

ContextVision

BUY

Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	456
Net debt (NOKm)	-37
EV (NOKm)	419
Net debt / equity	-64%

Issued shares (m)	7.7
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Share price



Performance

	1m	3m	12m
COV	5%	1%	53%
OSEBX	-1%	0%	18%

Upcoming events

3Q17 report	October 26, 2017
4Q17 report	February 22, 2018
DP market entry (prostate cancer)	End-2018

Back to strong results; good progress towards digital pathology market

ContextVision reported strong 2Q figures last week. In addition, the progress of product R&D within digital pathology market is good. Therefore, we keep our bullish stance on the case having in mind the strong existing image enhancement business and huge upside from entering the digital pathology area. TP is unchanged at NOK 90/sh.

Strong existing business development and high spending on R&D

ContextVision released its 2Q17 figures last Thursday, which were much stronger than we had expected. Revenues and adj. EBITDA (adj. for the research costs) came in at SEK 22.7m (+24% YoY) and SEK 7.5m (+51% YoY) vs SEK 19.9m and SEK 5.2m estimated by us. Research costs were SEK 6.0m vs SEK 4.9m expected and the highest quarterly spending seen so far. COV indicated that the high R&D costs are due to *ambitious drive towards entering a new and promising market*. Cash flows were negative at SEK 3.1m, but cash position remained more than comfortable at SEK 38m.

Q2/17 results	2Q/16	Q1/17	Q2/17 Reported	Q2/17E Norne	Deviation
SEKm					
Revenues	18.3	17.3	22.7	19.9	15%
EBITDA adj.	5.0	2.8	7.5	5.2	46%
EBITDA adj. margin	27%	16%	33%	26%	7.1%p
Research costs	-4.4	-4.8	-6.0	-4.9	23%
EBITDA	0.6	-2.0	1.5	0.3	>100%
EBIT	-0.5	-3.4	0.2	-1.1	nm
Net earnings	-0.5	-2.7	0.1	-0.8	nm
EPS reported (SEK)	-0.06	-0.34	0.01	-0.11	nm
EPS adjusted (SEK)	0.39	0.14	0.62	0.39	61%

Good progress towards digital pathology market

The company continues to progress towards the digital pathology market. During the quarter, continuous development was done in the prostate cancer field and new collaboration with research team within the area was initiated. Feasibility studies in other cancer forms were also performed. Still, the capitalization of development costs is still low.

Mixed estimate changes, but Buy and NOK 90/sh TP stays

Following the 2Q report, we upped our estimates for the existing business, but also raised R&D costs somewhat as well. Thus, estimate changes were mixed, but TP is unchanged at NOK 90/sh. We also keep our Buy recommendation seeing huge long-term upside within the digital pathology market.

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

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Estimate changes (SEKm)	2Q17		3Q17E		2017E		2018E		2019E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	22.7	19.9	20.2	19.9	84.2	80.7	87.8	84.7	112.0	109.5
EBITDA	7.5	5.2	6.2	5.8	23.1	20.2	21.9	19.4	41.0	39.1
EBITDA Margin	33%	26%	31%	29%	28%	25%	25%	23%	37%	36%
EBIT (adj)	6.2	3.8	4.9	4.5	17.8	14.8	16.5	14.0	35.6	33.7
Op. EBIT margin	27%	19%	24%	23%	21%	18%	19%	17%	32%	31%
Non-recurring items	-6.0	-4.9	-5.0	-4.9	-20.8	-18.5	-18.0	-13.6	-14.0	-9.6
EBIT	0.2	-1.1	-0.1	-0.4	-3.1	-3.6	-1.5	0.4	21.6	24.2
Pre-tax profit	0.2	-1.1	-0.1	-0.4	-3.1	-3.6	-1.5	0.4	21.6	24.2
Tax	-0.1	0.2	0.0	0.1	0.6	0.8	0.3	-0.1	-4.8	-5.3
Tax rate	43%	22%	22%	22%	21%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-
Profit after tax	0.1	-0.8	-0.1	-0.3	-2.4	-2.8	-1.2	0.3	16.9	18.9
Revenue split by segment										
X-ray	3.7	2.5	2.7	2.5	11.5	10.0	11.7	10.2	12.0	10.4
Ultrasound 2D	12.0	11.8	11.8	11.8	48.4	48.2	50.4	50.6	51.9	52.7
Ultrasound 3D	3.8	2.7	2.8	2.7	13.2	12.0	14.5	13.1	15.4	14.0
Magnetic Resonance Imaging	2.6	2.3	2.3	2.3	8.4	8.0	8.5	8.2	8.7	8.3
Others (iRV, CT, Mammo)	0.6	0.5	0.5	0.5	2.6	2.5	2.7	2.6	2.7	2.6
Digital Pathology	-	-	-	-	-	-	-	-	21.3	21.6
Total	22.7	19.9	20.2	19.9	84.1	80.7	87.8	84.7	112.0	109.5

DCF model

SEKm	3Q-4Q 2017E	2018E	2019E	2020E	2021E	2022E
Revenues	44	88	112	158	181	198
EBIT	0	-1	22	64	85	101
Tax on EBIT	0	0	-5	-14	-19	-22
NOPLAT (+)	0	-1	17	50	66	79
Depreciation & amortization (+)	3	5	5	5	5	5
Capital expenditure (-)	-3	-17	-13	-4	-4	-4
Change in working capital (- or +)	0	1	-10	-8	-4	-4
Free Cash Flow to the Firm	-1	-12	0	43	63	76
NPV of FCFE	-1	-10	0	31	41	44

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-38	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
				SEK/NOK	0.98
Risk free rate	3.0%	NPV cash flow		# shares, m	7.7
Beta	1.2	3Q-4Q 2017-2022E	105		
Market risk premium	6.0%	2023E-	590		
Cost of equity	10.2%	Total NPV cash flow	694		
WACC	10.2%	Equity value	732		
		Value per share, SEK	94.63		
		Value per share, NOK	92.74		

Sensitivity analysis

		Lt. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	8%	117.3	126.0	136.3	163.6	182.4
	9%	99.4	105.6	112.8	130.9	142.7
	10%	83.5	87.8	92.7	104.7	112.2
	12%	66.6	69.4	72.4	79.5	83.8
	15%	48.9	50.3	51.9	55.5	57.5

Profit & Loss (SEKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Operating revenues	67.6	61.3	64.4	72.2	81.9	84.2	87.8	112.0	158.0
Operating expenses	-63.2	-51.6	-50.7	-53.1	-54.3	-61.0	-65.9	-71.0	-76.3
EBITDA	4.4	9.7	13.7	19.1	27.6	23.1	21.9	41.0	81.7
Depreciation & Amortisation	-3.0	-3.5	-3.8	-4.3	-4.8	-5.4	-5.4	-5.4	-5.4
EBIT (adj)	1.4	6.2	9.8	14.9	22.8	17.8	16.5	35.6	76.3
Non-recurring items	-0.7	-	-2.9	-7.9	-17.0	-20.8	-18.0	-14.0	-12.0
EBIT	0.6	6.2	6.9	7.0	5.8	-3.1	-1.5	21.6	64.3
Net interest & other financial effects	0.2	0.2	0.1	0.0	-0.0	-0.0	-	-	-
Pre-tax profit	0.9	6.3	7.0	7.0	5.8	-3.1	-1.5	21.6	64.3
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-0.2	-1.5	-1.6	-1.6	-1.5	0.6	0.3	-4.8	-14.2
Profit after tax	0.6	4.9	5.4	5.3	4.3	-2.4	-1.2	16.9	50.2
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.55	-0.31	-0.15	2.18	6.49
EPS adj. (SEK)	0.16	0.63	1.03	1.50	2.30	1.79	1.67	3.59	7.70
Margins									
Operating margin	2%	10%	15%	21%	28%	21%	19%	32%	48%
ROE	3%	11%	16%	22%	30%	23%	22%	42%	60%
ROCE	3%	14%	20%	27%	38%	29%	28%	53%	75%
Tax rate	28%	23%	23%	23%	26%	21%	22%	22%	22%
Growth rates (YoY)									
Operating revenues	16%	-9%	5%	12%	13%	3%	4%	28%	41%
EBIT (adj)	-76%	>100%	59%	52%	53%	-22%	-7%	>100%	>100%
EPS (adj)	-71%	>100%	62%	46%	53%	-22%	-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	-3.1	-1.5	21.6	64.3
Depreciation and amortisation	3.8	3.5	3.9	4.3	6.2	5.6	5.4	5.4	5.4
Unrealized g/l on current investments	-0.2	0.2	-0.6	0.8	-0.0	0.0	-	-	-
Paid taxes	-1.4	-0.7	-0.3	-2.0	-3.5	-3.8	0.3	-4.8	-14.2
Other	-	-	-	-	-	-	-	-	-
Change in working capital	5.3	-1.8	0.2	-0.9	1.1	-0.5	1.2	-9.8	-8.2
Operating cash flow (OCF)	8.5	7.7	10.3	9.2	9.5	-1.8	5.4	12.4	47.4
Capital expenditures	-2.4	-3.2	-8.5	-5.4	-2.2	-3.9	-17.2	-12.7	-4.2
Other cash flow from investments	-1.0	-	0.2	0.7	-0.1	-0.0	-	-	-
Free Cash Flow (FCF)	5.0	4.4	2.0	4.5	7.3	-5.6	-11.9	-0.4	43.2
Cash flow from financing activities	-	-	-	-	-	-	-	-	-
Change in cash	5.0	4.4	2.0	4.5	7.3	-5.6	-11.9	-0.4	43.2

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	13.5	25.4	32.8	31.6
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	13.8	25.7	33.1	31.9
Inventory	0.3	0.4	0.5	0.4	0.3	0.6	0.6	0.9	1.1
Receivables	15.5	13.8	13.5	18.1	20.6	23.9	22.7	32.2	40.2
Other current assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	24.7	29.2	31.1	35.6	42.9	37.3	25.4	25.0	68.2
Current Assets	40.5	43.3	45.1	54.2	63.8	61.8	48.7	58.2	109.5
Total assets	54.7	57.3	63.3	72.5	79.3	75.6	74.4	91.3	141.4
Shareholders equity	41.0	45.5	50.8	57.0	61.4	58.9	57.7	74.6	124.8
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	41.0	45.5	50.8	57.0	61.4	58.9	57.7	74.6	124.8
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	15.1	15.1	15.1	15.1
Current liabilities	13.6	11.4	11.8	14.3	16.4	15.1	15.1	15.1	15.1
Total liabilities	13.7	11.8	12.6	15.5	17.9	16.7	16.7	16.7	16.7
Total liabilities and equity	54.7	57.3	63.3	72.5	79.3	75.6	74.4	91.3	141.4
Working capital	15.8	14.2	14.0	18.5	20.9	24.5	23.3	33.1	41.3
Net IB debt	-24.7	-29.2	-31.1	-35.6	-42.9	-37.3	-25.4	-25.0	-68.2
Capital employed	41.2	45.9	51.5	58.2	62.9	60.4	59.3	76.1	126.3
Net IB debt / equity	-60%	-64%	-61%	-62%	-70%	-63%	-44%	-34%	-55%
Equity / total assets	75%	79%	80%	79%	77%	78%	78%	82%	88%

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	59.00	59.00	59.00	59.00
Market cap (NOKm)	93	108	169	204	383	456	456	456	456
Enterprise value (NOKm)	72	81	140	169	343	420	432	432	390
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.55	-0.31	-0.15	2.18	6.49
EPS adj. (SEK)	0.16	0.63	1.03	1.50	2.30	1.79	1.67	3.59	7.70
DPS. (SEK)	-	-	-	-	-	-	-	-	-

Valuation	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EV/Sales	1.3	1.4	2.3	2.3	4.5	5.1	5.0	3.9	2.5
EV/EBITDA	19.2	9.0	11.1	8.8	13.4	18.5	20.1	10.8	4.9
EV/EBIT (adj)	62.0	14.2	15.4	11.3	16.2	24.1	26.6	12.4	5.2
P/E (adj)	89.3	23.8	23.0	17.6	23.2	33.6	36.1	16.8	7.8
P/B (excl. goodwill)	2.7	2.6	3.6	3.6	6.7	7.9	8.1	6.2	3.7

Growth (YoY)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Revenues	16%	-9%	5%	12%	13%	3%	4%	28%	41%
EBITDA	-51%	121%	41%	40%	44%	-16%	-5%	87%	99%
EBIT (adj)	-76%	353%	59%	52%	53%	-22%	-7%	115%	114%
Pre-tax profit (rep)	-83%	639%	11%	-1%	-17%	nm	nm	nm	198%
Net profit (rep)	-83%	691%	11%	-2%	-20%	nm	nm	nm	198%
EPS (rep)	-83%	691%	11%	-2%	-20%	nm	nm	nm	198%
EPS (adj)	-71%	301%	62%	46%	53%	-22%	-7%	115%	114%

Margins	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EBITDA	6.5 %	15.8 %	21.2 %	26.5 %	33.7 %	27.5 %	24.9 %	36.6 %	51.7 %
EBIT (adj)	2.0 %	10.1 %	15.2 %	20.6 %	27.8 %	21.1 %	18.8 %	31.8 %	48.3 %
Pre-tax profit	1.3 %	10.4 %	10.9 %	9.6 %	7.0 %	-3.6 %	-1.7 %	19.3 %	40.7 %
Net profit	0.9 %	8.0 %	8.4 %	7.4 %	5.2 %	-2.9 %	-1.3 %	15.1 %	31.8 %

Profitability	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
ROE	3.0 %	11.3 %	16.5 %	21.5 %	30.0 %	23.0 %	22.1 %	42.0 %	59.7 %
ROCE	3.3 %	14.2 %	20.1 %	27.1 %	37.6 %	28.8 %	27.6 %	52.6 %	75.4 %
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)
22/08/2017	Buy	90.00
09/08/2017	Buy	90.00
03/05/2017	Buy	100.00
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

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;
- 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, Thomson Reuters, Infront and Oslo Stock Exchange.

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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%

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.

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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
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 June 30, 2017:

	Buy	Hold	Sell
Total recommendations	60	27	15
% of total	59%	26%	15%
Corporate clients*	20	10	1
% of corporate clients*	65%	32%	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.

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