

ContextVision

BUY

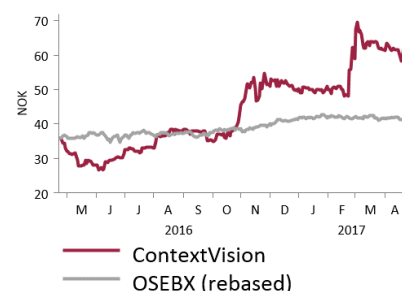
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	478
Net debt (NOKm)	-41
EV (NOKm)	437
Net debt / equity	-70%

Issued shares (m)	7.7
-------------------	-----

Share price



Performance

	1m	3m	12m
COV	-1%	20%	76%
OSEBX	-1%	0%	18%

Upcoming events

1Q17 report	April 27, 2017
AGM	May 10, 2017
2Q17 report	August 17, 2017
3Q17 report	October 26, 2017

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

Analyst

Tomas Skeivys, CFA

+47 21 95 37 49

tomas.skeivys@norne.no

Expecting solid results and awaiting progress update on research program

ContextVision continues making progress with product research and development within digital pathology. We also expect the existing image enhancement business to continue doing well. Therefore, we keep our Buy recommendation and NOK 100/sh TP ahead of 1Q report due this week.

4Q was amazing, but 1Q should also be solid

ContextVision (COV) will release its 4Q16 report on April 27th. We expect solid figures with sales of SEK 21.2m, which is up 15% YoY, but lagging the record-high 4Q16. Adjusted EBITDA (ex. R&D costs) is seen landing at SEK 7.1m – significantly better than SEK 5.7m a year ago, but short of an impressive 4Q16 figure of SEK 9.0m (second highest-ever number). Research costs are estimated at SEK 4.9m, on par with the previous three quarters. All in all, we expect positive reported bottom line and adj. EPS of SEK 0.59 vs SEK 0.47 a year ago and SEK 0.77 in 4Q16.

Q1/17 results	Q1/16	Q4/16	Q1/17E
SEKm			Norne
Revenues	18.4	24.9	21.2
EBITDA adj.	5.7	9.0	7.1
EBITDA adj. margin	31%	36%	34%
Research costs	-3.2	-4.7	-4.9
EBITDA	2.5	4.3	2.3
EBIT	1.4	2.9	0.9
Net earnings	1.1	2.1	0.7
EPS reported (SEK)	0.14	0.27	0.09
EPS adjusted (SEK)	0.47	0.77	0.59

One step closer to product – access to data ensured; new patent secured

The main news since our last update on the company about two months ago was an agreement with ALABplus – one of Poland's largest providers of pathology services. In this way, COV gain access to data required for deep learning product development. According to the CEO, *Access to accurate data is a key limiting factor for research progress*. What is more, the contract ... *certainly opens up the opportunity to expand ... research program*.

Another news was related to patent grant for new technology for the visualization of the skeleton from 3D ultrasound. The patent was filled in 2014.

Bullish stance maintained

Ahead of the 1Q report this week, we maintain our Buy recommendation and NOK 100/sh target price. The existing image enhancement business is likely to continue doing very well, supporting the research and development of digital pathology products using deep learning technology. There seems to be a progress in the development process and we'll be looking forward to an update on this in the report as well.

Estimate changes (SEKm)	1Q17E		2Q17E		2017E		2018E		2019E	
	New	Old	New	Old	New	Old	New	Old	New	Old
Operating revenues	21.2	21.2	21.2	21.2	86.3	86.3	89.9	89.9	117.3	117.1
EBITDA	7.1	7.1	6.4	6.4	26.8	26.8	25.2	25.2	46.9	46.7
EBITDA Margin	34%	34%	30%	30%	31%	31%	28%	28%	40%	40%
EBIT (adj)	5.8	5.8	5.1	5.1	21.5	21.5	19.9	19.9	41.5	41.4
Op. EBIT margin	27%	27%	24%	24%	25%	25%	22%	22%	35%	35%
Non-recurring items	-4.9	-4.9	-4.9	-4.9	-18.6	-18.6	-13.6	-13.6	-9.6	-9.6
EBIT	0.9	0.9	0.2	0.2	2.9	2.9	6.3	6.3	32.0	31.9
Pre-tax profit	0.9	0.9	0.2	0.2	2.9	2.9	6.3	6.3	32.0	31.9
Tax	-0.2	-0.2	-0.0	-0.0	-0.6	-0.6	-1.4	-1.4	-7.0	-7.0
Tax rate	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-
Profit after tax	0.7	0.7	0.2	0.2	2.3	2.3	4.9	4.9	25.0	24.9
Revenue split by segment										
X-ray	2.6	2.6	2.6	2.6	10.3	10.3	10.5	10.5	10.7	10.7
Ultrasound 2D	12.6	12.6	12.6	12.6	50.5	50.5	52.5	52.5	54.1	54.1
Ultrasound 3D	2.8	2.8	2.8	2.8	12.8	12.8	14.0	14.0	14.9	14.9
Magnetic Resonance Imaging	2.7	2.7	2.7	2.7	10.6	10.6	10.8	10.8	11.0	11.0
Others (iRV, CT, Mammo)	0.5	0.5	0.5	0.5	2.0	2.0	2.1	2.1	2.1	2.1
Digital Pathology	-	-	-	-	-	-	-	-	24.4	24.3
Total	21.2	21.2	21.2	21.2	86.3	86.3	89.9	89.9	117.3	117.1

DCF model

SEKm	2017E	2018E	2019E	2020E	2021E	2022E
Revenues	86	90	117	170	195	214
EBIT	3	6	32	80	103	118
Tax on EBIT	-1	-1	-7	-18	-23	-26
NOPLAT (+)	2	5	25	63	80	92
Depreciation & amortization (+)	5	5	5	5	5	5
Capital expenditure (-)	-8	-15	-8	-4	-4	-4
Change in working capital (- or +)	1	-1	-11	-9	-4	-4
Free Cash Flow to the Firm	1	-6	11	55	77	89
NPV of FCFF	1	-5	9	37	47	49

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-43	L.t. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
Risk free rate	3.0%	NPV cash flow		SEK/NOK	0.95
Beta	1.2	2017-2022E	138	# shares, m*	7.6
Market risk premium	6.0%	2023E-	658	* ex. treasury shares	
Cost of equity	10.2%	Total NPV cash flow	797		
WACC	10.2%	Equity value	840		
		Value per share, SEK	109.86		
		Value per share, NOK	104.37		

Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
8%	132.7	142.3	153.7	184.0	204.8
9%	112.4	119.2	127.0	147.1	160.1
10%	94.3	99.0	104.4	117.5	125.7
12%	75.1	78.1	81.4	89.1	93.7
15%	55.0	56.6	58.2	62.1	64.2

Profit & Loss (SEKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Operating revenues	67.6	61.3	64.4	72.2	81.9	86.3	89.9	117.3	169.7
Operating expenses	-63.2	-51.6	-50.7	-53.1	-54.3	-59.4	-64.7	-70.4	-76.6
EBITDA	4.4	9.7	13.7	19.1	27.6	26.8	25.2	46.9	93.1
Depreciation & Amortisation	-3.0	-3.5	-3.8	-4.3	-4.8	-5.3	-5.3	-5.3	-5.3
EBIT (adj)	1.4	6.2	9.8	14.9	22.8	21.5	19.9	41.5	87.8
Non-recurring items	-0.7	-	-2.9	-7.9	-17.0	-18.6	-13.6	-9.6	-7.6
EBIT	0.6	6.2	6.9	7.0	5.8	2.9	6.3	32.0	80.2
Net interest & other financial effects	0.2	0.2	0.1	0.0	-0.0	0.0	0.0	0.0	0.0
Pre-tax profit	0.9	6.3	7.0	7.0	5.8	2.9	6.3	32.0	80.2
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-0.2	-1.5	-1.6	-1.6	-1.5	-0.6	-1.4	-7.0	-17.7
Profit after tax	0.6	4.9	5.4	5.3	4.3	2.3	4.9	25.0	62.6
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.55	0.30	0.64	3.23	8.09
EPS adj. (SEK)	0.16	0.63	1.03	1.50	2.30	2.17	2.01	4.19	8.85
Margins									
Operating margin	2%	10%	15%	21%	28%	25%	22%	35%	52%
ROE	3%	11%	16%	22%	30%	27%	23%	40%	55%
ROCE	3%	14%	20%	27%	38%	34%	29%	50%	69%
Tax rate	28%	23%	23%	23%	26%	22%	22%	22%	22%
Growth rates (YoY)									
Operating revenues	16%	-9%	5%	12%	13%	5%	4%	30%	45%
EBIT (adj)	-76%	>100%	59%	52%	53%	-6%	-7%	>100%	>100%
EPS (adj)	-71%	>100%	62%	46%	53%	-6%	-7%	>100%	>100%

Cash flow (SEKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Pre-tax profit	0.9	6.3	7.0	7.0	5.8	2.9	6.3	32.0	80.2
Depreciation and amortisation	3.8	3.5	3.9	4.3	6.2	5.3	5.3	5.3	5.3
Unrealized g/l on current investments	-0.2	0.2	-0.6	0.8	-0.0	-	-	-	-
Paid taxes	-1.4	-0.7	-0.3	-2.0	-3.5	-0.6	-1.4	-7.0	-17.7
Other	-	-	-	-	-	-	-	-	-
Change in working capital	5.3	-1.8	0.2	-0.9	1.1	0.8	-0.8	-10.6	-8.8
Operating cash flow (OCF)	8.5	7.7	10.3	9.2	9.5	8.4	9.4	19.7	59.1
Capital expenditures	-2.4	-3.2	-8.5	-5.4	-2.2	-7.7	-15.2	-8.2	-4.2
Other cash flow from investments	-1.0	-	0.2	0.7	-0.1	-	-	-	-
Free Cash Flow (FCF)	5.0	4.4	2.0	4.5	7.3	0.7	-5.8	11.5	54.9
Cash flow from financing activities	-	-	-	-	-	-	-	-	-
Change in cash	5.0	4.4	2.0	4.5	7.3	0.7	-5.8	11.5	54.9

Balance sheet (SEKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Goodwill	-	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	13.1	12.8	17.2	18.1	15.2	17.6	27.4	30.3	29.2
Other intangible assets	1.1	1.1	1.0	0.3	0.3	0.3	0.3	0.3	0.3
Non-current Assets	14.2	14.0	18.2	18.3	15.5	17.9	27.8	30.7	29.5
Inventory	0.3	0.4	0.5	0.4	0.3	0.4	0.4	0.6	0.8
Receivables	15.5	13.8	13.5	18.1	20.6	19.7	20.5	30.9	39.5
Other current assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	24.7	29.2	31.1	35.6	42.9	43.6	37.8	49.3	104.3
Current Assets	40.5	43.3	45.1	54.2	63.8	63.7	58.8	80.8	144.5
Total assets	54.7	57.3	63.3	72.5	79.3	81.6	86.5	111.5	174.1
Shareholders equity	41.0	45.5	50.8	57.0	61.4	63.7	68.7	93.6	156.2
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	41.0	45.5	50.8	57.0	61.4	63.7	68.7	93.6	156.2
Deferred tax liability	-	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-	-
Other long-term liabilities	0.1	0.4	0.8	1.2	1.5	1.5	1.5	1.5	1.5
Non-current liabilities	0.1	0.4	0.8	1.2	1.5	1.5	1.5	1.5	1.5
Current interest bearing debt	-	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-	-
Other current liabilities	13.6	11.4	11.8	14.3	16.4	16.4	16.4	16.4	16.4
Current liabilities	13.6	11.4	11.8	14.3	16.4	16.4	16.4	16.4	16.4
Total liabilities	13.7	11.8	12.6	15.5	17.9	17.9	17.9	17.9	17.9
Total liabilities and equity	54.7	57.3	63.3	72.5	79.3	81.6	86.5	111.5	174.1
Working capital	15.8	14.2	14.0	18.5	20.9	20.1	20.9	31.5	40.3
Net IB debt	-24.7	-29.2	-31.1	-35.6	-42.9	-43.6	-37.8	-49.3	-104.3
Capital employed	41.2	45.9	51.5	58.2	62.9	65.2	70.2	95.1	157.7
Net IB debt / equity	-60%	-64%	-61%	-62%	-70%	-68%	-55%	-53%	-67%
Equity / total assets	75%	79%	80%	79%	77%	78%	79%	84%	90%

Share data	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Shares outstanding, year end (mill.)	7.737	7.737	7.737	7.737	7.737	7.737	7.737	7.737	7.737
Share price, year end (NOK)	12.00	14.00	21.90	26.40	49.50	61.75	61.75	61.75	61.75
Market cap (NOKm)	93	108	169	204	383	478	478	478	478
Enterprise value (NOKm)	72	81	140	169	343	436	442	431	379
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.55	0.30	0.64	3.23	8.09
EPS adj. (SEK)	0.16	0.63	1.03	1.50	2.30	2.17	2.01	4.19	8.85
DPS. (SEK)	-	-	-	-	-	-	-	-	-

Valuation	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EV/Sales	1.3	1.4	2.3	2.3	4.5	5.3	5.2	3.9	2.3
EV/EBITDA	19.2	9.0	11.1	8.8	13.4	17.1	18.4	9.7	4.3
EV/EBIT (adj)	62.0	14.2	15.4	11.3	16.2	21.4	23.4	10.9	4.5
P/E (adj)	89.3	23.8	23.0	17.6	23.2	30.0	32.4	15.5	7.3
P/B (excl. goodwill)	2.7	2.6	3.6	3.6	6.7	7.9	7.3	5.4	3.2

Growth (YoY)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Revenues	16%	-9%	5%	12%	13%	5%	4%	30%	45%
EBITDA	-51%	121%	41%	40%	44%	-3%	-6%	86%	99%
EBIT (adj)	-76%	353%	59%	52%	53%	-6%	-7%	109%	111%
Pre-tax profit (rep)	-83%	639%	11%	-1%	-17%	-49%	117%	404%	151%
Net profit (rep)	-83%	691%	11%	-2%	-20%	-46%	117%	404%	151%
EPS (rep)	-83%	691%	11%	-2%	-20%	-46%	117%	404%	151%
EPS (adj)	-71%	301%	62%	46%	53%	-6%	-7%	109%	111%

Margins	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EBITDA	6.5 %	15.8 %	21.2 %	26.5 %	33.7 %	31.1 %	28.1 %	40.0 %	54.9 %
EBIT (adj)	2.0 %	10.1 %	15.2 %	20.6 %	27.8 %	24.9 %	22.1 %	35.4 %	51.7 %
Pre-tax profit	1.3 %	10.4 %	10.9 %	9.6 %	7.0 %	3.4 %	7.1 %	27.3 %	47.3 %
Net profit	0.9 %	8.0 %	8.4 %	7.4 %	5.2 %	2.6 %	5.5 %	21.3 %	36.9 %

Profitability	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
ROE	3.0 %	11.3 %	16.5 %	21.5 %	30.0 %	26.8 %	23.5 %	39.9 %	54.8 %
ROCE	3.3 %	14.2 %	20.1 %	27.1 %	37.6 %	33.5 %	29.4 %	50.3 %	69.4 %
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for ContextVision during the last 12 months:

Date	Recommendation	Target price (NOK)
24/04/2017	Buy	100.00
02/03/2017	Buy	100.00
17/02/2017	Hold	54.00
04/11/2016	Hold	50.00
26/08/2016	Hold	41.00
28/07/2016	Buy	40.00
14/06/2016	Buy	40.00
25/04/2016	Hold	40.00
14/04/2016	Hold	40.00

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, particularly in the Ultrasound segment;
- 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.

Sources

The sources used in the preparation of this report were: ContextVision, Thomson Reuters, Infront and Oslo Stock Exchange.

DISCLOSURES AND DISCLAIMER

STANDARDS AND SUPERVISORY AUTHORITY

This report has been prepared by Norne Securities AS, which is supervised by The Financial Supervisory Authority of Norway (Finanstilsynet). Industry standards issued by The Norwegian Securities Dealers Association (Verdipapirforetakenes Forbund) (www.vpff.no) have been used in preparing this report.

DISCLAIMER

This report is provided for information purposes only. It should not be used or considered as an offer to sell or a solicitation of an offer to buy any securities. This report is prepared for general circulation and general information only. It does not take into account the specific investment objectives, investment knowledge and experience and financial situation of any recipient. Investors seeking to buy or sell any securities discussed or recommended in this report, should seek independent financial advice relating thereto and make his/her own appraisal of the tax or other financial merits of the investment. Any opinions expressed are subject to change without prior notice. This report is based on information from various sources believed to be reliable. Although all reasonable care has been taken to ensure that the information herein is not misleading, Norne Securities AS makes no guarantee, representation or warranty, expressed or implied as to its accuracy, adequacy or completeness. Neither Norne Securities AS, its employees, nor any other person connected with it, accepts any liability whatsoever for any direct, indirect or incidental, special or consequential loss of any kind arising out of the use or reliance on the information in this report.

This report is intended for use only by those persons to whom it is made available by Norne Securities AS. This report may not be distributed, quoted from or reproduced, in full or in part, in any manner without written approval by Norne Securities AS.

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%

In addition to the general recommendations, "Trading Buy" and "Trading Sell" recommendations can be used in the case where the analyst predicts a short term share price performance different from the twelve-month general recommendation. "Trading Buy" is given when the share price is expected to rise and "Trading Sell" is given when the share price is expected to fall in the short term (several days to several weeks horizon).

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.

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.

DISCLOSURE OF INTERESTS

Norne Securities AS may at any time perform investment banking or other services or solicit investment banking or other mandates from the company or companies covered in this report. Norne Securities AS may hold positions in securities covered in this report due to its own-account trading that is part of its investment services operations, such as market making. Norne Securities AS has appointed and may at any time appoint tied agents to provide investment services on behalf of Norne Securities AS. Tied agents are listed in the public registry of the Norwegian Financial Supervisory Authority, and an updated overview of appointed tied agents of Norne Securities AS can be found on <https://www.norne.no/compliance/>.

PREVENTING CONFLICTS OF INTEREST

Norne Securities AS has arrangements in place with the aim of preventing conflicts of interest. As part of these arrangements, Norne Securities AS has established information barriers between different parts of the company to restrict and control the exchange of sensitive information. No direct link exists between remuneration of the Norne Securities AS analysts and investment banking services provided by Norne Securities AS. Under our internal regulations, which have been prepared in accordance with applicable legislation and relevant industry standards, our analysts are not permitted to purchase new securities in the companies they cover.

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
All 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 March 31, 2017:

	Buy	Hold	Sell
Total recommendations	62	31	4
% of total	64%	32%	4%
Corporate clients*	17	13	1
% of corporate clients*	55%	42%	3%

* 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.

Note: In the table above, Trading Buy recommendation is treated as Buy, and Trading Sell is treated as Sell.

CAUTIONARY NOTE REGARDING RISK

An investment in the company involves risk, and several factors could cause the actual results, performance or achievements of the company to be materially different from future results, performance or achievements that may be expressed or implied by statements and information in this presentation. Including, among others, risk or uncertainties associated with the company's business segments, development, growth management, financing, market acceptance and relations with customer, and more generally, general economic and business conditions, changes in domestic and foreign laws and regulations, taxes, changes in competition and pricing environment, fluctuations in currency exchange rates and interest rates and other factors. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. Past performance is not a guide to future performance. Investing in securities may result in a loss of all or part of the investment.

DISTRIBUTION RESTRICTIONS

This report is not intended for and must not be distributed to private customers in the UK or US. Norne Securities AS and its employees are not subject to the Rules of the Financial Industry Regulatory Authority (FINRA) governing research analyst conflicts. The research reports are intended for distribution in the United States solely to "major U.S. institutional investors" as defined in Rule 15a-6 under the United States Securities Exchange Act of 1934, as amended and may not be furnished to any other person in the United States. Each major U.S. institutional investor that receives a copy of a Norne Securities AS research report by its acceptance thereof represents and agrees that it shall not distribute or provide copies to any other person. Reports are prepared by Norne Securities AS and distributed to major U.S. institutional investors under Rule 15a-6(a)(2).

COPYRIGHT

This report may not be duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws.

THIS REPORT IS SUBJECT TO NORWEGIAN LAW, AND ANY DISPUTE ARISING IN RESPECT OF THIS REPORT IS SUBJECT TO THE EXCLUSIVE JURISDICTION OF NORWEGIAN COURTS.