

ContextVision

BUY

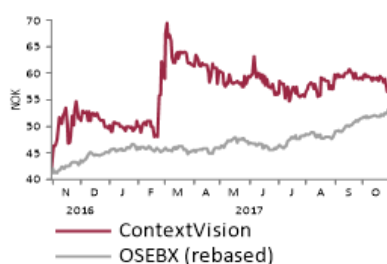
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	426
Net debt (NOKm)	-42
EV (NOKm)	384
Net debt / equity	-74%

Issued shares (m)	7.7
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Share price



Performance

	1m	3m	12m
COV	-7%	-2%	36%
OSEBX	3%	10%	26%

Upcoming events

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

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

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Seasonally weaker figures; R&D program on track

ContextVision's underlying 3Q figures last Thursday were slightly below our expectations, but cash position was strengthened and good progress was reported within R&D program. The company is on track to enter Digital Pathology market by end-2018. Our estimates were cut a bit, but long-term story remains intact and we keep our Buy recommendation and NOK 90/sh target price unchanged.

Seasonally weak quarter for image enhancement; R&D costs lower as well

ContextVision (COV) released its 3Q17 report last Thursday. Revenues and adj. EBITDA (ex. research costs) were around 6% below our forecasts in a seasonally weaker quarter. Research costs were also lower due to the vacation period, making the reported figures relatively in line with our forecasts.

Notably, cash position was strengthened by SEK 5m to SEK 43m at the end of 3Q and was the second highest since the company started the new R&D program in mid-2015. At the start of the program, the company said it is ready to use its strong cash position to support the research. However, due to the solid existing Image Enhancement business performance, the cash position was strengthened by SEK 10-11m since mid-2015 even after spending SEK 37m on research since the same time.

Digital Pathology product development on track for launch in end-2018

The company indicated that it is on track with its product development efforts within Digital Pathology and continues to aim for a market launch of product for evaluation of prostate cancer by end of next year. In addition, COV indicated that robust platform for product development is now established and simplifies the R&D process for Digital Pathology on a broader basis. The company also tried to apply deep learning for lung cancer with encouraging results so far.

Long-term story intact – Buy on new market entry coming closer

Following the report, we have adjusted our estimates down somewhat, but long-term impact was limited due to stronger USD vs SEK. We are encouraged by a good progress reported within R&D efforts, supported by strong cash position and continue to see the biggest upside in the share within Digital Pathology market entry from end-2018. Therefore, our Buy recommendation stays and we also keep the target price unchanged at NOK 90/sh.

Estimate changes (SEKm)	3Q17		4Q17E		2017E		2018E		2019E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	18.0	19.2	23.0	24.0	81	83	85	87	110	112
EBITDA adj.	4.9	5.2	5.5	6.7	21	22	20	21	39	41
EBITDA adj. margin	27%	27%	24%	28%	26%	27%	23%	24%	35%	37%
EBIT (adj)	3.9	3.9	4.3	5.3	16	17	15	16	34	36
EBIT adj. margin	22%	20%	19%	22%	19%	20%	17%	18%	31%	32%
Non-recurring items	-4.0	-5.0	-4.0	-5.0	-19	-21	-18	-18	-14	-14
EBIT	-0.1	-1.1	0.4	0.3	-3	-4	-3	-2	20	22
Pre-tax profit	-0.1	-1.1	0.4	0.3	-3	-4	-3	-2	20	22
Tax	-0.7	0.2	-0.1	-0.1	-0	1	1	0	-4	-5
Tax rate	-595%	22%	22%	22%	-0	0	0	0	0	0
Minority interests	-	-	-	-	-	-	-	-	-	-
Profit after tax	-0.8	-0.9	0.3	0.2	-3	-3	-2	-2	16	17
Revenue split by segment										
X-ray	1.8	2.5	2.6	2.7	10	11	10	11	11	12
Ultrasound 2D	11.3	11.6	13.5	14.3	47	48	49	50	50	52
Ultrasound 3D	2.8	2.6	4.1	4.1	13	13	14	14	15	15
Magnetic Resonance Imaging	1.9	2.1	2.3	2.3	8	8	9	8	10	8
Others (iRV, CT, Mammo)	0.2	0.5	0.5	0.5	2	3	2	3	2	3
Digital Pathology	-	-	-	-	-	-	-	-	22	22
Total	18.0	19.2	23.0	24.0	81	83	85	87	110	112

DCF model

SEKm	4Q 2017E	2018E	2019E	2020E	2021E	2022E
Revenues	23	85	110	158	181	199
EBIT	0	-3	20	64	84	100
Tax on EBIT	0	0	-4	-14	-18	-22
NOPLAT (+)	0	-3	16	50	66	78
Depreciation & amortization (+)	1	5	5	5	5	5
Capital expenditure (-)	-2	-20	-20	-12	-5	-4
Change in working capital (- or +)	-2	1	-9	-8	-4	-4
Free Cash Flow to the Firm	-2	-18	-9	34	61	74
NPV of FCF	-2	-16	-7	25	40	45

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	0.98
Beta	1.2	4Q 2017-2022E	85	# shares, m	7.7
Market risk premium	6.0%	2023E-	593		
Cost of equity	10.2%	Total NPV cash flow	678		
WACC	10.2%	Equity value	721		
		Value per share, SEK	93.17		
		Value per share, NOK	91.30		

Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	8%	115.4	124.1	134.3	161.7	180.5
	9%	97.7	103.9	111.1	129.3	141.2
	10%	82.0	86.4	91.3	103.4	110.9
	12%	65.4	68.2	71.2	78.4	82.7
	15%	47.9	49.4	51.0	54.6	56.6

Profit & Loss (SEKm)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Operating revenues	67.6	61.3	64.4	72.2	81.9	81.0	85.3	110.2	157.8
Operating expenses	-63.2	-51.6	-50.7	-53.1	-54.3	-60.3	-65.7	-71.5	-77.5
EBITDA	4.4	9.7	13.7	19.1	27.6	20.7	19.6	38.8	80.3
Depreciation & Amortisation	-3.0	-3.5	-3.8	-4.3	-4.8	-4.9	-4.7	-4.7	-4.7
EBIT (adj)	1.4	6.2	9.8	14.9	22.8	15.8	14.9	34.1	75.7
Non-recurring items	-0.7	-	-2.9	-7.9	-17.0	-18.8	-18.0	-14.0	-12.0
EBIT	0.6	6.2	6.9	7.0	5.8	-3.0	-3.1	20.1	63.7
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	-3.0	-3.1	20.1	63.7
Minority interests	-	-	-	-	-	-	-	-	-
Taxes	-0.2	-1.5	-1.6	-1.6	-1.5	-0.1	0.7	-4.4	-14.0
Profit after tax	0.6	4.9	5.4	5.3	4.3	-3.1	-2.4	15.7	49.7
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.55	-0.40	-0.31	2.03	6.42
EPS adj. (SEK)	0.16	0.63	1.03	1.50	2.30	1.59	1.50	3.44	7.63
Margins									
Operating margin	2%	10%	15%	21%	28%	19%	17%	31%	48%
ROE	3%	11%	16%	22%	30%	21%	20%	42%	61%
ROCE	3%	14%	20%	27%	38%	26%	26%	52%	77%
Tax rate	28%	23%	23%	23%	26%	-4%	22%	22%	22%
Growth rates (YoY)									
Operating revenues	16%	-9%	5%	12%	13%	-1%	5%	29%	43%
EBIT (adj)	-76%	>100%	59%	52%	53%	-31%	-6%	>100%	>100%
EPS (adj)	-71%	>100%	62%	46%	53%	-31%	-6%	>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	-3.0	-3.1	20.1	63.7
Depreciation and amortisation	3.8	3.5	3.9	4.3	6.2	5.0	4.7	4.7	4.7
Unrealized g/l on current investments	-0.2	0.2	-0.6	0.8	-0.0	-0.1	-	-	-
Paid taxes	-1.4	-0.7	-0.3	-2.0	-3.5	-3.4	0.7	-4.4	-14.0
Other	-	-	-	-	-	-	-	-	-
Change in working capital	5.3	-1.8	0.2	-0.9	1.1	1.8	1.0	-9.5	-7.9
Operating cash flow (OCF)	8.5	7.7	10.3	9.2	9.5	0.4	3.2	10.9	46.5
Capital expenditures	-2.4	-3.2	-8.5	-5.4	-2.2	-2.8	-20.1	-20.1	-12.1
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	-2.4	-16.9	-9.3	34.3
Cash flow from financing activities	-	-	-	-	-	-	-	-	-
Change in cash	5.0	4.4	2.0	4.5	7.3	-2.4	-16.9	-9.3	34.3

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	12.8	28.3	43.8	51.3
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	13.2	28.7	44.1	51.6
Inventory	0.3	0.4	0.5	0.4	0.3	0.5	0.6	0.8	1.0
Receivables	15.5	13.8	13.5	18.1	20.6	21.3	20.3	29.5	37.2
Other current assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	24.7	29.2	31.1	35.6	42.9	40.5	23.5	14.3	48.6
Current Assets	40.5	43.3	45.1	54.2	63.8	62.3	44.4	44.6	86.8
Total assets	54.7	57.3	63.3	72.5	79.3	75.5	73.0	88.7	138.4
Shareholders equity	41.0	45.5	50.8	57.0	61.4	58.1	55.6	71.3	121.0
Non-controlling interests	-	-	-	-	-	-	-	-	-
Total equity	41.0	45.5	50.8	57.0	61.4	58.1	55.6	71.3	121.0
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	15.9	15.9	15.9	15.9
Current liabilities	13.6	11.4	11.8	14.3	16.4	15.9	15.9	15.9	15.9
Total liabilities	13.7	11.8	12.6	15.5	17.9	17.4	17.4	17.4	17.4
Total liabilities and equity	54.7	57.3	63.3	72.5	79.3	75.5	73.0	88.7	138.4
Working capital	15.8	14.2	14.0	18.5	20.9	21.8	20.8	30.3	38.2
Net IB debt	-24.7	-29.2	-31.1	-35.6	-42.9	-40.5	-23.5	-14.3	-48.6
Capital employed	41.2	45.9	51.5	58.2	62.9	59.6	57.1	72.8	122.5
Net IB debt / equity	-60%	-64%	-61%	-62%	-70%	-70%	-42%	-20%	-40%
Equity / total assets	75%	79%	80%	79%	77%	77%	76%	80%	87%

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	55.00	55.00	55.00	55.00
Market cap (NOKm)	93	108	169	204	383	426	426	426	426
Enterprise value (NOKm)	72	81	140	169	343	386	402	412	378
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.55	-0.40	-0.31	2.03	6.42
EPS adj. (SEK)	0.16	0.63	1.03	1.50	2.30	1.59	1.50	3.44	7.63
DPS. (SEK)	-	-	-	-	-	-	-	-	-

Valuation	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EV/Sales	1.3	1.4	2.3	2.3	4.5	4.9	4.8	3.8	2.4
EV/EBITDA	19.2	9.0	11.1	8.8	13.4	19.0	21.0	10.8	4.8
EV/EBIT (adj)	62.0	14.2	15.4	11.3	16.2	24.9	27.6	12.3	5.1
P/E (adj)	89.3	23.8	23.0	17.6	23.2	35.3	37.4	16.3	7.4
P/B (excl. goodwill)	2.7	2.6	3.6	3.6	6.7	7.5	7.8	6.1	3.6

Growth (YoY)	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Revenues	16%	-9%	5%	12%	13%	-1%	5%	29%	43%
EBITDA	-51%	121%	41%	40%	44%	-25%	-5%	98%	107%
EBIT (adj)	-76%	353%	59%	52%	53%	-31%	-6%	129%	122%
Pre-tax profit (rep)	-83%	639%	11%	-1%	-17%	nm	nm	nm	217%
Net profit (rep)	-83%	691%	11%	-2%	-20%	nm	nm	nm	217%
EPS (rep)	-83%	691%	11%	-2%	-20%	nm	nm	nm	217%
EPS (adj)	-71%	301%	62%	46%	53%	-31%	-6%	129%	122%

Margins	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EBITDA	6.5 %	15.8 %	21.2 %	26.5 %	33.7 %	25.6 %	23.0 %	35.2 %	50.9 %
EBIT (adj)	2.0 %	10.1 %	15.2 %	20.6 %	27.8 %	19.5 %	17.5 %	30.9 %	47.9 %
Pre-tax profit	1.3 %	10.4 %	10.9 %	9.6 %	7.0 %	-3.7 %	-3.7 %	18.2 %	40.3 %
Net profit	0.9 %	8.0 %	8.4 %	7.4 %	5.2 %	-3.8 %	-2.9 %	14.2 %	31.5 %

Profitability	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
ROE	3.0 %	11.3 %	16.5 %	21.5 %	30.0 %	20.6 %	20.4 %	41.9 %	61.4 %
ROCE	3.3 %	14.2 %	20.1 %	27.1 %	37.6 %	25.8 %	25.5 %	52.5 %	77.5 %
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)
01/11/2017	Buy	90.00
18/10/2017	Buy	90.00
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

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.

DISCLOSURES AND DISCLAIMER

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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 September 30, 2017:

	Buy	Hold	Sell
Total recommendations	52	31	18
% of total	51%	31%	18%
Corporate clients*	21	12	0
% of corporate clients*	64%	36%	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.

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

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