

ContextVision

BUY

Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	422
Net debt (NOKm)	-42
EV (NOKm)	380
Net debt / equity	-74%
Issued shares (m)	7.7

Share price



Performance

	1m	3m	12m
COV	-6%	-3%	7%
OSEBX	-5%	0%	14%

Upcoming events

4Q17 report	February 22, 2018
1Q18 report	April 26, 2018
AGM	May 9, 2018
2Q18 report	August 16, 2018
3Q18 report	October 25, 2018
DP market entry (prostate cancer)	End-2018

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

Analyst

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New market entry on track; strong quarter expected

We maintain our Buy recommendation and NOK 90/sh target price ahead of 4Q report that we believe will be the strongest in 2017. We will also be eager to hear more about the development of Digital Pathology product that should enter the market at the end of the year.

4Q should be the strongest quarter of the year

ContextVision (COV) will release its 4Q17 report on February 22nd. We expect 4Q to be the strongest quarter of 2017, but lagging the very impressive 4Q16. Our top line estimate stands at SEK 23.0m and adj. EBITDA is estimated at SEK 5.5m. The bottom line should land at around zero, as we estimate SEK 6m in research costs, that should be somewhat offset by the government grant.

4Q/17 results	4Q/16	3Q/17	4Q/17E
SEKm			Norne
Revenues	24.9	18.0	23.0
EBITDA adj.	9.0	4.9	5.5
EBITDA adj. margin	36%	27%	24%
Research costs	-4.7	-4.0	-6.0
EBITDA	4.3	0.9	0.5
EBIT	2.9	-0.1	-0.6
Net earnings	2.1	-0.8	-0.5
EPS reported (SEK)	0.27	-0.11	-0.06
EPS adjusted (SEK)	0.77	0.39	0.44

More positive news, while first product within Digital Pathology not far away

Since our last update, the company announced several important news:

- The Digital Pathology Advisory Board has been strengthened by adding two experts (Professor Junya Fukuoka of the Department of Pathology in Nagasaki and Professor Fredrik Pontén of Uppsala University) with expertise in lung diseases and skin cancer. Therefore, the Advisory Board now consists of five experts within different relevant fields.
- New milestone was reached when the company presented a demo of a new search tool for digital pathology during the Digital Pathology Congress.
- Just before Christmas COV announced its earlier approved patent called "Methods and systems for automatic control of subjective image quality in imaging of objects" was broadened to cover a new general method for supervised deep learning for automated optimization of image quality.

Buy and TP of NOK 90/sh reiterated

We maintain our Buy recommendation on the COV share ahead of the 4Q report. 4Q should be the strongest quarter of the year, while at the same time, we see the biggest upside in the long-term strategy of the company to enter the Digital Pathology market that is almost ten times larger than the existing Image Enhancement business. The entry is scheduled for end-2018, thus we have exciting 12 months ahead of us. TP is also maintained at NOK 90/sh, as estimates were not changed much.

Estimate changes (SEKm)	4Q17E		1Q18E		2017E		2018E		2019E	
	New	Old	New	Old	New	Old	New	Old	New	Old
Operating revenues	23.0	23.0	18.9	18.9	81	81	85	85	110	110
EBITDA adj.	5.5	5.5	3.1	3.1	21	21	20	20	38	39
EBITDA adj. margin	24%	24%	16%	16%	26%	26%	23%	23%	35%	35%
EBIT (adj)	4.3	4.3	1.9	1.9	16	16	15	15	34	34
EBIT adj. margin	19%	19%	10%	10%	19%	19%	17%	17%	31%	31%
Non-recurring items	-5.0	-4.0	-5.5	-5.5	-20	-19	-18	-18	-14	-14
EBIT	-0.6	0.4	-3.6	-3.6	-4	-3	-3	-3	20	20
Pre-tax profit	-0.6	0.4	-3.6	-3.6	-4	-3	-3	-3	20	20
Tax	0.1	-0.1	0.8	0.8	0	-0	1	1	-4	-4
Tax rate	22%	22%	22%	22%	0	-0	0	0	0	0
Minority interests	-	-	-	-	-	-	-	-	-	-
Profit after tax	-0.5	0.3	-2.8	-2.8	-4	-3	-2	-2	15	16
Revenue split by segment										
X-ray	2.6	2.6	2.6	2.6	10	10	10	10	11	11
Ultrasound 2D	13.5	13.5	10.7	10.7	47	47	49	49	50	50
Ultrasound 3D	4.1	4.1	2.8	2.8	13	13	14	14	15	15
Magnetic Resonance Imaging	2.3	2.3	2.3	2.3	8	8	9	9	10	10
Others (iRV, CT, Mammo)	0.5	0.5	0.5	0.5	2	2	2	2	2	2
Digital Pathology	-	-	-	-	-	-	-	-	22	22
Total	23.0	23.0	18.9	18.9	81	81	85	85	110	110

DCF model

SEKm	4Q 2017E	2018E	2019E	2020E	2021E	2022E
Revenues	23	85	110	156	179	197
EBIT	-1	-3	20	62	82	97
Tax on EBIT	0	0	-4	-14	-18	-21
NOPLAT (+)	-1	-3	15	48	64	76
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	-3	-18	-9	33	59	72
NPV of FCFE	-3	-16	-8	24	39	43

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-43	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	4Q 2017-2022E	81		
Market risk premium	6.0%	2023E-	579		
Cost of equity	10.2%	Total NPV cash flow	659		
WACC	10.2%	Equity value	702		
		Value per share, SEK	90.75		
		Value per share, NOK	88.93		

Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
8%	112.4	120.9	130.9	157.6	175.9
9%	95.2	101.2	108.2	126.0	137.6
10%	79.9	84.1	88.9	100.7	108.0
12%	63.7	66.4	69.3	76.4	80.5
15%	46.6	48.0	49.6	53.1	55.1

Profit & Loss (SEKm)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Operating revenues	61.3	64.4	72.2	81.9	81.0	85.3	109.7	156.2
Operating expenses	-51.6	-50.7	-53.1	-54.3	-60.3	-65.7	-71.4	-77.5
EBITDA	9.7	13.7	19.1	27.6	20.7	19.6	38.3	78.8
Depreciation & Amortisation	-3.5	-3.8	-4.3	-4.8	-4.9	-4.7	-4.7	-4.7
EBIT (adj)	6.2	9.8	14.9	22.8	15.8	14.9	33.6	74.1
Non-recurring items	-	-2.9	-7.9	-17.0	-19.8	-18.0	-14.0	-12.0
EBIT	6.2	6.9	7.0	5.8	-4.0	-3.1	19.6	62.1
Net interest & other financial effects	0.2	0.1	0.0	-0.0	-0.0	-	-	-
Pre-tax profit	6.3	7.0	7.0	5.8	-4.0	-3.1	19.6	62.1
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.5	-1.6	-1.6	-1.5	0.1	0.7	-4.3	-13.7
Profit after tax	4.9	5.4	5.3	4.3	-3.9	-2.4	15.3	48.4
EPS rep. (SEK)	0.63	0.70	0.69	0.55	-0.50	-0.31	1.97	6.26
EPS adj. (SEK)	0.63	1.03	1.50	2.30	1.59	1.50	3.39	7.47
Margins								
Operating margin	10%	15%	21%	28%	19%	17%	31%	47%
ROE	11%	16%	22%	30%	21%	21%	42%	61%
ROCE	14%	20%	27%	38%	26%	26%	52%	77%
Tax rate	23%	23%	23%	26%	3%	22%	22%	22%
Growth rates (YoY)								
Operating revenues	-9%	5%	12%	13%	-1%	5%	29%	42%
EBIT (adj)	>100%	59%	52%	53%	-31%	-6%	>100%	>100%
EPS (adj)	>100%	62%	46%	53%	-31%	-6%	>100%	>100%

Cash flow (SEKm)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Pre-tax profit	6.3	7.0	7.0	5.8	-4.0	-3.1	19.6	62.1
Depreciation and amortisation	3.5	3.9	4.3	6.2	5.0	4.7	4.7	4.7
Unrealized g/l on current investments	0.2	-0.6	0.8	-0.0	-0.1	-	-	-
Paid taxes	-0.7	-0.3	-2.0	-3.5	-3.1	0.7	-4.3	-13.7
Other	-	-	-	-	-	-	-	-
Change in working capital	-1.8	0.2	-0.9	1.1	1.8	1.0	-9.3	-7.7
Operating cash flow (OCF)	7.7	10.3	9.2	9.5	-0.3	3.2	10.7	45.4
Capital expenditures	-3.2	-8.5	-5.4	-2.2	-2.8	-20.1	-20.1	-12.1
Other cash flow from investments	-	0.2	0.7	-0.1	-	-	-	-
Free Cash Flow (FCF)	4.4	2.0	4.5	7.3	-3.2	-16.9	-9.5	33.2
Cash flow from financing activities	-	-	-	-	-	-	-	-
Change in cash	4.4	2.0	4.5	7.3	-3.2	-16.9	-9.5	33.2

Balance sheet (SEKm)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	12.8	17.2	18.1	15.2	12.8	28.3	43.8	51.3
Other intangible assets	1.1	1.0	0.3	0.3	0.3	0.3	0.3	0.3
Non-current Assets	14.0	18.2	18.3	15.5	13.2	28.7	44.1	51.6
Inventory	0.4	0.5	0.4	0.3	0.5	0.6	0.8	1.0
Receivables	13.8	13.5	18.1	20.6	21.3	20.3	29.3	36.8
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	29.2	31.1	35.6	42.9	39.7	22.8	13.3	46.6
Current Assets	43.3	45.1	54.2	63.8	61.5	43.6	43.4	84.4
Total assets	57.3	63.3	72.5	79.3	74.7	72.3	87.5	136.0
Shareholders equity	45.5	50.8	57.0	61.4	57.3	54.9	70.1	118.6
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	45.5	50.8	57.0	61.4	57.3	54.9	70.1	118.6
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	0.4	0.8	1.2	1.5	1.5	1.5	1.5	1.5
Non-current liabilities	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	11.4	11.8	14.3	16.4	15.9	15.9	15.9	15.9
Current liabilities	11.4	11.8	14.3	16.4	15.9	15.9	15.9	15.9
Total liabilities	11.8	12.6	15.5	17.9	17.4	17.4	17.4	17.4
Total liabilities and equity	57.3	63.3	72.5	79.3	74.7	72.3	87.5	136.0
Working capital	14.2	14.0	18.5	20.9	21.8	20.8	30.1	37.8
Net IB debt	-29.2	-31.1	-35.6	-42.9	-39.7	-22.8	-13.3	-46.6
Capital employed	45.9	51.5	58.2	62.9	58.8	56.4	71.7	120.1
Net IB debt / equity	-64%	-61%	-62%	-70%	-69%	-42%	-19%	-39%
Equity / total assets	79%	80%	79%	77%	77%	76%	80%	87%

Share data	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
Share price, year end (NOK)	14.00	21.90	26.40	49.50	57.50	54.60	54.60	54.60
Market cap (NOKm)	108	169	204	383	445	422	422	422
Enterprise value (NOKm)	81	140	169	343	406	400	409	377
EPS rep. (SEK)	0.63	0.70	0.69	0.55	-0.50	-0.31	1.97	6.26
EPS adj. (SEK)	0.63	1.03	1.50	2.30	1.59	1.50	3.39	7.47
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EV/Sales	1.4	2.3	2.3	4.5	5.1	4.8	3.8	2.5
EV/EBITDA	9.0	11.1	8.8	13.4	20.0	20.9	10.9	4.9
EV/EBIT (adj)	14.2	15.4	11.3	16.2	26.2	27.4	12.4	5.2
P/E (adj)	23.8	23.0	17.6	23.2	36.9	37.1	16.5	7.5
P/B (excl. goodwill)	2.6	3.6	3.6	6.7	7.9	7.9	6.1	3.6

Growth (YoY)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Revenues	-9%	5%	12%	13%	-1%	5%	29%	42%
EBITDA	121%	41%	40%	44%	-25%	-5%	95%	106%
EBIT (adj)	353%	59%	52%	53%	-31%	-6%	125%	121%
Pre-tax profit (rep)	639%	11%	-1%	-17%	nm	nm	nm	217%
Net profit (rep)	691%	11%	-2%	-20%	nm	nm	nm	217%
EPS (rep)	691%	11%	-2%	-20%	nm	nm	nm	217%
EPS (adj)	301%	62%	46%	53%	-31%	-6%	125%	121%

Margins	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EBITDA	15.8 %	21.2 %	26.5 %	33.7 %	25.6 %	23.0 %	34.9 %	50.4 %
EBIT (adj)	10.1 %	15.2 %	20.6 %	27.8 %	19.5 %	17.5 %	30.6 %	47.4 %
Pre-tax profit	10.4 %	10.9 %	9.6 %	7.0 %	-4.9 %	-3.7 %	17.9 %	39.7 %
Net profit	8.0 %	8.4 %	7.4 %	5.2 %	-4.8 %	-2.9 %	13.9 %	31.0 %

Profitability	2013	2014	2015	2016	2017E	2018E	2019E	2020E
ROE	11.3 %	16.5 %	21.5 %	30.0 %	20.7 %	20.7 %	41.9 %	61.2 %
ROCE	14.2 %	20.1 %	27.1 %	37.6 %	25.9 %	25.9 %	52.5 %	77.3 %
Dividend yield	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)
16/02/2018	Buy	90.00
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

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 December 31, 2017:

	Buy	Hold	Sell
Total recommendations	54	31	8
% of total	58%	33%	9%
Corporate clients*	22	12	2
% of corporate clients*	61%	33%	6%

* 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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