SEKm)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Operating revenues	81.9	80.5	90.9	95.3	94.7	96.8	129.3	233.1
Operating expenses	-71.3	-78.9	-86.1	-67.1	-69.3	-90.8	-102.8	-114.1
EBITDA	10.6	1.6	4.8	28.2	25.5	6.0	26.5	119.0
Depreciation & Amortisation	-4.8	-4.9	-5.0	-8.2	-9.9	-11.4	-12.8	-15.7
EBIT (adj)	5.8	-3.3	-0.2	20.1	15.6	-5.3	13.6	103.3
Non-recurring items	-	1.3	-1.1	-10.0	-0.1	-	-	-
EBIT	5.8	-2.0	-1.3	10.1	15.5	-5.3	13.6	103.3
Net interest & other financial effects	-0.0	-0.0	0.0	-0.3	-0.2	-0.1	-0.1	-0.1
Pre-tax profit	5.8	-2.0	-1.3	9.8	15.2	-5.5	13.5	103.1
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.5	0.3	0.1	-2.4	-3.2	1.3	-2.8	-21.2
Profit after tax	4.3	-1.7	-1.2	7.4	12.1	-4.2	10.7	81.9
EPS rep. (SEK)	0.05	-0.02	-0.02	0.10	0.16	-0.05	0.14	1.06
EPS adj. (SEK)	0.06	-0.03	-0.00	0.20	0.16	-0.06	0.14	1.06
Margins								
Operating margin	7%	-4%	0%	21%	16%	-5%	11%	44%
ROE	8%	-4%	0%	25%	17%	-6%	14%	66%
ROCE	10%	-5%	0%	30%	20%	-7%	17%	81%
Tax rate	26%	14%	9%	24%	21%	23%	21%	21%
Growth rates (YoY)								
Operating revenues	13%	-2%	13%	5%	-1%	2%	34%	80%
EBIT (adj)	-8%	nm	nm	nm	-22%	-134%	-357%	>100%
EPS (adj)	-8%	nm	nm	nm	-22%	-136%	-348%	>100%

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

Cash flow (SEKm)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Pre-tax profit	5.8	-2.0	-1.3	7.9	15.2	-5.5	13.5	103.1
Depreciation and amortisation	6.2	5.0	6.7	18.2	10.0	11.4	12.8	15.7
Unrealized g/l on current investments	-0.0	-0.2	0.3	0.1	1.7	-2.5	-	-
Paid taxes	-3.5	-3.4	0.4	1.8	-2.8	-4.6	-2.8	-21.2
Other	-	-	-	-	-	1.1	-	-
Change in working capital	1.1	2.6	-1.0	-3.0	-1.8	3.0	-14.9	-31.4
Operating cash flow (OCF)	9.5	1.9	5.1	25.1	22.3	2.9	8.6	66.2
Capital expenditures	-2.2	-4.5	-7.5	-22.8	-8.6	-2.5	-15.5	-27.7
Other cash flow from investments	-0.1	-	-	-0.2	-0.2	-0.5	-	-
Free Cash Flow (FCF)	7.3	-2.6	-2.4	2.0	13.6	-0.1	-6.9	38.4
Cash flow from financing activities	-	-	-	-3.7	-3.6	-3.4	-2.9	-2.9
Change in cash	7.3	-2.6	-2.4	-1.6	10.0	-3.5	-9.8	35.5

Balance sheet (SEKm)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	15.2	14.5	15.0	23.5	25.9	20.1	22.8	34.8
Other intangible assets	0.3	0.4	0.3	10.0	6.3	3.8	3.8	3.8
Non-current Assets	15.5	14.9	15.4	33.5	32.2	23.9	26.6	38.6
Inventory	0.3	0.6	0.7	0.9	0.8	0.9	1.4	2.4
Receivables	20.6	23.3	22.8	23.4	26.7	28.6	43.0	73.4
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	42.9	40.3	37.9	36.3	46.4	42.8	33.1	68.6
Current Assets	63.8	64.2	61.5	60.6	73.8	72.3	77.5	144.4
Total assets	79.3	79.1	76.8	94.1	106.0	96.2	104.0	183.0
Shareholders equity	61.4	59.3	58.6	66.1	79.8	73.1	83.9	165.8
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	61.4	59.3	58.6	66.1	79.8	73.1	83.9	165.8
Deferred tax liability	-	-	1.0	1.6	2.9	2.1	2.1	2.1
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	1.5	1.1	-	4.7	1.6	0.2	0.2	0.2
Non-current liabilities	1.5	1.1	1.0	6.3	4.5	2.3	2.3	2.3
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	16.4	18.6	17.3	21.7	21.8	20.8	17.9	15.0
Current liabilities	16.4	18.6	17.3	21.7	21.8	20.8	17.9	15.0
Total liabilities	17.9	19.7	18.3	28.0	26.2	23.1	20.2	17.3
Total liabilities and equity	79.3	79.1	76.8	94.1	106.0	96.2	104.0	183.0
Working capital	20.9	23.8	23.5	24.3	27.5	29.5	44.4	75.8
Net IB debt	-42.9	-40.3	-37.9	-36.3	-46.4	-42.8	-33.1	-68.6
Capital employed	62.9	60.5	59.5	72.4	84.3	75.4	86.1	168.0
Net IB debt / equity	-70%	-68%	-65%	-55%	-58%	-59%	-39%	-41%
Equity / total assets	77%	75%	76%	70%	75%	76%	81%	91%

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	21.51	21.51	21.51
Market cap (NOKm)	383	445	427	805	1,710	1,664	1,664	1,664
Enterprise value (NOKm)	343	405	392	770	1,661	1,623	1,632	1,598
EPS rep. (SEK)	0.05	-0.02	-0.02	0.10	0.16	-0.05	0.14	1.06
EPS adj. (SEK)	0.06	-0.03	-0.00	0.20	0.16	-0.06	0.14	1.06
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2016	2017	2018	2019	2020	2021E	2022E	2023E
EV/Sales	4.5	5.1	4.6	8.5	16.7	17.3	13.0	7.1
EV/EBITDA	34.8	>100	87.8	28.8	62.2	>100	63.6	13.8
EV/EBIT (adj)	63.9	neg	neg	40.5	>100	neg	>100	15.9
P/E (adj)	91.5	neg	neg	54.7	>100	neg	>100	21.0
P/B (excl. goodwill)	6.7	7.6	7.8	12.8	20.4	23.5	20.5	10.4

Growth (YoY)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Revenues	13%	-2%	13%	5%	-1%	2%	34%	80%
EBITDA	1%	-85%	199%	489%	-10%	-76%	338%	350%
EBIT (adj)	-8%	nm	nm	nm	-22%	nm	nm	657%
Pre-tax profit (rep)	-17%	nm	nm	nm	56%	nm	nm	664%
Net profit (rep)	-20%	nm	nm	nm	63%	nm	nm	664%
EPS (rep)	-20%	nm	nm	nm	63%	nm	nm	664%
EPS (adj)	-8%	nm	nm	nm	-22%	nm	nm	664%

Margins	2016	2017	2018	2019	2020	2021E	2022E	2023E
EBITDA	12.9 %	2.0 %	5.3 %	29.6 %	26.9 %	6.2 %	20.5 %	51.0 %
EBIT (adj)	7.0 %	-4.1 %	-0.3 %	21.1 %	16.4 %	-5.5 %	10.6 %	44.3 %
Pre-tax profit	7.0 %	-2.5 %	-1.4 %	10.2 %	16.1 %	-5.6 %	10.4 %	44.2 %
Net profit	5.2 %	-2.1 %	-1.3 %	7.8 %	12.8 %	-4.3 %	8.3 %	35.1 %

Profitability	2016	2017	2018	2019	2020	2021E	2022E	2023E
ROE	7.6 %	-4.2 %	-0.3 %	24.9 %	16.5 %	-5.7 %	13.7 %	65.6 %
ROCE	9.5 %	-5.3 %	-0.4 %	30.4 %	19.9 %	-6.7 %	16.9 %	81.3 %
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's share during the last 12 months:

Date	Recommendation	Target price (NOK)
27/10/2021	BUY	25.00
20/08/2021	BUY	25.00
06/08/2021	BUY	25.00
29/04/2021	BUY	24.00
16/04/2021	BUY	25.00
24/02/2021	BUY	25.00
09/02/2021	BUY	25.00
23/10/2020	BUY	27.00

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, Oslo Stock Exchange, Bloomberg and Infront.

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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 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 [Compliance | Norne Securities](#). 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 September 30, 2021:

	Buy	Hold	Sell
Total	68	27	2
% of total	70%	28%	2%
Corporate clients*	36	12	0
% of corporate clients*	75%	25%	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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