

## ContextVision

BUY

### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	426
Net debt (NOKm)	-39
EV (NOKm)	387
Net debt / equity	-68%

Issued shares (m)	7.7
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### Share price



### Performance

	1m	3m	12m
COV	-4%	-6%	-2%
OSEBX	-1%	2%	19%

### Upcoming events

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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## Strong 4Q, solid R&D progress and exciting year ahead

ContextVision's 4Q figures last week were very strong, as the existing Image Enhancement business is doing great. Solid progress within R&D was also reported. Our estimates were upped somewhat and our Buy recommendation stays at an unchanged TP of NOK 90/sh.

### Very strong existing business in 4Q

ContextVision (COV) released its 4Q17 report last week. Revenues of SEK 22.5m were broadly in line with our SEK 23.0m estimate. Adj. EBITDA (excluding R&D costs and government grant) ended up at SEK 8.5m (38% margin), more than 50% higher than our SEK 5.5m estimate and close to the extremely good end of 2016. Research costs ended up at SEK 6.0m, but were lowered by the recognition of the government grant of SEK 1.3m. The bottom line was reported in black at SEK 0.22 vs SEK -0.06 expected by us. Solid cash position was maintained at SEK 40m (down from SEK 43m QoQ), in line with our estimate.

4Q/17 results	4Q/16	3Q/17	Q4/17	4Q/17E	Deviation
SEKm			Reported	Norne	
Revenues	24.9	18.0	22.5	23.0	-2%
EBITDA adj.	9.0	4.9	8.5	5.5	54%
EBITDA adj. margin	36%	27%	38%	24%	13.8%p
Research costs	-4.7	-4.0	-7.3	-6.0	22%
EBITDA	4.3	0.9	2.5	0.5	>100%
EBIT	2.9	-0.1	1.4	-0.6	nm
Net earnings	2.1	-0.8	1.7	-0.5	nm
EPS reported (SEK)	0.27	-0.11	0.22	-0.06	nm
EPS adjusted (SEK)	0.77	0.39	0.74	0.44	70%

### Solid R&D progress

The company did not report any breaking news on the R&D program, but reiterated on what has been already said. The progress towards bringing a product within Digital Pathology field is good and it should be introduced by the end of the year.

### Slight increase in estimates and Buy recommendation maintained

Following the report, we have upped our margin estimates a bit. However, the biggest upside in the stock is within the Digital Pathology market and the next 12 months in this respect will be exciting. Our positive stance towards the stock is maintained at an unchanged TP of NOK 90/sh.

Estimate changes (SEKm)	4Q17		1Q18E		2018E		2019E		2020E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
<b>Operating revenues</b>	<b>22.5</b>	<b>23.0</b>	<b>18.4</b>	<b>18.9</b>	<b>85</b>	<b>85</b>	<b>109</b>	<b>110</b>	<b>157</b>	<b>156</b>
EBITDA adj.	8.5	5.5	2.2	3.1	21	20	39	38	79	79
EBITDA adj. margin	38%	24%	12%	16%	25%	23%	36%	35%	51%	50%
<b>EBIT (adj)</b>	<b>7.4</b>	<b>4.3</b>	<b>0.9</b>	<b>1.9</b>	<b>16</b>	<b>15</b>	<b>34</b>	<b>34</b>	<b>75</b>	<b>74</b>
EBIT adj. margin	33%	19%	5%	10%	19%	17%	31%	31%	48%	47%
Non-recurring items	-6.0	-5.0	-6.0	-5.5	-20	-18	-15	-14	-12	-12
EBIT	1.4	-0.6	-5.1	-3.6	-4	-3	20	20	62	62
Pre-tax profit	1.4	-0.6	-5.1	-3.6	-4	-3	20	20	62	62
Tax	0.3	0.1	1.1	0.8	1	1	-4	-4	-14	-14
Tax rate	-22%	22%	22%	22%	0	0	0	0	0	0
Minority interests	-	-	-	-	-	-	-	-	-	-
<b>Profit after tax</b>	<b>1.7</b>	<b>-0.5</b>	<b>-4.0</b>	<b>-2.8</b>	<b>-3</b>	<b>-2</b>	<b>15</b>	<b>15</b>	<b>49</b>	<b>48</b>
<b>Revenue split by segment</b>										
X-ray	1.6	2.6	2.4	2.6	10	10	10	11	10	11
Ultrasound 2D	14.7	13.5	10.8	10.7	51	49	52	50	54	52
Ultrasound 3D	4.1	4.1	2.8	2.8	15	14	16	15	16	16
Magnetic Resonance Imaging	1.3	2.3	1.8	2.3	7	9	7	10	7	10
Others (iRV, CT, Mammo)	0.8	0.5	0.7	0.5	3	2	3	2	3	2
Digital Pathology	-	-	-	-	-	-	22	22	66	66
<b>Total</b>	<b>22.5</b>	<b>23.0</b>	<b>18.4</b>	<b>18.9</b>	<b>85</b>	<b>85</b>	<b>109</b>	<b>110</b>	<b>157</b>	<b>156</b>

## DCF model

SEKm	2018E	2019E	2020E	2021E	2022E
<b>Revenues</b>	<b>85</b>	<b>109</b>	<b>157</b>	<b>180</b>	<b>197</b>
EBIT	-4	20	62	83	98
Tax on EBIT	0	-4	-14	-18	-22
NOPLAT (+)	-4	15	49	64	76
Depreciation & amortization (+)	5	5	5	5	5
Capital expenditure (-)	-17	-19	-11	-5	-5
Change in working capital (- or +)	0	-10	-9	-4	-4
<b>Free Cash Flow to the Firm</b>	<b>-16</b>	<b>-10</b>	<b>34</b>	<b>60</b>	<b>72</b>
NPV of FCF	-15	-8	25	40	44

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-40	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
				SEK/NOK	0.96
Risk free rate	3.0%	NPV cash flow		# shares, m	7.7
Beta	1.2	2018-2022E	87		
Market risk premium	6.0%	2023E-	590		
Cost of equity	10.2%	Total NPV cash flow	678		
<b>WACC</b>	<b>10.2%</b>	Equity value	718		
		<b>Value per share, SEK</b>	<b>92.79</b>		
		<b>Value per share, NOK</b>	<b>89.08</b>		

## Sensitivity analysis

		Lt. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	8%	112.0	120.4	130.4	157.0	175.2
	9%	95.1	101.1	108.1	125.8	137.3
	10%	80.0	84.3	<b>89.1</b>	100.8	108.1
	12%	64.0	66.8	69.7	76.8	81.0
	15%	47.2	48.6	50.2	53.8	55.8

<b>Profit &amp; Loss (SEKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
<b>Operating revenues</b>	<b>61.3</b>	<b>64.4</b>	<b>72.2</b>	<b>81.9</b>	<b>80.5</b>	<b>84.6</b>	<b>109.4</b>	<b>156.5</b>
Operating expenses	-51.6	-50.7	-53.1	-54.3	-56.8	-63.5	-70.4	-77.1
<b>EBITDA</b>	<b>9.7</b>	<b>13.7</b>	<b>19.1</b>	<b>27.6</b>	<b>23.7</b>	<b>21.1</b>	<b>39.0</b>	<b>79.4</b>
Depreciation & Amortisation	-3.5	-3.8	-4.3	-4.8	-4.9	-4.9	-4.9	-4.9
<b>EBIT (adj)</b>	<b>6.2</b>	<b>9.8</b>	<b>14.9</b>	<b>22.8</b>	<b>18.8</b>	<b>16.2</b>	<b>34.1</b>	<b>74.5</b>
Non-recurring items	-	-2.9	-7.9	-17.0	-20.8	-20.1	-14.6	-12.1
EBIT	6.2	6.9	7.0	5.8	-2.0	-3.9	19.5	62.4
Net interest & other financial effects	0.2	0.1	0.0	-0.0	-0.0	-	-	-
<b>Pre-tax profit</b>	<b>6.3</b>	<b>7.0</b>	<b>7.0</b>	<b>5.8</b>	<b>-2.0</b>	<b>-3.9</b>	<b>19.5</b>	<b>62.4</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.5	-1.6	-1.6	-1.5	0.3	0.9	-4.3	-13.7
<b>Profit after tax</b>	<b>4.9</b>	<b>5.4</b>	<b>5.3</b>	<b>4.3</b>	<b>-1.7</b>	<b>-3.1</b>	<b>15.2</b>	<b>48.7</b>
<b>EPS rep. (SEK)</b>	<b>0.63</b>	<b>0.70</b>	<b>0.69</b>	<b>0.55</b>	<b>-0.22</b>	<b>-0.39</b>	<b>1.97</b>	<b>6.30</b>
<b>EPS adj. (SEK)</b>	<b>0.63</b>	<b>1.03</b>	<b>1.50</b>	<b>2.30</b>	<b>1.90</b>	<b>1.63</b>	<b>3.44</b>	<b>7.52</b>
<b>Margins</b>								
Operating margin	10%	15%	21%	28%	23%	19%	31%	48%
ROE	11%	16%	22%	30%	24%	22%	42%	61%
ROCE	14%	20%	27%	38%	31%	27%	52%	77%
Tax rate	23%	23%	23%	26%	14%	22%	22%	22%
<b>Growth rates (YoY)</b>								
Operating revenues	-9%	5%	12%	13%	-2%	5%	29%	43%
EBIT (adj)	>100%	59%	52%	53%	-17%	-14%	>100%	>100%
EPS (adj)	>100%	62%	46%	53%	-17%	-14%	>100%	>100%

<b>Cash flow (SEKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Pre-tax profit	6.3	7.0	7.0	5.8	-2.0	-3.9	19.5	62.4
Depreciation and amortisation	3.5	3.9	4.3	6.2	5.0	4.9	4.9	4.9
Unrealized g/l on current investments	0.2	-0.6	0.8	-0.0	-0.2	-	-	-
Paid taxes	-0.7	-0.3	-2.0	-3.5	-3.4	0.9	-4.3	-13.7
Other	-	-	-	-	-	-	-	-
Change in working capital	-1.8	0.2	-0.9	1.1	2.6	0.2	-10.4	-8.6
<b>Operating cash flow (OCF)</b>	<b>7.7</b>	<b>10.3</b>	<b>9.2</b>	<b>9.5</b>	<b>1.9</b>	<b>2.0</b>	<b>9.7</b>	<b>45.0</b>
Capital expenditures	-3.2	-8.5	-5.4	-2.2	-4.5	-17.4	-19.4	-11.4
Other cash flow from investments	-	0.2	0.7	-0.1	-	-	-	-
<b>Free Cash Flow (FCF)</b>	<b>4.4</b>	<b>2.0</b>	<b>4.5</b>	<b>7.3</b>	<b>-2.6</b>	<b>-15.4</b>	<b>-9.7</b>	<b>33.6</b>
Cash flow from financing activities	-	-	-	-	-	-	-	-
<b>Change in cash</b>	<b>4.4</b>	<b>2.0</b>	<b>4.5</b>	<b>7.3</b>	<b>-2.6</b>	<b>-15.4</b>	<b>-9.7</b>	<b>33.6</b>

<b>Balance sheet (SEKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	12.8	17.2	18.1	15.2	14.5	27.0	41.5	48.0
Other intangible assets	1.1	1.0	0.3	0.3	0.4	0.4	0.4	0.4
<b>Non-current Assets</b>	<b>14.0</b>	<b>18.2</b>	<b>18.3</b>	<b>15.5</b>	<b>14.9</b>	<b>27.4</b>	<b>41.9</b>	<b>48.4</b>
Inventory	0.4	0.5	0.4	0.3	0.6	0.7	1.0	1.2
Receivables	13.8	13.5	18.1	20.6	23.3	23.0	33.1	41.4
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	29.2	31.1	35.6	42.9	40.3	24.9	15.2	48.9
<b>Current Assets</b>	<b>43.3</b>	<b>45.1</b>	<b>54.2</b>	<b>63.8</b>	<b>64.2</b>	<b>48.6</b>	<b>49.4</b>	<b>91.6</b>
<b>Total assets</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>79.3</b>	<b>79.1</b>	<b>76.0</b>	<b>91.3</b>	<b>140.0</b>
Shareholders equity	45.5	50.8	57.0	61.4	59.3	56.3	71.5	120.2
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>45.5</b>	<b>50.8</b>	<b>57.0</b>	<b>61.4</b>	<b>59.3</b>	<b>56.3</b>	<b>71.5</b>	<b>120.2</b>
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	0.4	0.8	1.2	1.5	1.1	1.1	1.1	1.1
<b>Non-current liabilities</b>	<b>0.4</b>	<b>0.8</b>	<b>1.2</b>	<b>1.5</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	11.4	11.8	14.3	16.4	18.6	18.6	18.6	18.6
<b>Current liabilities</b>	<b>11.4</b>	<b>11.8</b>	<b>14.3</b>	<b>16.4</b>	<b>18.6</b>	<b>18.6</b>	<b>18.6</b>	<b>18.6</b>
<b>Total liabilities</b>	<b>11.8</b>	<b>12.6</b>	<b>15.5</b>	<b>17.9</b>	<b>19.7</b>	<b>19.7</b>	<b>19.7</b>	<b>19.7</b>
<b>Total liabilities and equity</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>79.3</b>	<b>79.1</b>	<b>76.0</b>	<b>91.3</b>	<b>140.0</b>
Working capital	14.2	14.0	18.5	20.9	23.8	23.7	34.1	42.7
Net IB debt	-29.2	-31.1	-35.6	-42.9	-40.3	-24.9	-15.2	-48.9
Capital employed	45.9	51.5	58.2	62.9	60.5	57.4	72.7	121.4
Net IB debt / equity	-64%	-61%	-62%	-70%	-68%	-44%	-21%	-41%
Equity / total assets	79%	80%	79%	77%	75%	74%	78%	86%

Share data	2013	2014	2015	2016	2017	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	55.00	55.00	55.00
Market cap (NOKm)	108	169	204	383	445	426	426	426
Enterprise value (NOKm)	81	140	169	343	405	402	411	379
EPS rep. (SEK)	0.63	0.70	0.69	0.55	-0.22	-0.39	1.97	6.30
EPS adj. (SEK)	0.63	1.03	1.50	2.30	1.90	1.63	3.44	7.52
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2013	2014	2015	2016	2017	2018E	2019E	2020E
EV/Sales	1.4	2.3	2.3	4.5	5.1	4.9	3.9	2.5
EV/EBITDA	9.0	11.1	8.8	13.4	17.4	19.9	11.0	5.0
EV/EBIT (adj)	14.2	15.4	11.3	16.2	22.0	25.8	12.5	5.3
P/E (adj)	23.8	23.0	17.6	23.2	30.9	35.1	16.6	7.6
P/B (excl. goodwill)	2.6	3.6	3.6	6.7	7.6	7.9	6.2	3.7

Growth (YoY)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Revenues	-9%	5%	12%	13%	-2%	5%	29%	43%
EBITDA	121%	41%	40%	44%	-14%	-11%	85%	104%
EBIT (adj)	353%	59%	52%	53%	-17%	-14%	111%	118%
Pre-tax profit (rep)	639%	11%	-1%	-17%	nm	nm	nm	220%
Net profit (rep)	691%	11%	-2%	-20%	nm	nm	nm	220%
EPS (rep)	691%	11%	-2%	-20%	nm	nm	nm	220%
EPS (adj)	301%	62%	46%	53%	-17%	-14%	111%	118%

Margins	2013	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA	15.8 %	21.2 %	26.5 %	33.7 %	29.4 %	24.9 %	35.7 %	50.7 %
EBIT (adj)	10.1 %	15.2 %	20.6 %	27.8 %	23.4 %	19.1 %	31.2 %	47.6 %
Pre-tax profit	10.4 %	10.9 %	9.6 %	7.0 %	-2.5 %	-4.6 %	17.9 %	39.9 %
Net profit	8.0 %	8.4 %	7.4 %	5.2 %	-2.1 %	-3.6 %	13.9 %	31.1 %

Profitability	2013	2014	2015	2016	2017	2018E	2019E	2020E
ROE	11.3 %	16.5 %	21.5 %	30.0 %	24.3 %	21.8 %	41.7 %	60.6 %
ROCE	14.2 %	20.1 %	27.1 %	37.6 %	30.5 %	27.5 %	52.5 %	76.8 %
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)
27/02/2018	Buy	90.00
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

## 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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### 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.

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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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