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Healthcare

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COV (Buy tp. NOK35): Covid-19 push estimates out in time, but investment case unchanged

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Covid-19 push estimates out in time, but investment case unchanged

Buy & NOK35 tp. = 30x 21 EV/EBIT on Medical Imaging + 10% market share in Digital Pathology

Despite negative estimate revisions on the back of Covid-19 related postponements of installations, restriction in access for new sales and reprioritized hospital resources and focus, we reiterate our Buy rec. and NOK35 tp. Central to our view is 1) that COV is a medical technology software company with 35y of experience and solid track-record as debt-free and the demonstrated global market leader in Medical Imaging with an estimated 50% market share. Indeed, the company can point to a 10y organic revenue CAGR of ~7% with an operational scalability where trailing 12m EBIT margin as of 2Q20 stood at +40%. Moreover, 2) with cash flow and know-how from Medical Imaging, the company has invested ~NOK100m the last 3-4y in, and is at the doorstep to launch its first CE-marked Digital Pathology product in a double digit growing and soon to be +USD1bn market. Interestingly, 3) we argue the latter optionality comes at a heavy discount and assuming same valuation as peer Paige, Digital Pathology is worth +NOK30 per share on top of ~NOK20 in value on Medical Imaging, which would represent 100% upside from current level. We believe COV will continue to build brick by brick and we see shareholder remuneration through a combination of sales growth, margin expansion in medical imaging and gradual de-risking and value creation from near term product installation in Digital Pathology.

Demonstrated and established global market leader within Medical Imaging...; COV has +35y of experience from Medical Imaging and its medical technology software that specialized in image analysis and artificial intelligence for image-based applications, has been installed in +300k systems worldwide – giving the company roughly 50% market share. The company is particularly strong on 2D and 3D ultrasound, a market expected to grow 6% going forward and COV can point to a 10y organic revenue CAGR of 7% with a demonstrated software scalability with a trailing 12m EBIT margin of +40% as of 2Q20.

...at the doorstep to harvest years of investments in Digital Pathology...; Leveraging its experience and the strong FCF in Medical Imaging, COV has over the last 3-4y invested ~NOK80 over the P&L alone, in addition to unallocated capex, within Digital Pathology. This is expected to be a +USD1bn company market before 2030, it grows double digit and COV is at the doorstep to install its first CE-marked product, INIFY, a Prostate Screening tool. Peer valuation put this segment at +NOK30 per share.

...and we argue the latter optionality comes at a heavy discount; Both medtech and software companies are valued at roughly 30x 2021 EV/EBIT with some 12% expected revenue CAGR and 22% EBIT margin. COV's Medical Imaging segment is expected to grow 9% in the same period (2019-2021e) and delivered 42.5% EBIT margin on a trailing 12m basis as of 2Q20. Thus, applying peer multiples on our 2021 Medical Imaging segment EBIT, we arrive at ~NOK20 per share vs. the current share price of NOK25. Meaning; we argue investors get the Digital Pathology optionality at a heavy discount vs. comparable transactions.

Negative OpFCF estimate changes driven by Covid-19 postponements effects

Postponement of installations, restriction in access for new sales, reprioritized hospital focus

COV Group total	New estimates			Old estimates			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Operating revenues	102.3	129.8	191.9	112.1	138.8	202.1	(9.8)	(9.1)	(10.2)
EBITDA	29.8	47.7	77.5	36.6	55.5	89.3	(6.8)	(7.8)	(11.9)
EBITDA-margin	29.1%	36.7%	40.4%	32.6%	40.0%	44.2%			
EBIT	21.0	38.0	67.1	27.2	45.5	78.5	(6.2)	(7.4)	(11.4)
EBIT-margin	20.5%	29.3%	35.0%	24.2%	32.7%	38.9%			
Net profit	16.4	30.6	54.0	21.0	35.5	61.3	(4.7)	(4.9)	(7.3)
EPS rep. (diluted)	2.1	4.0	7.0	2.7	4.6	7.9	(0.6)	(0.6)	(0.9)
EPS changes in percent							-22.1%	-13.8%	-11.9%
EBITDA changes in percent							-18.6%	-14.1%	-13.3%
OpFCF changes in percent							-50.4%	-12.5%	-9.7%

COV Segment break-down	New estimates			Old estimates			Change		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Image Enhancement Revenues									
XR	29.9	31.9	34.1	29.6	29.6	31.7	0.3	2.3	2.4
US 2D	59.9	68.3	73.1	64.5	71.1	76.1	(4.6)	(2.9)	(3.1)
US 3D	4.8	3.4	3.6	10.0	10.7	11.4	(5.2)	(7.3)	(7.8)
MR	6.5	7.3	7.8	4.7	4.2	4.4	1.9	3.1	3.3
Others (iRV, CT, Mammo)	1.2	1.7	1.8	2.1	3.0	3.2	(0.9)	(1.3)	(1.4)
EBIT	43.3	46.2	52.6	45.0	50.2	55.3	(1.7)	(4.0)	(2.7)
<i>EBIT-margin</i>	<i>42.3%</i>	<i>41.0%</i>	<i>43.7%</i>	<i>40.6%</i>	<i>42.3%</i>	<i>43.6%</i>			
Digital pathology									
Revenue	0.0	17.3	71.5	1.3	20.3	75.3	(1.3)	(3.0)	(3.8)
EBIT	-22.3	-8.2	14.5	-17.9	-4.8	23.3	(4.5)	(3.4)	(8.8)
<i>EBIT-margin</i>	<i>n.a.</i>	<i>-47.2%</i>	<i>20.3%</i>	<i>n.a.</i>	<i>-23.5%</i>	<i>30.9%</i>			
Capex	(23.0)	(14.3)	(15.1)	(23.0)	(17.4)	(20.3)			
OpFCF	6.7	33.3	62.4	13.5	38.1	69.1	(6.8)	(4.7)	(6.7)

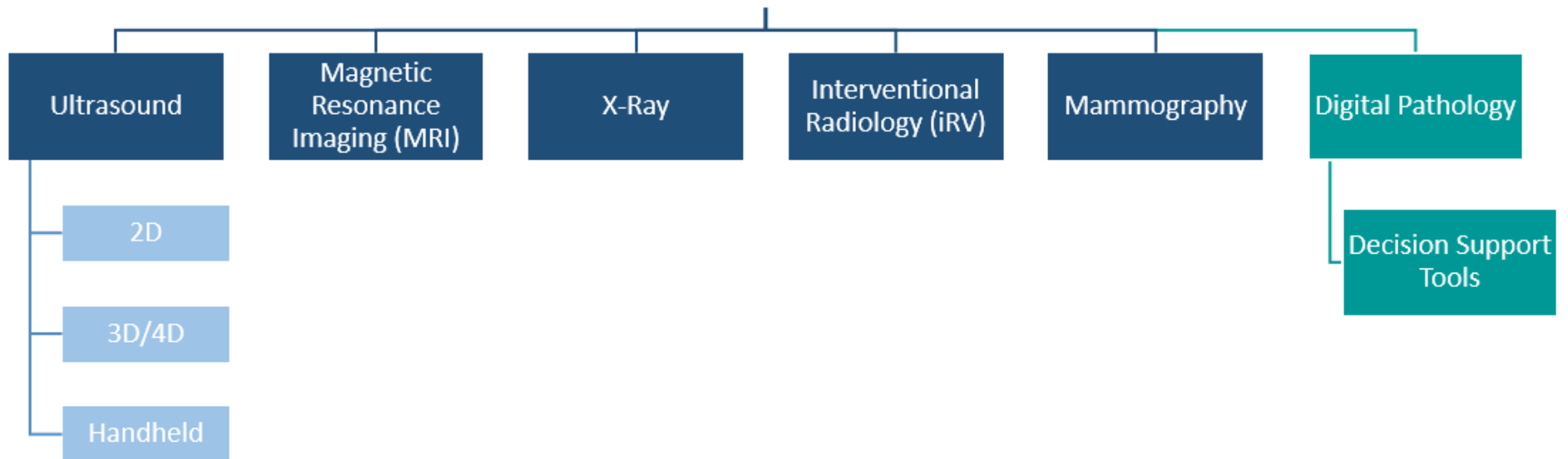
Investment case (short version)

Company overview and product offering

~50 employees (50% R&D), machine learning product & +300k system installations worldwide

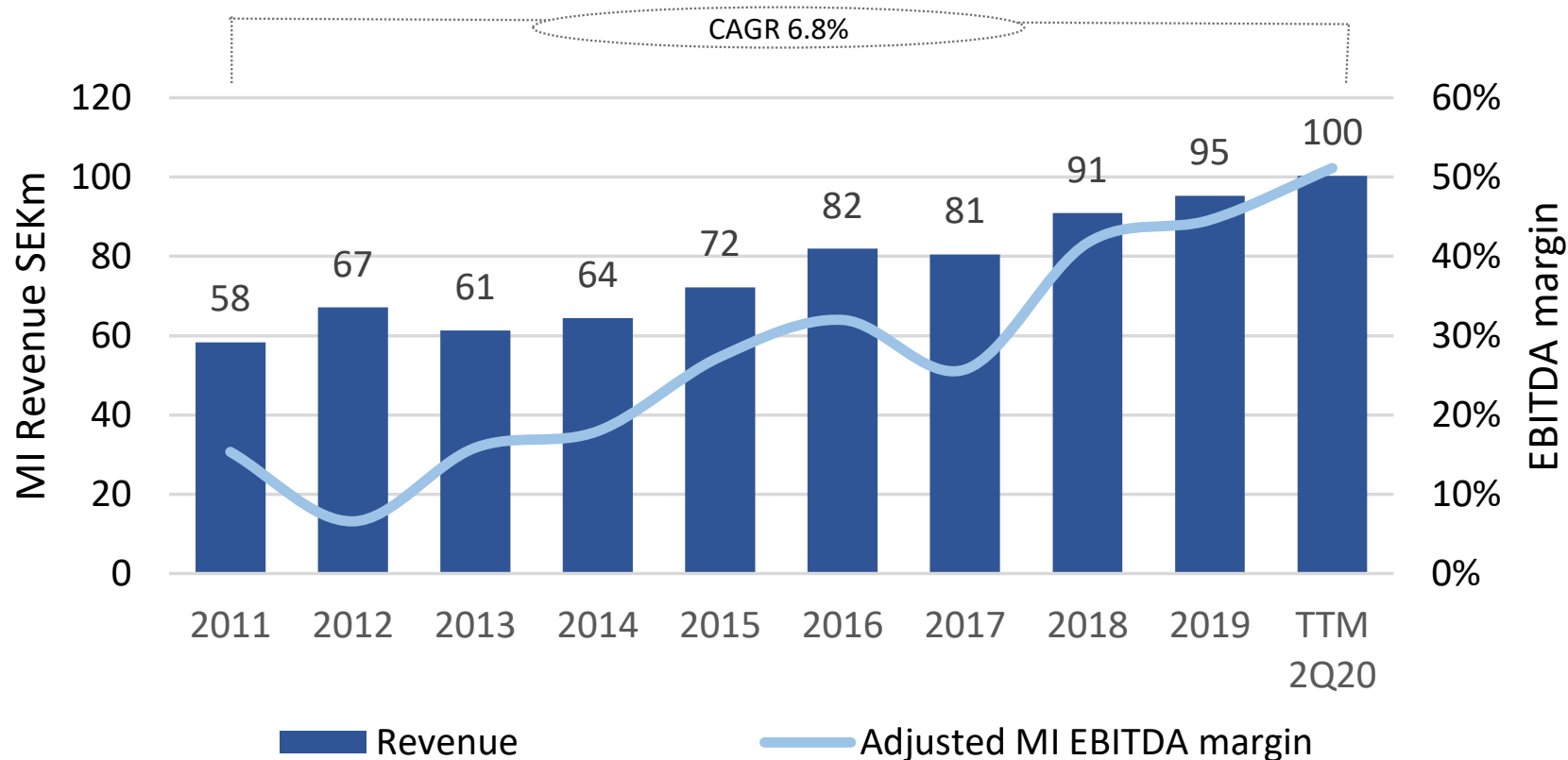


ContextVision



Demonstrated track-record of profitable growth...

Profitability is driven by operational scalability from high margin software licenses sold to OEM's



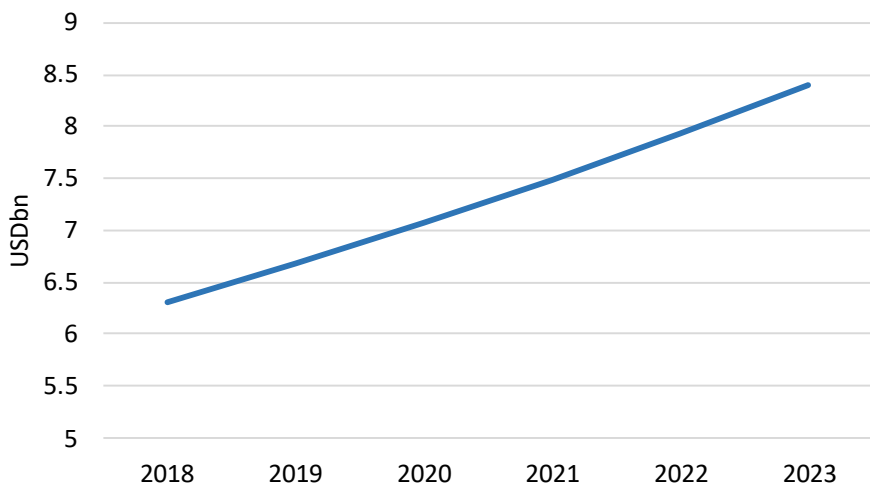
The majority of revenue is generated from sales of recurring licenses to OEM's (which again assemble hardware/systems and sell to end-customers/hospitals) and a smaller part is related to service and installation. Indeed, COV has been installed in over 300,000 systems worldwide.

...perfectly positioned to capture high-single digit ultrasound growth...

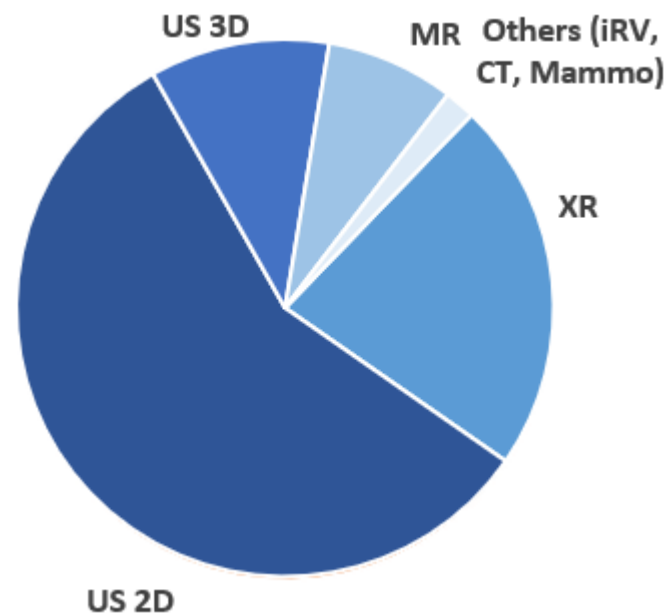
74% of trailing 12m revenues in COV steam from 2D and 3D ultrasound image enhancement

Estimated market development ultrasound

COV revenue per segment



Source: Markets&markets



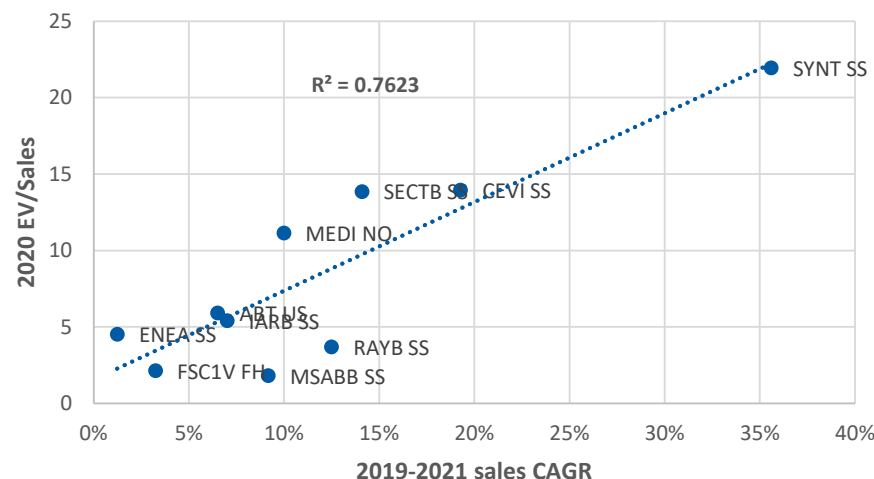
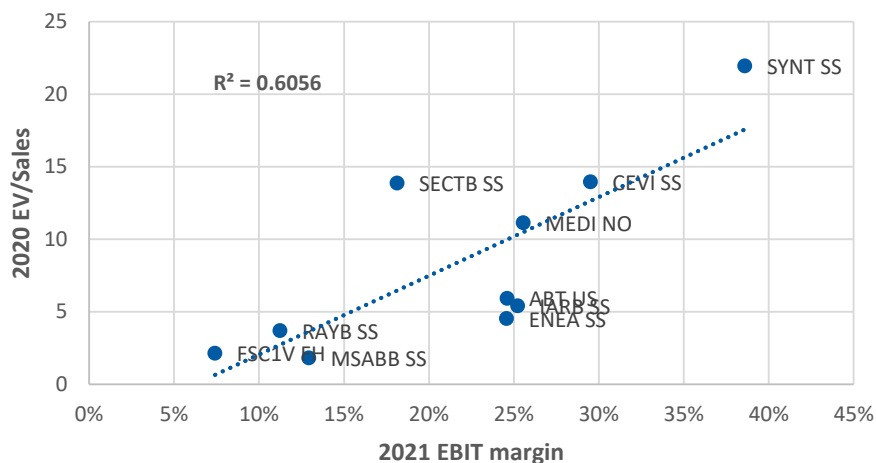
1. The global ultrasound market is expected to **grow with a 5.9% CAGR between 2018 and 2023.**
2. **74% of trailing 12 month revenues steam from 2D and 3D ultrasound** image enhancement and according to the company, they have some 50% market share.
3. Therefore COV is the leading player in ultrasound image enhancement and **is in a strong position to capture further growth in the market.**

...where revenue growth and EBIT margins explain medical peer multiples...

Strong correlation between sales growth, margins and multiples (exemplified with EV/Sales)

2020e EV/Sales vs. 2019-2021 Sales CAGR

2020e EV/Sales vs. 2021 EBIT margin

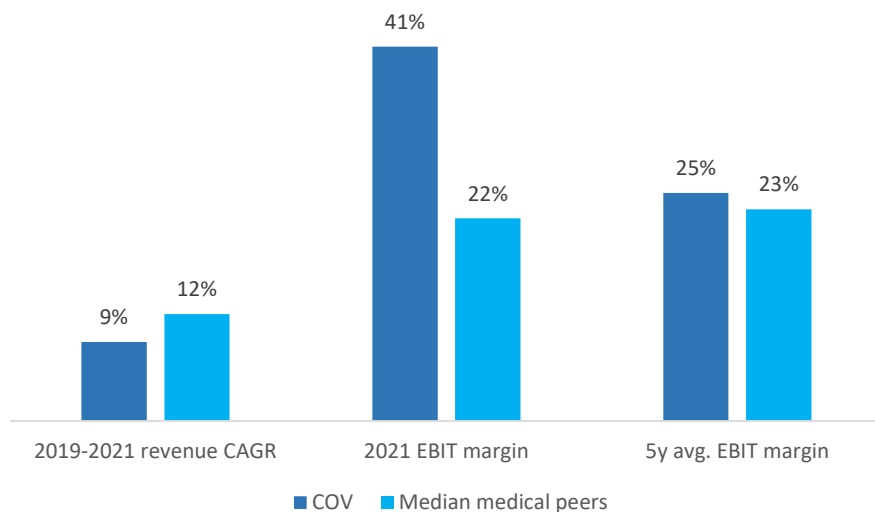


...hence, we argue Medical Imaging close to alone explain current share price

Applying peer median EV/EBIT of ~30x, we arrive at NOK18-19 per share

COV Medical Imaging KPI's vs. median medial peers

Valuation Medical Imaging = NOK18-19



SEKm	2020	2021	Comments
Revenue	102	113	SB1M estiamtes
EBIT	43	46	SB1M estiamtes
<i>EBIT margin</i>	42%	41%	
EV/EBIT	30.0x	30.0x	In line with peers (21e)
EV	1.298	1.385	
Excess cash as of 2Q20	45	45	Cash flow assumed in Digital Pathology
MCAP	1.343	1.430	
SEKNOK	1.02	1.02	Exchange rate
MCAP NOK	1.370	1.459	
# shares (m)	77.4	77.4	Fully diluted number of shares
Share price (NOK)	18	19	
<i>Implied EV/Sales</i>	13	12	
Market values:			
Share price	25	25	
MCAP (NOK)	1.934.2	1.934.2	
MCAP	1.896.3	1.896.3	
Medical Imaging % of value	70.8 %	75.4 %	
Implied value of DP (SEK)	553.0	465.9	
Per share	7.3	6.1	

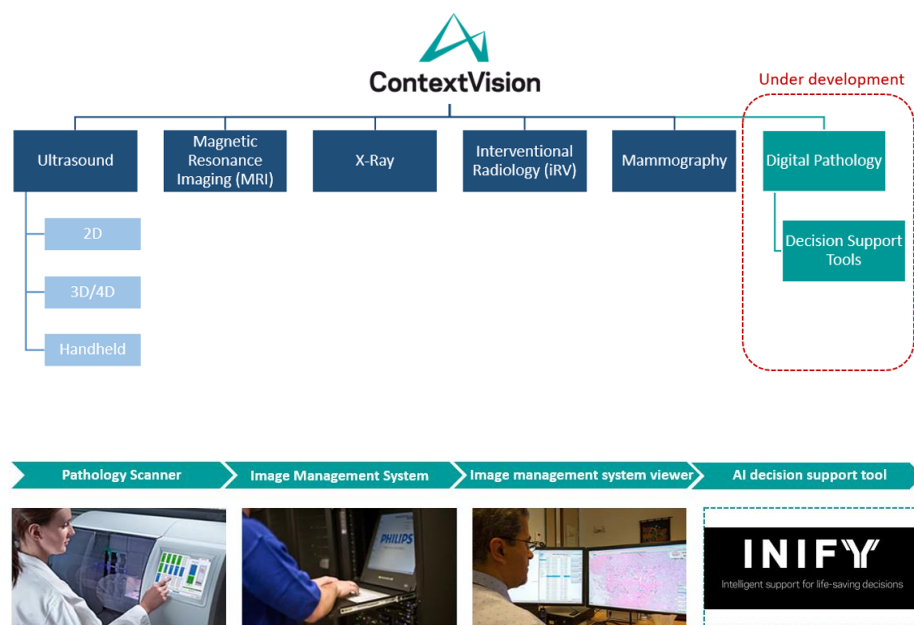
With slightly lower expected growth rates, but superior EBIT margins from a scalable medical technology (software for image analysis and artificial intelligence for image-based applications) and hence return on capital, **we argue its fair COV should trade more or less in line with our medical peer group despite smaller size and lower liquidity.**

COV to take pathology digital with INIFY, a prostate decision support tool...

INIFY Prostate Screening is an investigational device, **already CE-marked for clinical use**

Digital pathology is soon ready for product launch

COV product; INIFY – decision support tool

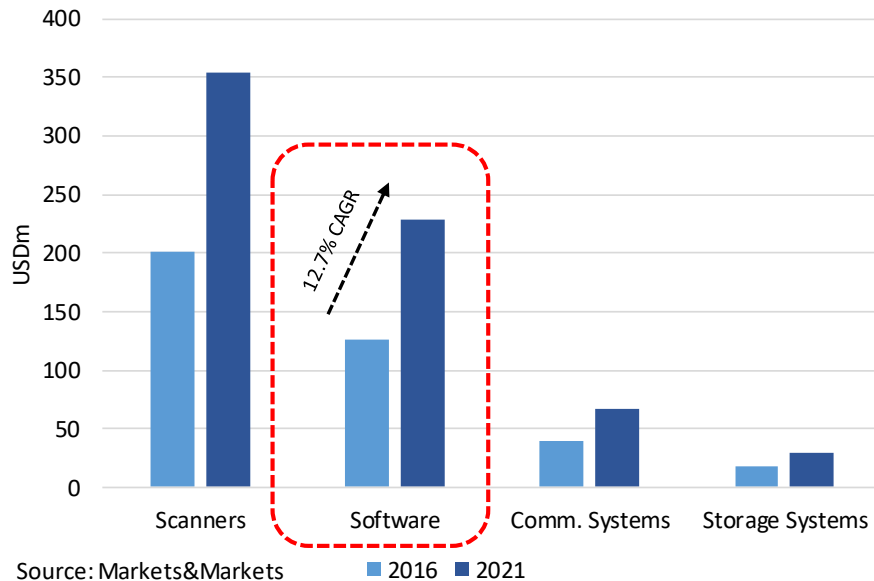


- COV is leveraging 36y of experience within Medical Imaging and is developing a portfolio of decision support tools targeting major cancer diseases.
- The tools are developed by training deep learning networks, using high quality data and annotations.
- Each year, 2.3bn prostate biopsy procedures are performed in Europe and the USA and other areas with a heavy pathology lab workload are colon, lung and breast cancer.
- First product is **INIFY and is a Prostate Screening tool, where near term installations is expected.** It outlines suspicious cancer areas in each prostate biopsy and a viewer provides a smooth, intuitive user experience.
- The product make use of a patented method, which generates close-to-ground-truth data for training the deep learning networks.
- A multiplex immunofluorescence overlay is combined with H&E staining on the same tissue slide for exact identification of suspicious cancer areas.
- Decision support tools for other cancer types expected to follow in the coming years.

...in a multimillion dollar market forecasted to grow double digit...

INIFY Prostate aims to provide decision support in digital pathology labs

The digital pathology market...



...is expected to grow double digit

- The market for digital pathology software is expected to reach USD230m by 2021.
 - » 2016-2021 CAGR: 12.7%
- Software includes image management systems, decision support tools and more.
- COV's first product for digital pathology, INIFY Prostate, is currently in beta-testing and expected installations is set for 2H20.
 - » Initial focus on Europe
- Provides decision support by analyzing prostate biopsies and sorting them in a worst-first order.
- COV initially target products for breast cancer and lung cancer after INIFY Prostate.

...and valuation is more of a “pick a number” exercise

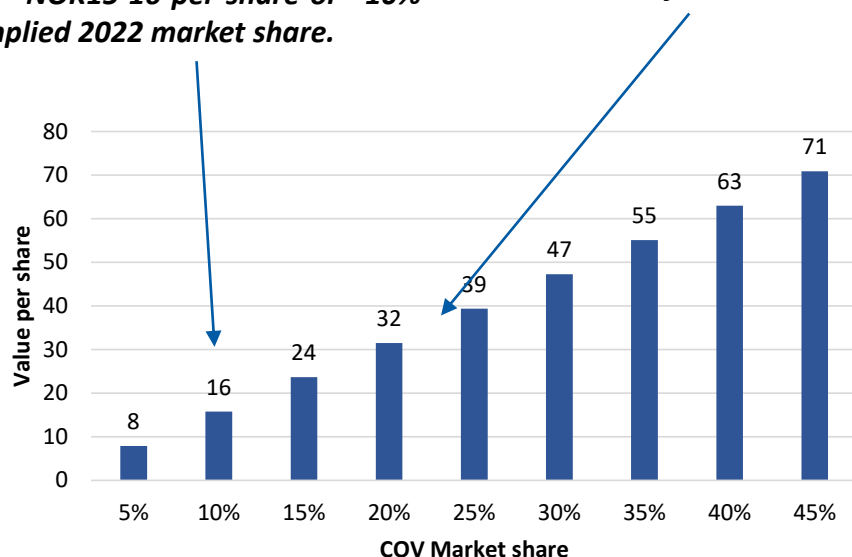
COV has yielded recognizable results in international competitions (Camelyon)

Scenario: value per share undiscounted

Camelyon challenge 2017

We currently value the segment at ~NOK15-16 per share or ~10% implied 2022 market share.

Remember; Paige implied valuation of ~NOK31.



Revenue estimates with a USD250m market size in 2022

The value per share scenario above assumes the revenue estimates on the previous slide, which is based on mgmt. market size outlook (which is in line with third-party research) and 5.5x EV/Sales – in line with 2020e and 5y average median medical peers. We use current currency rates.

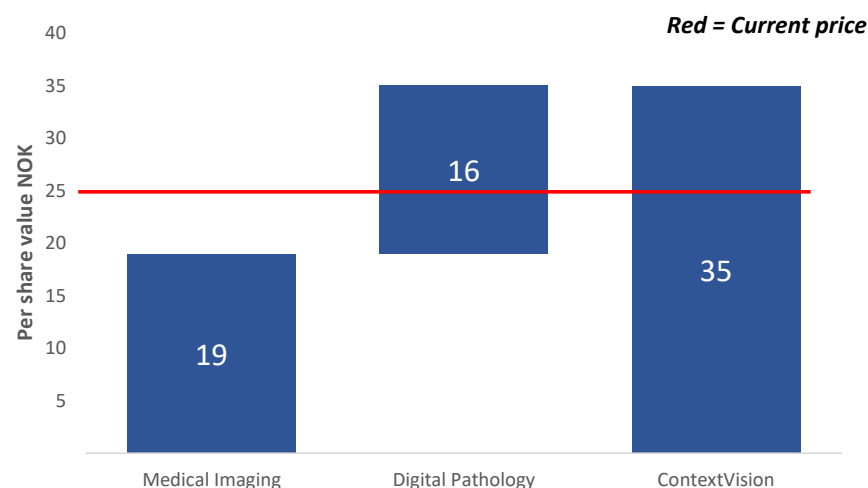
Camelyon Challenge 2017

Position	Team	Score (Cohen Kappa)
1	Lunit Inc.	0.8993
2	ContextVision	0.8830
3	HMS-MGH-CCDS	0.8806
4	VCA-TUe	0.8729
5	Deep Bio Inc.	0.8640
6	MIL-GPAT	0.8567
7	JD.com Inc.	0.8567
8	Indica Labs	0.8554
9	HUST-C	0.8439
10	Mechanomind Inc.	0.8423
11	Deep Bio Inc.	0.8381
12	SYSU	0.8380
13	HUST-C	0.8172

Profitable Medical Imaging market leader with Digital Pathology optionality

Buy & NOK35 tp. = 30x 21 EV/EBIT on Medical Imaging + 10% market share in Digital Pathology

SOTP



Investment case summary

Despite negative estimate revisions on the back of Covid-19 related postponements of installations, restriction in access for new sales and reprioritized hospital resources and focus, we reiterate our Buy rec. and NOK35 tp. Central to our view is 1) that COV is a medical technology software company with 35y of experience and solid track-record as debt-free and the demonstrated global market leader in Medical Imaging with and estimated 50% market share. Indeed, the company can point to a 10y organic revenue CAGR of ~7% with an operational scalability where trailing 12m EBIT margin as of 2Q20 stood at +40%. Moreover, 2) with cash flow and know-how from Medical Imaging, the company has invested ~NOK100m the last 3-4y in, and is at the doorstep to launch its first CE-marked Digital Pathology product in a double digit growing and soon to be +USD1bn market. Interestingly, 3) we argue the latter optionality comes at a heavy discount and assuming same valuation as peer Paige, Digital Pathology is worth +NOK30 per share on top of ~NOK20 in value on Medical Imaging, which would represent 100% upside from current level. We believe COV will continue to build brick by brick and we see shareholder remuneration through a combination of sales growth, margin expansion in medical Imaging and gradual de-risking and value creation from near term product installation in Digital Pathology.

Investment case (longer version)

Established market leader (~50% market share) within Medical Imaging...

35 years experience within image processing and image analysis for medical applications

Current offering consist of Medical Imaging

Product offering

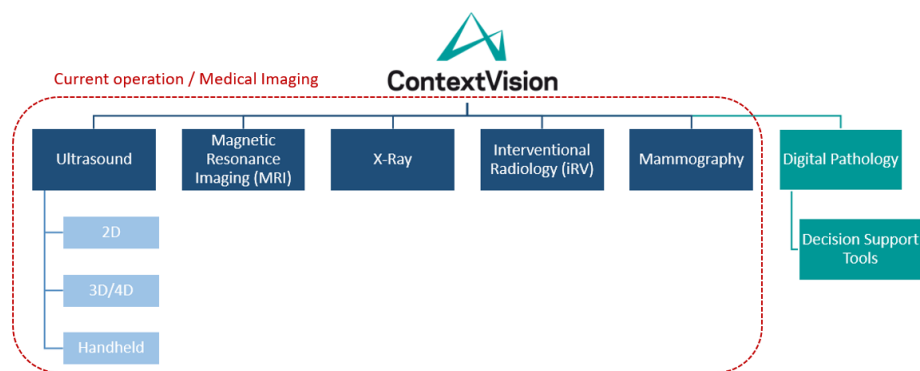


Image enhancement

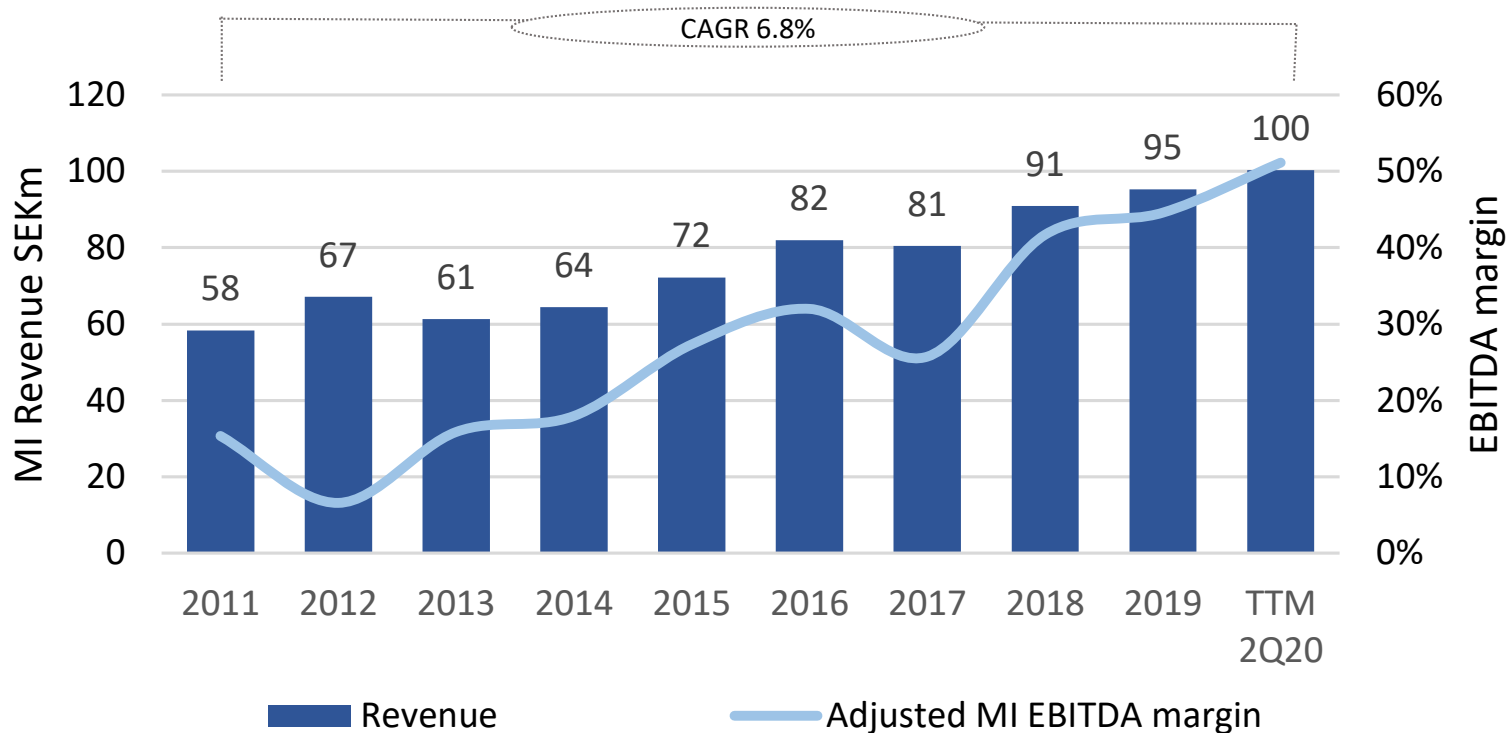
Our state-of-the-art software portfolio

	Radiography Altumira™		Radiography - Dynamic Altumira™ Plus
	Ultrasound 2D US PlusView™ 2.0 VolarView™		Mammography GOPView® Mammo3
	Ultrasound 3D/4D GOPICE® 2.0		MRI GOPView® MRI2™
	Ultrasound 3D/4D & Visualization REALICE®		

COV's image enhancement product range ensures quality and patients safety throughout the diagnosis and treatment follow-up process. It utilize its proprietary technology for image analysis and enhancement, GOP® technology, to identify and make structures clearer, while cleaning noise from the image. Its software allows for the use of a lower dose without compromising on quality and has been installed in over 300,000 systems worldwide

...with a demonstrated track-record of profitable growth...

Profitability is driven by operational scalability from high margin software licenses sold to OEM's



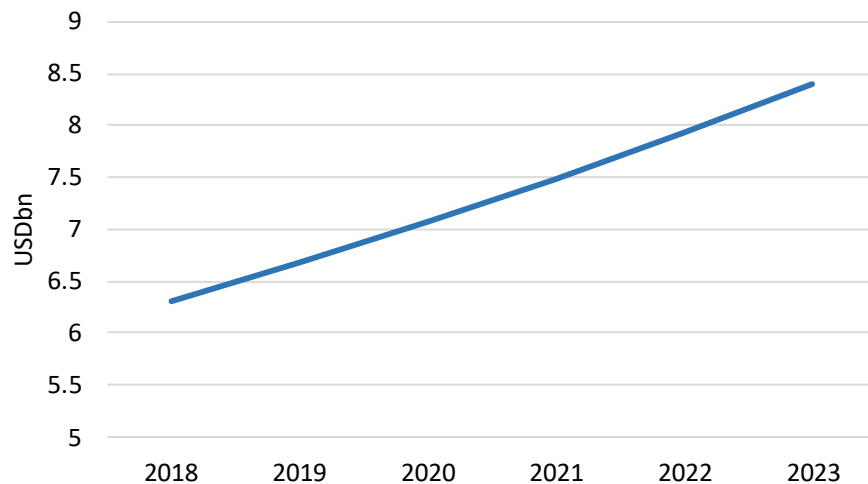
The majority of revenue is generated from sales of recurring licenses to OEM's (which again assemble hardware/systems and sell to end-customers/hospitals) and a smaller part is related to service and installation. Indeed, COV has been installed in over 300,000 systems worldwide.

...perfectly positioned to capture high-single digit ultrasound growth...

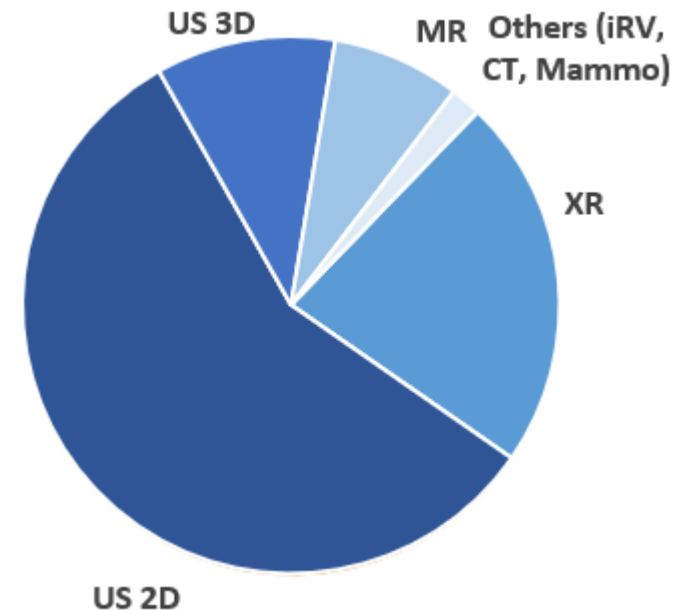
74% of trailing 12m revenues in COV steam from 2D and 3D ultrasound image enhancement

Estimated market development ultrasound

COV revenue per segment



Source: Markets&markets



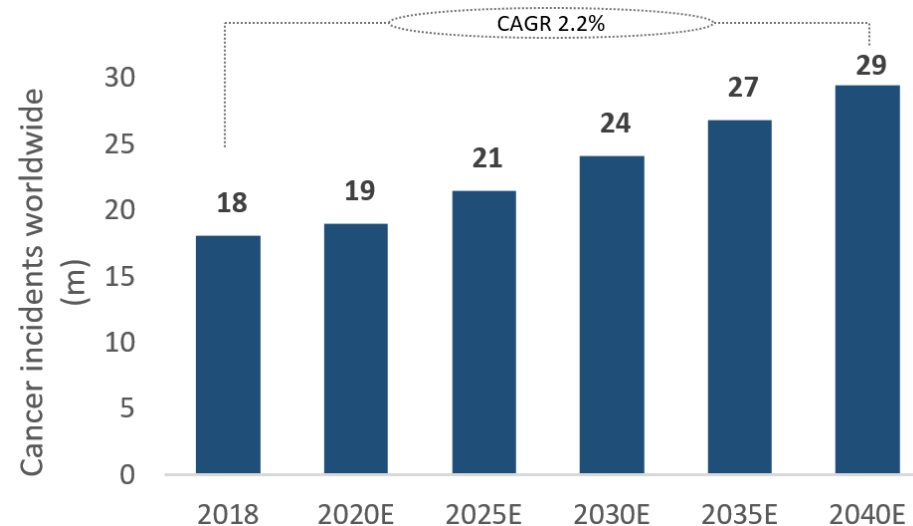
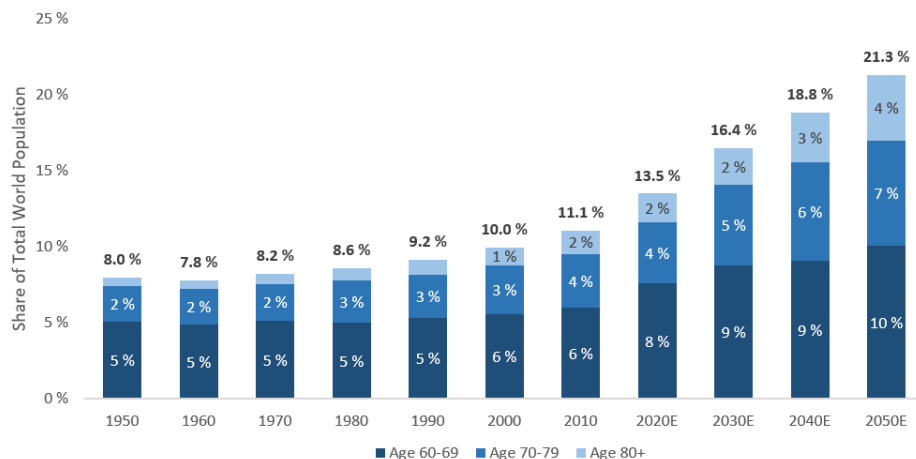
1. The global ultrasound market is expected to **grow with a 5.9% CAGR between 2018 and 2023.**
2. **74% of trailing 12 month revenues steam from 2D and 3D ultrasound** image enhancement and according to the company, they have some 50% market share.
3. Therefore COV is the leading player in ultrasound image enhancement and **is in a strong position to capture further growth in the market.**

...driven by aging population and increased prevalence of target diseases...

Diagnostic imaging activity on the rise with x-ray the largest, but ultrasound the fastest growing

Share of world population aged 60 or above

Annual cancer incidents worldwide: 2018-2040



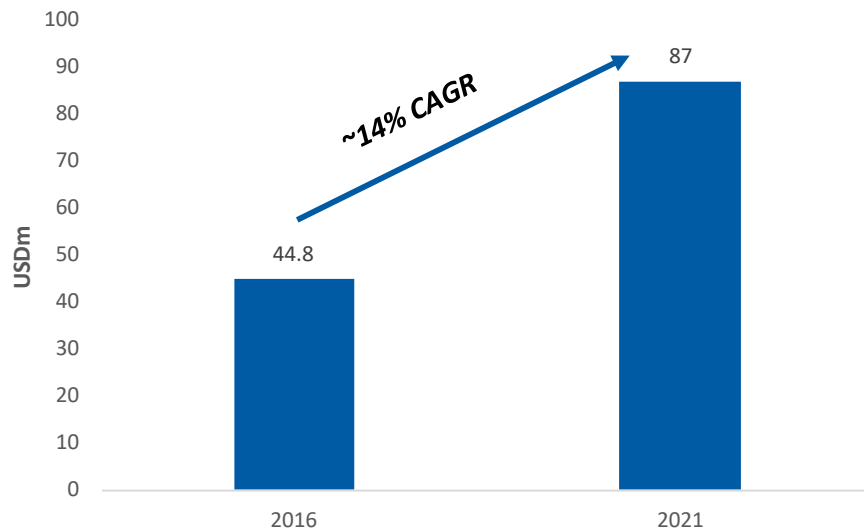
1. Factors such as increasing prevalence of target diseases, rising patient preference for minimally invasive procedures, technological advancements, increasing number of diagnostic centres & hospitals and growing public and private investments, funding, and grants are driving the growth of the ultrasound market during the forecast period.
2. Europe is expected to account for the largest share of 36% of the ultrasound market in 2018.
3. Asia Pacific is expected to register the highest CAGR of 6.6% during the forecast period.

...and rapid technology development in handheld ultrasound equipment

IHS Markit forecasts global handheld ultrasound to grow at a CAGR of 14.2% from 2016-2021

World market for handheld ultrasound equipment

Handheld ultrasound machine from GE healthcare



The increased use of ultrasound may be attributed to the rapid technological development, which can be compared to the advancements made in mobile telephony. The technological advancements opens for a series of new applications of the harmless ultrasound technology like a mobile devices that could replace the stethoscope, offering a 21st century solution to the 1816 invention. This opens a strong growth trajectory for COV who has 74% of its revenue coming from ultrasound.

Medical and software/tech peers trades at 2021 EV/EBIT of ~30x...

Difficult to determine key peers as COV is a hybrid of medical technology and ML* software

Medical peers	Share price performance			EV/EBITDA				EV/EBIT				P/E				Div yield (%)			EV/Sales					
	1m	3m	6m	2019	2020	2021	Hist. 5Y avg.	2019	2020	2021	Hist. 5Y avg.	2019	2020	2021	Hist. 5Y avg.	2019	2020	2021	2019	2020	2021	Hist. 5Y avg.		
	ABBOTT LABORATORIES	2%	14%	13%	23.3x	23.3x	19.6x	15.1x	27.1x	27.0x	21.8x	17.8x	31.1x	31.3x	25.9x	19.9x	5.3x	2.9x	1.26	1.44	1.55	6.08	5.91	5.36
CELLAVISION AB	2%	0%	(4%)	47.9x	45.0x	34.6x	33.3x	52.4x	53.1x	39.5x	36.7x	65.0x	71.8x	49.0x	46.1x	20.2x	14.1x	0.55	0.53	0.70	16.58	13.95	11.66	11.17
ENEA AB	6%	36%	13%	13.2x	13.9x	12.1x	10.2x	17.7x	19.9x	16.9x	12.3x	22.7x	22.9x	20.1x	15.0x	2.8x	2.4x	1.59	1.59	1.85	4.25	4.52	4.15	2.70
F-SECURE OYJ	(5%)	1%	(10%)	20.8x	14.3x	14.4x	17.5x	58.3x	27.2x	27.1x	28.8x	96.0x	39.5x	34.7x	40.4x	6.7x	5.9x	0.35	0.69	1.91	2.14	2.13	2.00	2.32
IAR SYSTEMS GROUP AB	12%	39%	(6%)	14.7x	16.2x	12.0x	16.7x	19.8x	26.2x	18.4x	20.9x	26.6x	34.3x	24.2x	28.0x	3.8x	5.6x	3.34	1.43	2.07	5.33	5.41	4.65	6.34
MEDISTIM ASA	8%	18%	23%	36.9x	34.4x	30.5x	17.2x	43.7x	41.5x	36.5x	19.9x	56.7x	53.3x	46.0x	26.7x	17.4x	7.9x	1.09	1.39	1.42	11.27	11.14	9.32	4.85
MICRO SYSTEMATION AB-B	35%	47%	31%	26.4x	14.3x	10.1x	15.0x	54.1x	19.9x	12.6x	15.8x	63.5x	25.6x	17.6x	21.2x	7.9x	8.6x	4.08	1.75	4.37	1.94	1.82	1.63	2.75
RAYSEARCH LABORATORIES AB	(10%)	(1%)	(3%)	11.1x	10.5x	12.0x	15.6x	34.0x	35.3x	28.5x	25.7x	45.3x	78.6x	52.3x	37.5x	4.0x	7.0x	-	0.29	0.70	4.06	3.69	3.21	6.70
SECTRA AB-B SHS	7%	32%	59%	78.6x	61.4x	56.9x	26.9x	100.9x	77.4x	74.0x	34.2x	129.7x	100.7x	96.6x	42.9x	39.4x	12.8x	0.74	0.74	0.78	17.46	13.86	13.42	6.08
SYNTHETICMR AB	10%	40%	59%	76.2x	110.8x	30.7x	33.1x	97.2x	167.0x	35.4x	39.0x	121.8x	239.1x	46.4x	59.7x	26.5x	18.6x	0.40	0.45	0.70	25.14	21.94	13.68	16.33
Median	7%	25%	13%	24.8x	19.8x	17.0x	16.9x	48.0x	31.3x	27.8x	23.3x	60.1x	46.4x	40.3x	32.7x	7.3x	7.5x	0.9	1.1	1.5	5.7	5.7	5.0	5.5

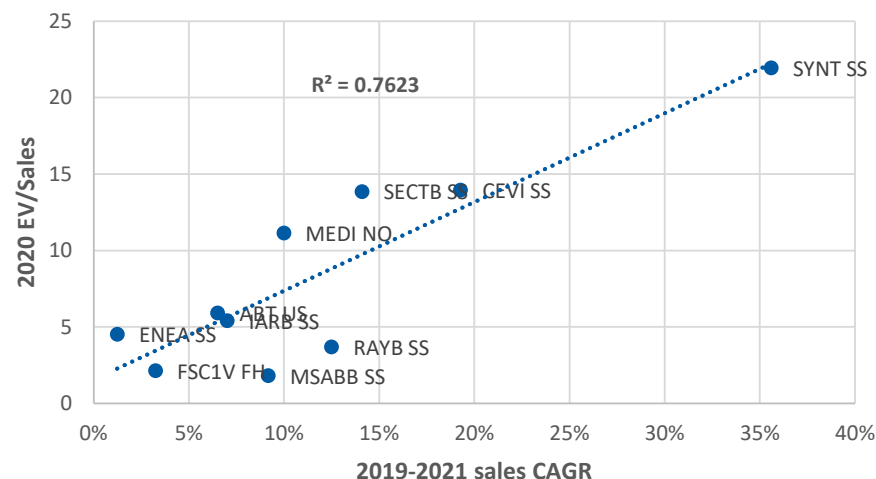
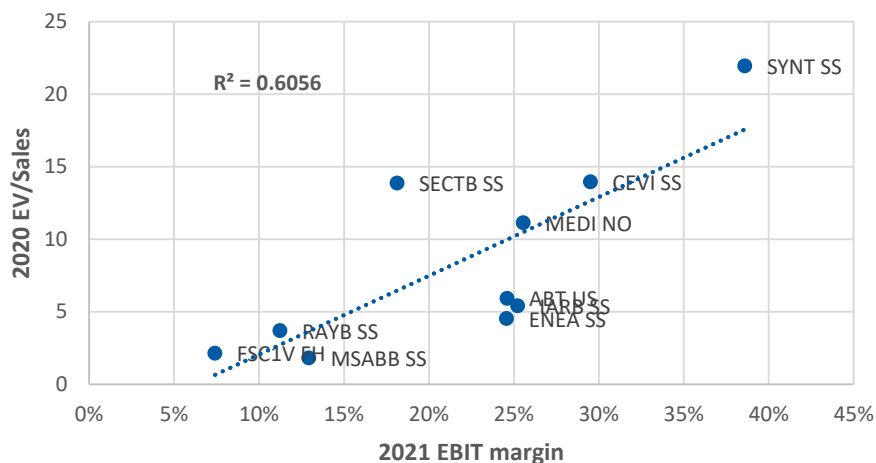
SaaS peers	Share price performance			EV/EBITDA				EV/EBIT				P/E				Div yield (%)			EV/Sales					
	1m	3m	6m	2019	2020	2021	Hist. 5Y avg.	2019	2020	2021	Hist. 5Y avg.	2019	2020	2021	Hist. 5Y avg.	2018	5Y avg.	2019	2020	2021	2019	2020	2021	Hist. 5Y avg.
	KAHOOT! AS	27%	64%	84%	n.a.	999.7x	90.0x	740.9x	n.a.	n.a.	132.5x	556.9x	26.1x	n.a.	144.7x	789.5x	n.a.	26.4x	n.a.	-	-	#####	66.01	32.77
FORTNOX AB	6%	19%	28%	81.9x	53.1x	43.9x	29.8x	97.4x	65.5x	52.1x	35.9x	122.9x	89.8x	71.9x	44.3x	101.8x	20.2x	0.21	0.29	0.36	31.32	23.65	18.98	10.29
LIME TECHNOLOGIES AB	16%	64%	72%	54.0x	42.3x	35.5x	22.0x	87.0x	62.2x	50.9x	33.0x	96.4x	76.0x	60.8x	37.6x	123.7x	22.3x	0.48	0.60	0.69	15.34	13.17	11.25	6.39
ADDNODE GROUP AB	(4%)	18%	(4%)	15.8x	16.7x	12.8x	10.4x	29.5x	36.8x	22.3x	16.9x	33.7x	29.1x	22.1x	18.3x	4.9x	2.9x	1.27	1.16	1.29	1.92	1.67	1.57	1.12
VITEC GROUP PLC/THE	12%	11%	(27%)	6.0x	11.2x	7.1x	7.5x	8.3x	39.4x	11.8x	11.0x	9.0x	89.7x	14.0x	12.3x	n.a.	n.a.	5.59	0.97	3.04	1.11	1.47	1.21	1.27
SECTRA AB-B SHS	7%	32%	59%	78.6x	61.4x	56.9x	26.9x	100.9x	77.4x	74.0x	34.2x	129.7x	100.7x	96.6x	42.9x	43.9x	12.8x	0.74	0.74	0.78	17.46	13.86	13.42	6.08
FORMPIPE SOFTWARE AB	(4%)	8%	26%	13.4x	13.1x	11.9x	8.8x	29.2x	26.3x	22.4x	17.6x	40.5x	35.7x	29.4x	22.5x	3.4x	2.2x	2.70	2.32	2.07	3.39	3.30	2.97	2.13
RAYSEARCH LABORATORIES AB	(10%)	(1%)	(3%)	11.1x	10.5x	12.0x	15.6x	34.0x	35.3x	28.5x	25.7x	45.3x	78.6x	52.3x	37.5x	4.4x	7.0x	-	0.29	0.70	4.06	3.69	3.21	6.70
KARNOV GROUP AB	3%	2%	(4%)	22.9x	17.9x	16.8x	17.8x	65.6x	42.0x	36.8x	39.0x	30.7x	23.0x	21.8x	22.9x	n.a.	3.1x	0.36	2.06	2.18	8.21	7.94	7.59	7.79
IAR SYSTEMS GROUP AB	12%	39%	(6%)	14.7x	16.2x	12.0x	16.7x	19.8x	26.2x	18.4x	20.9x	26.6x	34.3x	24.2x	28.0x	4.4x	5.6x	3.34	1.43	2.07	5.33	5.41	4.65	6.34
KARNOV GROUP AB	3%	2%	(4%)	22.9x	17.9x	16.8x	17.8x	65.6x	42.0x	36.8x	39.0x	30.7x	23.0x	21.8x	22.9x	n.a.	3.1x	0.36	2.06	2.18	8.21	7.94	7.59	7.79
MICRO SYSTEMATION AB-B	35%	47%	31%	26.4x	14.3x	10.1x	15.0x	54.1x	19.9x	12.6x	15.8x	63.5x	25.6x	17.6x	21.2x	5.9x	8.6x	4.08	1.75	4.37	1.94	1.82	1.63	2.75
SYNTHETICMR AB	10%	40%	59%	76.2x	110.8x	30.7x	33.1x	97.2x	167.0x	35.4x	39.0x	121.8x	239.1x	46.4x	59.7x	27.2x	18.6x	0.40	0.45	0.70	25.14	21.94	13.68	16.33
SIMCORP A/S	5%	8%	5%	29.1x	33.5x	26.4x	23.9x	32.3x	37.7x	29.0x	25.4x	40.5x	48.4x	36.8x	31.0x	26.1x	17.5x	1.03	0.96	1.11	9.16	9.09	8.13	6.63
KAMBI GROUP PLC	4%	61%	48%	24.5x	22.4x	14.3x	14.3x	49.1x	49.1x	23.7x	24.8x	71.7x	66.4x	31.9x	32.7x	12.5x	6.0x	-	-	-	7.50	7.16	5.27	4.49
Median	6%	19%	26%	23.7x	17.9x	16.8x	17.8x	51.6x	40.7x	29.0x	25.7x	40.5x	57.4x	31.9x	31.0x	12.5x	7.8x	0.6	1.0	1.1	8.2	7.9	7.6	6.4

...where revenue growth and EBIT margins explain medical peer multiples...

Strong correlation between sales growth, margins and multiples (exemplified with EV/Sales)

2020e EV/Sales vs. 2019-2021 Sales CAGR

2020e EV/Sales vs. 2021 EBIT margin

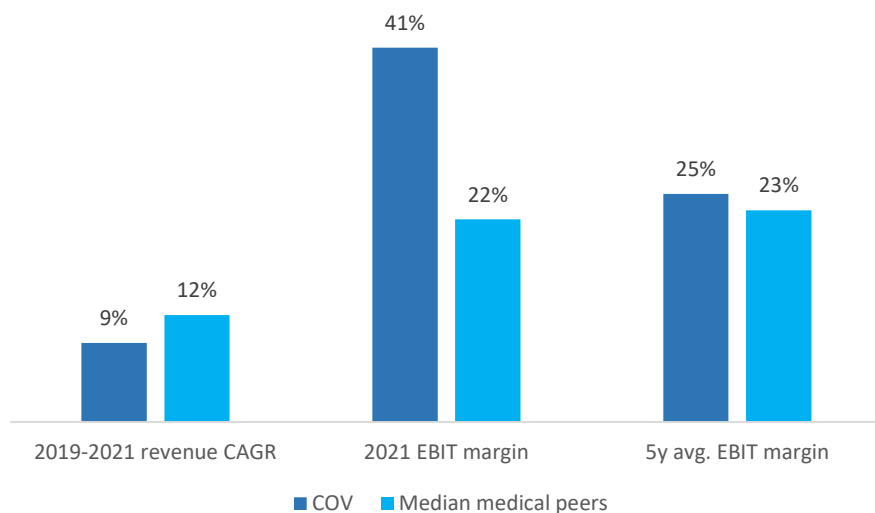


...hence, we argue Medical Imaging close to alone explain current share price

Applying peer median EV/EBIT of ~30x, we arrive at NOK18-19 per share

COV Medical Imaging KPI's vs. median medial peers

Valuation Medical Imaging = NOK18-19



SEKm	2020	2021	Comments
Revenue	102	113	SB1M estiamtes
EBIT	43	46	SB1M estiamtes
<i>EBIT margin</i>	42%	41%	
EV/EBIT	30.0x	30.0x	In line with peers (21e)
EV	1.298	1.385	
Excess cash as of 2Q20	45	45	Cash flow assumed in Digital Pathology
MCAP	1.343	1.430	
SEKNOK	1.02	1.02	Exchange rate
MCAP NOK	1.370	1.459	
# shares (m)	77.4	77.4	Fully diluted number of shares
Share price (NOK)	18	19	
<i>Implied EV/Sales</i>	13	12	
Market values:			
Share price	25	25	
MCAP (NOK)	1.934.2	1.934.2	
MCAP	1.896.3	1.896.3	
Medical Imaging % of value	70.8 %	75.4 %	
Implied value of DP (SEK)	553.0	465.9	
Per share	7.3	6.1	

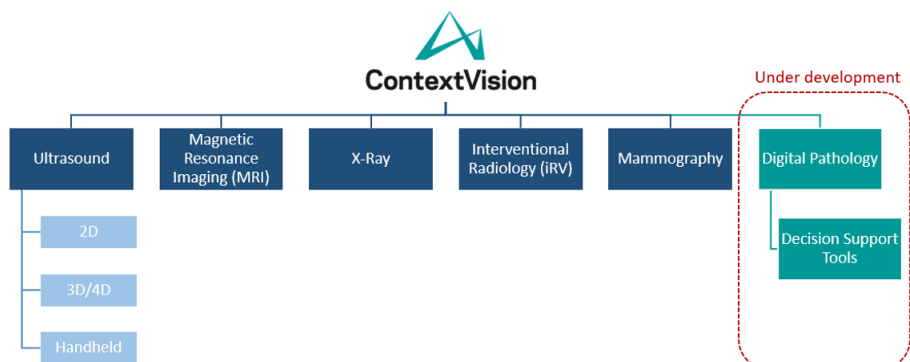
With slightly lower expected growth rates, but superior EBIT margins from a scalable medical technology (software for image analysis and artificial intelligence for image-based applications) and hence return on capital, **we argue its fair COV should trade more or less in line with our medical peer group despite smaller size and lower liquidity.**

COV to take pathology digital with INIFY, a prostate decision support tool...

INIFY Prostate Screening is an investigational device, **already CE-marked for clinical use**

Digital pathology is soon ready for product launch

COV product; INIFY – decision support tool

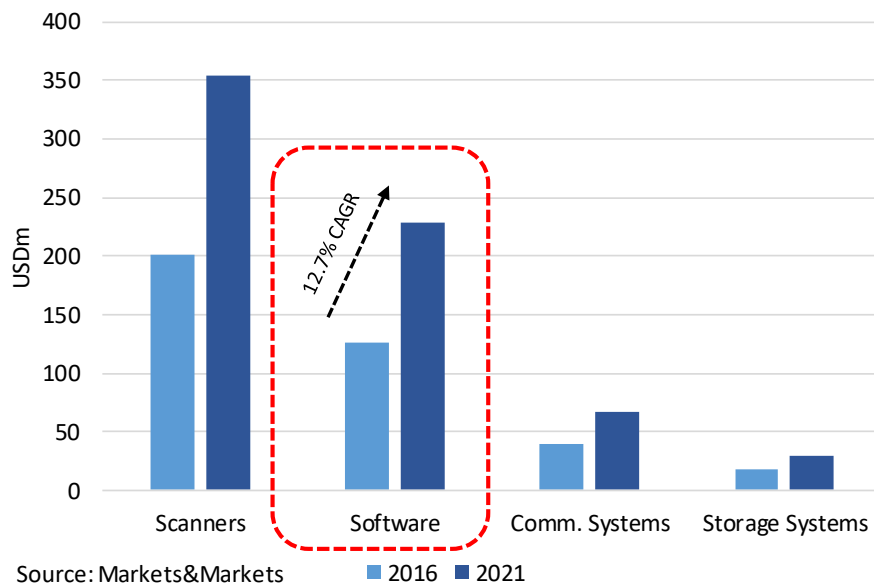


- COV is leveraging 36y of experience within Medical Imaging and is developing a portfolio of decision support tools targeting major cancer diseases.
- The tools are developed by training deep learning networks, using high quality data and annotations.
- Each year, 2.3bn prostate biopsy procedures are performed in Europe and the USA and other areas with a heavy pathology lab workload are colon, lung and breast cancer.
- First product is **INIFY and is a Prostate Screening tool, where near term launch is expected.** It outlines suspicious cancer areas in each prostate biopsy and a viewer provides a smooth, intuitive user experience.
- The product make use of a patented method, which generates close-to-ground-truth data for training the deep learning networks.
- A multiplex immunofluorescence overlay is combined with H&E staining on the same tissue slide for exact identification of suspicious cancer areas.
- Decision support tools for other cancer types expected to follow in the coming years.

...in a multimillion dollar market forecasted to grow double digit...

INIFY Prostate aims to provide decision support in digital pathology labs

The digital pathology market...



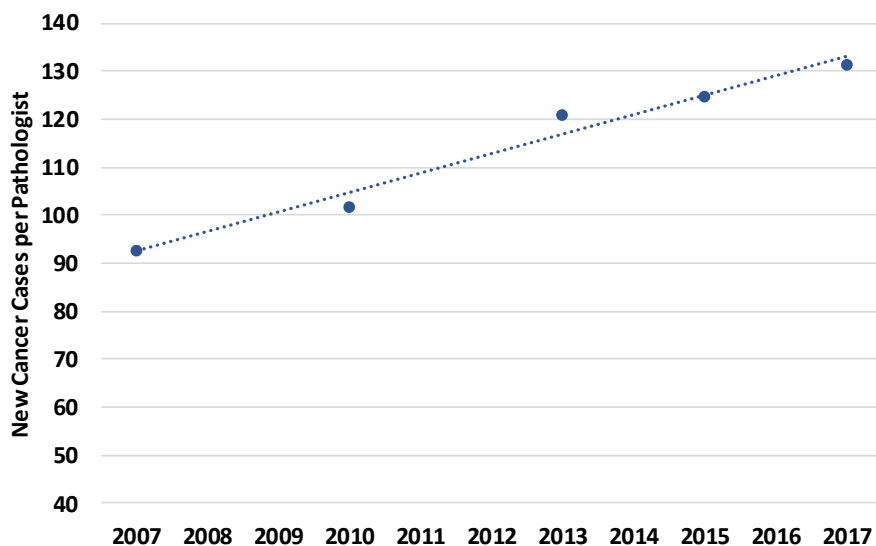
...is expected to grow double digit

- The market for digital pathology software is expected to reach USD230m by 2021.
 - » 2016-2021 CAGR: 12.7%
- Software includes image management systems, decision support tools and more.
- COV's first product for digital pathology, INIFY Prostate, is currently in beta-testing and expected installations is set for 2H20.
 - » Initial focus on Europe
- Provides decision support by analyzing prostate biopsies and sorting them in a worst-first order.
- COV initially target products for breast cancer and lung cancer after INIFY Prostate.

...supported by strong need for and potential gain from digitalization...

Demand for pathologists to outpace supply and digital pathology helps productivity/quality

New cancer cases per pathologist

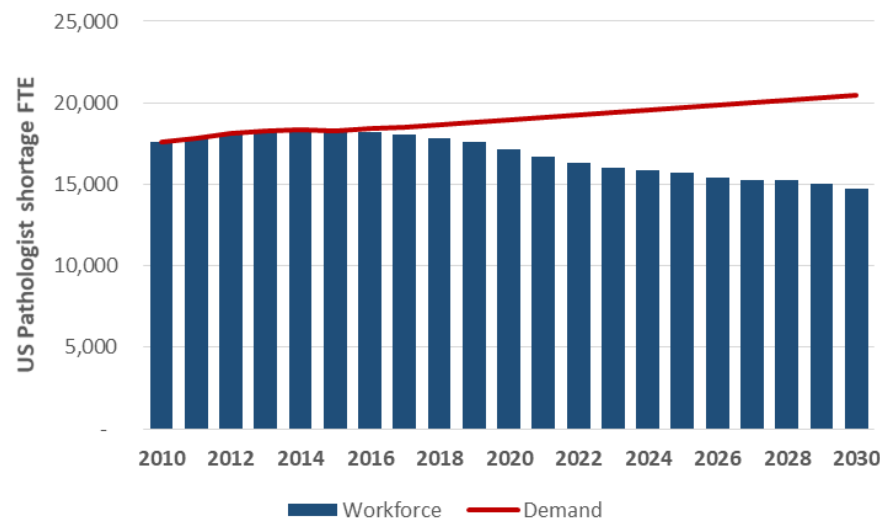


Source: JAMA Network Open

Digital pathology can increase both productivity and quality of work in pathology labs. Indeed, 1) better systems for storing, managing, analyzing and sharing pathology slides, 2) reducing time consumption of pathology examinations by shifting from studying slides in microscopes to viewing slides on a software platform and 3) using AI-based tools to support pathologists during diagnosis.

Source: SB1M, Duke University, Philips, Jama Network Open (2017)

Supply and demand forecast for pathologist

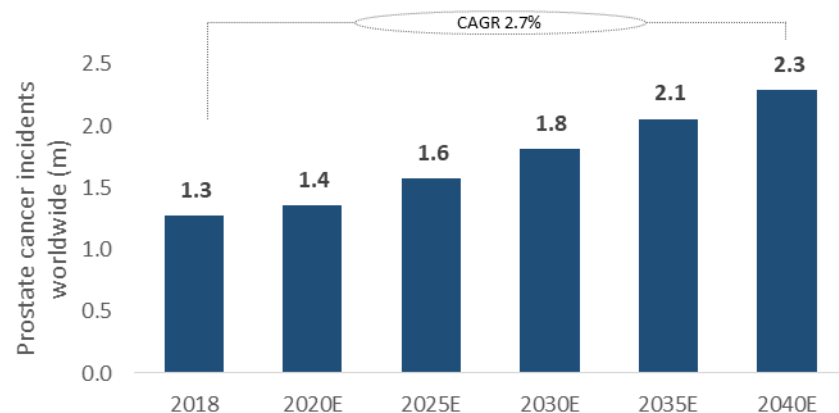


The number of pathologists in the US is declining, and a high proportion of the workforce is age 55 or older. Meanwhile, the nr. of cancer cases is increasing, and projected to increase further. Indeed, a shortage of 6000 full-time employees expected in 2030 in the US alone.

...and prostate cancer is an ideal place to start...

Fastest growing cancer type, subject to highly subjective evaluations

WHO prostate cancer forecasts



Prostate cancer facts

- Prostate cancer accounted for 7 % of all global cancer incidents in 2018, and took up 10% of Pathologists time.
- 2 million biopsies in EU and the US every year, and the results are highly dependent on subjective evaluations.
- World Health Organization projects the cancer type to outgrow the overall growth in cancer incidents over the next two decades

...which draw interest and Paige closed a supportive funding round in April...

Peer Paige closed a funding round supporting COV's Digital Pathology valuation of ~NOK31

Another day, another digital pathology company

Series B value Paige at ~USD260m post-money



- Philips is a Dutch conglomerate, with businesses in electronics, lighting and medical equipment. The company is one of the largest suppliers of digital slide scanners for pathology.
- Together with Paige, they are bringing AI to digital pathology, starting with European Pathology labs in 2020.
- We expect Paige's AI to be integrated into the «Philips IntelliSite Pathology Solution», Philips' image management system.
- December 18th, 2019: Paige announced it had raised USD 45m in series B funding at USD209m valuation.
- Moreover, in April, Goldman invested filled the Series B round with another USD5m valuing Paige at about USD260m post money or NOK2.4bn.

NOK2.4bn = ~NOK31 per share for COV's Digital Pathology segment.

...and many other companies are trying to take a piece of the pie...

And several others are also targeting prostate cancer first

Company	Country	Year founded	Products	Product stage
Paige	USA	2018	Prostate cancer	Development
Aiforia	Finland	2013	Prostate cancer	Development
Deep Bio	South Korea	2015	Prostate cancer	Clinical trials
Nucleai	Israel	2017	Prostate cancer	Development
ContextVision	Sweden	1983 (2014)	Prostate cancer	Development
Other cancers:				
Lunit	South Korea	2013	Chest xray ++	
Insight Medical	China	2016	Breast cancer ++	
DeepMed IO	UK	2017	Breast cancer ++	
Indica Labs	USA	2011	Breast cancer ++	
Visiopharm	Denmark	2001	Oncology diagnostics	
Proscia	USA	2014	Skin diseases ++	
OSP Labs	USA	2009	Tumor detection	

..but other OEMs may also be looking for acquisitions?

COV an attractive target given its profitable legacy business + digital Pathology exposure

Slide scanner manufacturers

Slide scanner manufacturers	
Company	Country
Philips Healthcare	Netherland
Danaher Corp./Leica	USA
Roche	Switzerland
Hamamatsu Photonics	Japan
Huron Digital Pathology	Canada
3DHISTECH	Hungary
Olympus	Japan

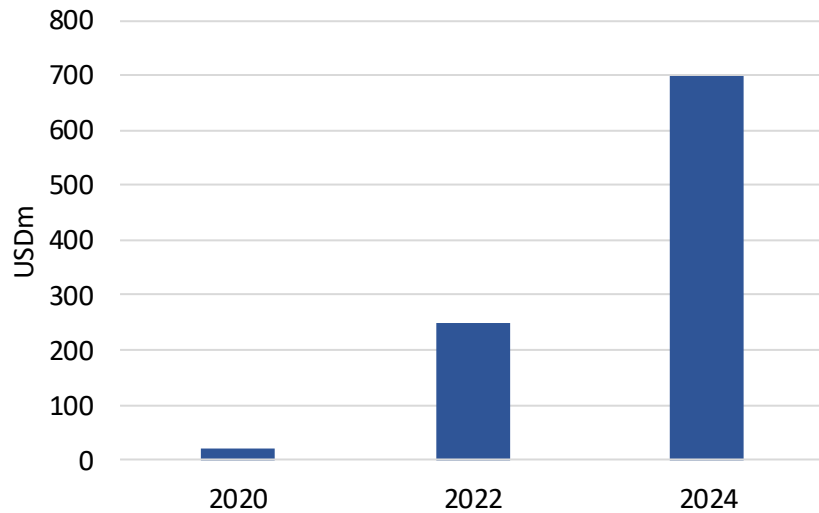
Investment case summary

- We consider it likely that other OEMs are also looking for ways to improve the value proposition of their digital pathology offerings. Incorporating AI-software into the offerings would be a great way to achieve this.
- In-house development of AI solutions requires a lot of resources and time, so some of these may instead be looking for acquisitions
 - » Roche is actively looking for partnerships in oncology diagnostics.
 - » More than 50% of Danaher's total revenue is from acquisitions the past seven years.
- COV has previously stated that the intention is to sell the software directly to pathology labs and indirectly through OEM's. In our opinion, being among the first to market with a prostate cancer product puts COV in a brilliant position as a take over target for someone who wants a foothold in the market.

Based on external and mgmt. estimates, we can outline scenarios...

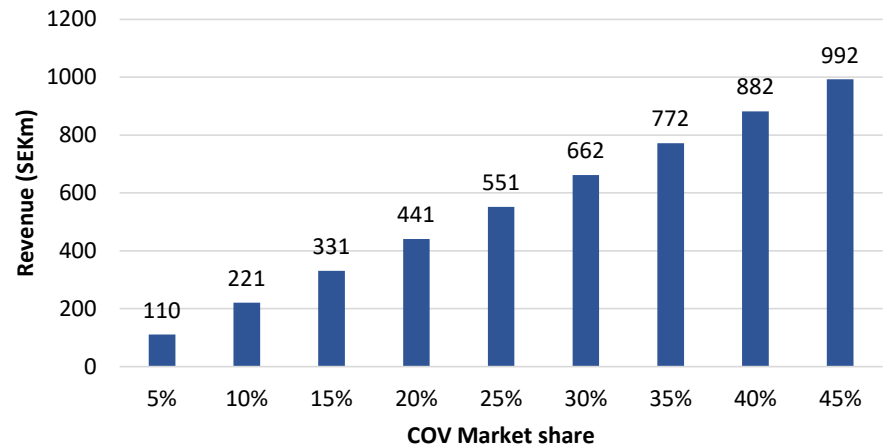
COV mgmt. expect the addressable support making tool market to be around USD250m in 2022

Market development support making tools



Source: ContextVision internal estimates

Revenue scenarios 2022 on various market shares



Revenue estimates with a USD250m market size in 2022

...and valuation is more of a “pick a number” exercise

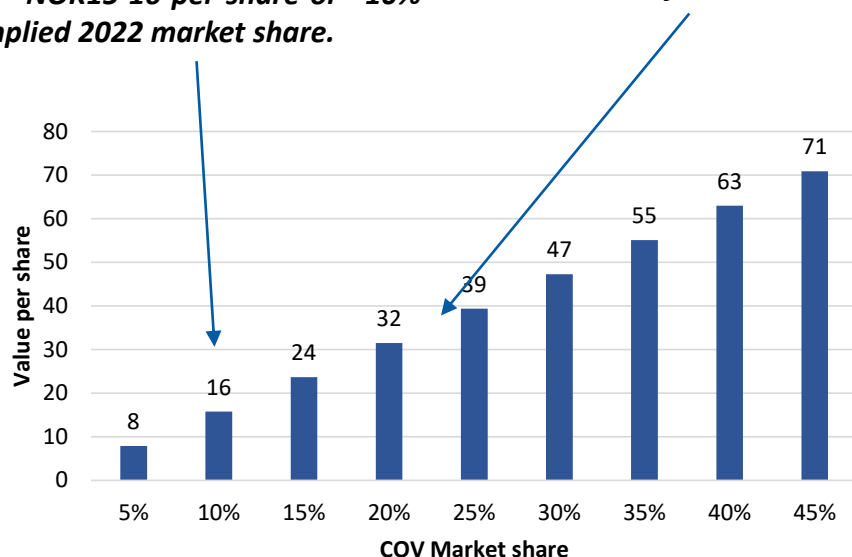
COV has yielded recognizable results in international competitions (Camelyon)

Scenario: value per share undiscounted

Camelyon challenge 2017

We currently value the segment at ~NOK15-16 per share or ~10% implied 2022 market share.

Remember; Paige implied valuation of ~NOK31.



Revenue estimates with a USD250m market size in 2022

The value per share scenario above assumes the revenue estimates on the previous slide, which is based on mgmt. market size outlook (which is in line with third-party research) and 5.5x EV/Sales – in line with 2020e and 5y average median medical peers. We use current currency rates.

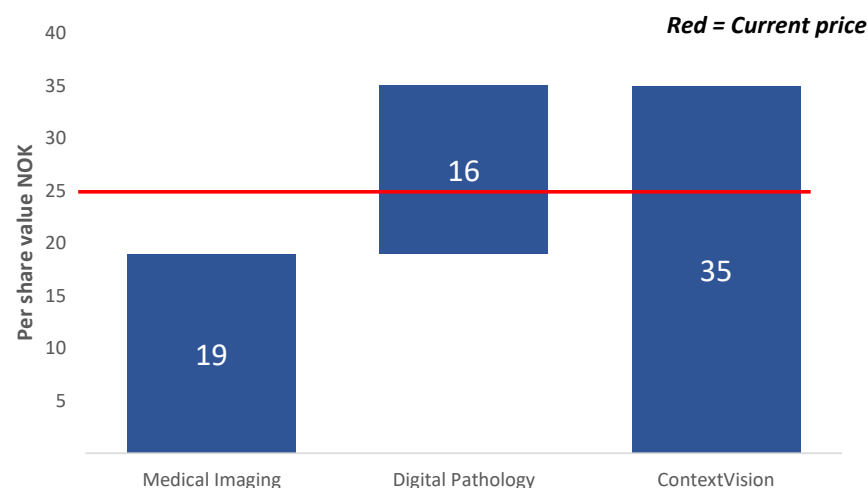
Camelyon Challenge 2017

Position	Team	Score (Cohen Kappa)
1	Lunit Inc.	0.8993
2	ContextVision	0.8830
3	HMS-MGH-CCDS	0.8806
4	VCA-TUe	0.8729
5	Deep Bio Inc.	0.8640
6	MIL-GPAT	0.8567
7	JD.com Inc.	0.8567
8	Indica Labs	0.8554
9	HUST-C	0.8439
10	Mechanomind Inc.	0.8423
11	Deep Bio Inc.	0.8381
12	SYSU	0.8380
13	HUST-C	0.8172

Profitable Medical Imaging market leader with Digital Pathology optionality

Buy & NOK35 tp. = 30x 21 EV/EBIT on Medical Imaging + 10% market share in Digital Pathology

SOTP



Investment case summary

Despite negative estimate revisions on the back of Covid-19 related postponements of installations, restriction in access for new sales and reprioritized hospital resources and focus, we reiterate our Buy rec. and NOK35 tp. Central to our view is 1) that COV is a medical technology software company with 35y of experience and solid track-record as debt-free and the demonstrated global market leader in Medical Imaging with and estimated 50% market share. Indeed, the company can point to a 10y organic revenue CAGR of ~7% with an operational scalability where trailing 12m EBIT margin as of 2Q20 stood at +40%. Moreover, 2) with cash flow and know-how from Medical Imaging, the company has invested ~NOK100m the last 3-4y in, and is at the doorstep to launch its first CE-marked Digital Pathology product in a double digit growing and soon to be +USD1bn market. Interestingly, 3) we argue the latter optionality comes at a heavy discount and assuming same valuation as peer Paige, Digital Pathology is worth +NOK30 per share on top of ~NOK20 in value on Medical Imaging, which would represent 100% upside from current level. We believe COV will continue to build brick by brick and we see shareholder remuneration through a combination of sales growth, margin expansion in medical Imaging and gradual de-risking and value creation from near term product installation in Digital Pathology.

Appendix

Estimates

COV Group total	New estimates		
	2020E	2021E	2022E
Operating revenues	102.3	129.8	191.9
EBITDA	29.8	47.7	77.5
EBITDA-margin	29.1%	36.7%	40.4%
EBIT	21.0	38.0	67.1
EBIT-margin	20.5 %	29.3 %	35.0 %
Net profit	16.4	30.6	54.0
EPS rep. (diluted)	2.1	4.0	7.0
EPS changes in percent			
EBITDA changes in percent			
OpFCF changes in percent			

COV Segment break-down	New estimates		
	2020E	2021E	2022E
Image Enhancement Revenues			
XR	29.9	31.9	34.1
US 2D	59.9	68.3	73.1
US 3D	4.8	3.4	3.6
MR	6.5	7.3	7.8
Others (iRV, CT, Mammo)	1.2	1.7	1.8
EBIT	43.3	46.2	52.6
<i>EBIT-margin</i>	<i>42.3%</i>	<i>41.0%</i>	<i>43.7%</i>
Digital pathology			
Revenue	0.0	17.3	71.5
EBIT	-22.3	-8.2	14.5
<i>EBIT-margin</i>	<i>n.a.</i>	<i>-47.2%</i>	<i>20.3%</i>
Capex	(23.0)	(14.3)	(15.1)
OpFCF	6.7	33.3	62.4

Estimates

ContextVision SEKm	4Q18	3Q19	4Q19	1Q20	2Q20	2018	2019	2020E	2021E	2022E
Image enhancement	27.9	23.0	28.1	29.2	20.1	90.9	95.3	102.3	112.5	120.4
Digital Pathology	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	17.3	71.5
Total revenues	27.9	23.0	28.1	29.2	20.1	90.9	95.3	102.3	129.8	191.9
YoY	24%	5%	1%	38%	-13%	13%	5%	7%	27%	48%
Goods for resale	0.8	0.7	0.5	0.8	0.4	2.2	2.3	2.4	2.6	2.7
Other external costs, IE	6.3	4.9	7.9	3.0	4.4	30.2	21.4	18.9	22.5	24.1
Other external costs, DP	3.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0	0.0	0.0
Personnel costs, IE	4.1	7.4	6.1	7.4	5.6	20.6	29.1	28.9	31.6	30.6
Personnel costs, DP	8.2	3.2	5.6	4.1	6.0	29.5	14.2	22.3	25.4	57.0
EBITDA	5.6	6.8	8.1	13.8	3.7	5.4	28.2	29.8	47.7	77.5
EBITDA-margin	20%	30%	29%	47%	19%	6%	30%	29%	37%	40%
D&A	1.3	2.3	12.3	2.0	2.1	5.0	18.2	8.8	9.7	10.3
EBIT	4.3	4.6	-4.2	11.8	1.6	0.4	10.1	21.0	38.0	67.1
EBIT-margin	15%	20%	-15%	41%	8%	0%	11%	20%	29%	35%
Net financial items	0.0	-0.1	0.0	-0.1	-0.1	0.0	-0.3	-0.1	0.0	0.0
Pre-tax profits	4.3	4.5	-4.2	11.8	1.5	0.4	9.8	20.8	38.0	67.1
Tax expenses	-0.1	1.1	-0.9	2.7	0.3	-0.1	2.4	4.5	7.4	13.1
Net profit	4.4	3.4	-3.4	9.1	1.2	0.5	7.4	16.4	30.6	54.0
Per Share Figures	4Q18	3Q19	4Q19	1Q20	2Q20	2018	2019	2020E	2021E	2022E
EPS rep.	0.36	0.43	0.53	0.44	0.78	-0.15	0.96	2.12	3.95	6.98
Valuation (Adj.)	4Q18	3Q19	4Q19	1Q20	2Q20	2018	2019	2020E	2021E	2022E
EV/EBITDA								53.0x	33.1x	20.4x
EV/EBIT								75.2x	41.5x	23.5x
P/E								118.1x	63.3x	35.8x

Estimates

Balance sheet											
SEKm	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	2018	2019	2020	2021	2022
Non-current assets											
Intangible assets											
Capitalised expenditure for developed work	17.85	24.33	27.80	20.82	24.12	27.19	11.68	20.82	28.56	34.00	47.04
Total	17.85	24.33	27.80	20.82	24.12	27.19	11.68	20.82	28.56	34.00	47.04
Tangible assets											
Equipment, tools and furniture	3.23	3.13	2.91	2.68	2.48	2.25	3.35	2.68	2.25	2.25	2.25
Total	3.23	3.13	2.91	2.68	2.48	2.25	3.35	2.68	2.25	2.25	2.25
Financial & other non-current assets											
	0.44	0.50	0.71	0.52	0.74	0.39	0.32	0.52	0.39	0.39	0.39
Right-of-use assets	12.31	11.36	10.41	9.46	8.55	7.83		9.46	7.83	7.83	7.83
Total non-current assets	33.83	39.32	41.83	33.48	35.89	37.66	15.36	33.48	39.03	44.47	57.51
Current assets											
Inventories	0.65	0.96	0.62	0.88	1.05	1.17	0.71	0.88	1.02	1.30	1.92
Total	0.65	0.96	0.62	0.88	1.05	1.17	0.71	0.88	1.02	1.30	1.92
Current receivables & current investments											
Total	23.94	20.48	19.99	23.40	37.57	24.15	22.82	23.40	24.62	31.23	46.18
Cash and bank balances	37.23	39.70	37.37	36.33	33.09	45.25	37.95	36.33	48.41	71.99	111.01
Total current assets	61.82	61.14	57.98	60.61	71.72	70.57	61.48	60.61	74.05	104.52	159.12
Total assets	95.65	100.47	99.81	94.09	107.61	108.23	76.83	94.09	113.09	148.98	216.63
Non-current assets											
Current Assets											
Inventories as a % of revenue	0.7 %	1.0 %	0.7 %	0.9 %	1.0 %	1.2 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
Current receivables & current investments as a % of revenue	25.8 %	21.8 %	21.0 %	24.6 %	36.3 %	24.1 %	25.1 %	24.6 %	24.6 %	24.6 %	24.6 %
Total equity	61.35	65.41	68.93	66.14	74.13	77.15	58.56	66.14	83.21	113.79	167.76
Long term liabilities and provisions											
Deferred tax	0.94	0.92	0.92	1.56	1.46	1.79	0.97	1.56	1.79	1.79	1.79
Total	0.94	0.92	0.92	1.56	1.46	1.79	0.97	1.56	1.79	1.79	1.79
Short term liabilities and provisions											
	21.98	23.65	20.39	17.76	24.27	22.26	17.30	17.76	22.50	28.55	42.22
Non-current lease liabilities	7.48	6.57	5.66	4.73	3.83	3.03		4.73	1.58	0.86	0.86
Current lease liabilities	3.92	3.91	3.91	3.91	3.92	3.99		3.91	3.99	3.99	3.99
Total liabilities	34.32	35.06	30.88	27.96	33.48	31.07	18.27	27.96	29.87	35.19	48.85
Total equity and liabilities	95.67	100.47	99.81	94.09	107.61	108.22	76.83	94.09	113.08	148.98	216.62

Estimates

Cash flow statement											
SEKm	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	2018	2019	2020	2021	2022
Operating activities											
Result after financial items	2.376	5.324	4.476	(4.247)	11.769	1.530	(1.292)	9.763	20.842	38.022	67.117
Depreciation and write-down of assets	1.823	1.843	2.251	12.251	1.987	2.130	6.698	18.169	8.788	9.666	10.343
Unrealized gain/loss on current investments	(0.538)	(0.042)	0.077	0.640	(1.164)	1.870	0.281	0.137	0.706	-	-
Income tax paid	1.330	(0.433)	1.011	(0.079)	(2.107)	(0.070)	0.397	1.829	(3.654)	(7.445)	(13.143)
Others	-	-	-	-	-	-	-	-	-	-	-
CF from op. activities before change in WC	4.991	6.692	7.816	8.565	10.485	5.460	6.084	29.899	26.682	40.243	64.317
Change in WC											
Increase(-)/decrease(+) inventories	0.061	(0.306)	0.341	(0.265)	(0.164)	(0.130)	(0.138)	(0.168)	(0.147)	(0.275)	(0.621)
Increase(-)/decrease(+) current receivables	(1.721)	3.812	(0.524)	(3.094)	(12.115)	12.340	0.170	(1.527)	(0.243)	(6.614)	(14.952)
Increase(+)/decrease(-) liabilities	3.775	0.465	(4.305)	(1.229)	3.844	(0.890)	(0.998)	(1.294)	3.197	6.045	13.668
CF from operating activities	7.106	10.663	3.329	3.978	2.050	16.780	5.118	26.911	29.489	39.400	62.411
Investing activities											
Investments in intangible assets	(6.815)	(7.131)	(4.547)	(4.090)	(4.112)	(3.980)	(6.954)	(22.583)	(14.136)	(15.099)	(23.387)
Investments in tangible assets	(0.103)	(0.144)	(0.001)	-	(0.026)	-	(0.547)	(0.248)	(0.026)	-	-
Short-term investments	-	-	-	-	-	(0.266)	-	-	(0.266)	-	-
Other financial assets	-	-	(0.195)	(0.004)	(0.259)	0.343	-	(0.199)	0.084	-	-
CF from investing activities	(6.918)	(7.275)	(4.743)	(4.094)	(4.397)	(3.903)	(7.501)	(23.030)	(14.344)	(15.099)	(23.387)
Financing activities											
CF from financing activities	(0.905)	(0.912)	(0.919)	(0.926)	(0.888)	(0.724)	-	(3.662)	(3.060)	(0.724)	-
Cash flow for the period	(0.717)	2.476	(2.333)	(1.042)	(3.235)	12.153	(2.383)	0.219	12.085	23.577	39.024
Change of liquid assets											
Liquid assets at beginning of period	37.945	37.228	39.704	37.371	36.329	33.094	40.327	37.944	36.329	48.413	71.990
Liquid assets at period end	37.228	39.704	37.371	36.329	33.094	45.247	37.944	36.329	48.413	71.990	111.015

Estimates

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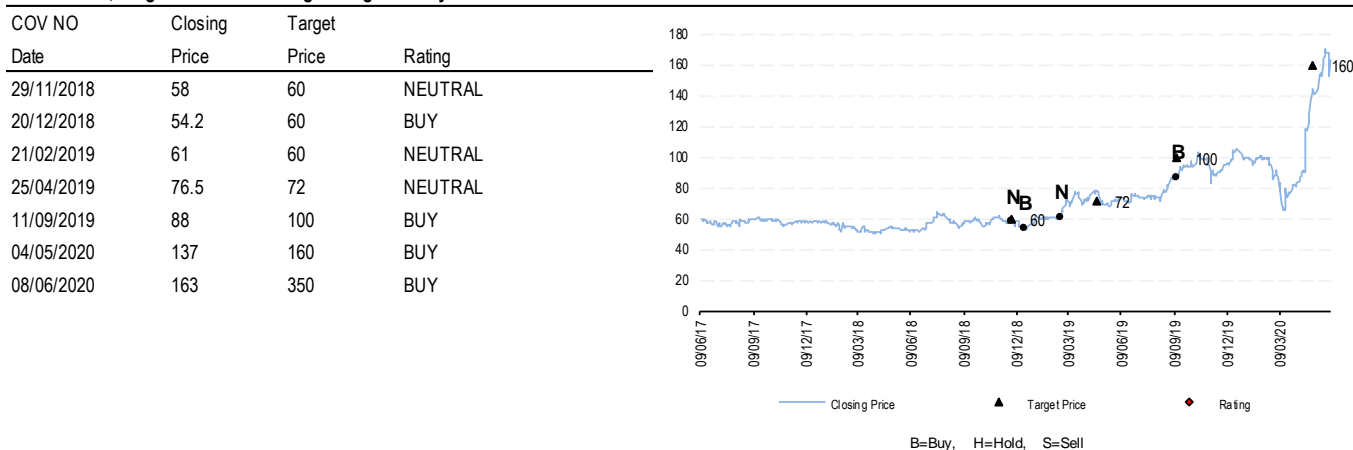
Estimates

IMPORTANT DISCLOSURES

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3-Year Price, Target Price and Rating Change History Chart for COV NO



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Neutral	26.1%	19.0%
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Estimates

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