

ContextVision

BUY

Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	418
Net debt (NOKm)	-37
EV (NOKm)	381
Net debt / equity	-73%

Issued shares (m)	7.7
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Share price



Performance

	1m	3m	12m
COV	4%	-5%	-11%
OSEBX	7%	5%	23%

Upcoming events

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

Tomas Skeivys, CFA
 +47 21 95 37 49
 tomas.skeivys@norne.no

Record 1Q; Digital Pathology market not far away

ContextVision reported record-high 1st quarter revenues on April 26th and Digital Pathology market entry is on track for the end of the year. All this is supportive of our Buy recommendation for the stock and we also maintain our TP of NOK 90/sh after adjusting our model.

Strongest sales ever for the first quarter

ContextVision (COV) released its 1Q18 report on April 26th. Revenues of SEK 19.2m were 4% above our SEK 18.4m projection. Notably, 1Q18 top line was the highest ever for the first quarter of the year. Particularly encouraging was the return of sales growth in the US market that the company says should continue. This led to better than expected EBITDA of SEK -1.9m despite much spending on R&D and preparations for the Digital Pathology market entry by the end of the year. The company no longer discloses how much research costs are incurred in each quarter, thus we use reported figures for comparison. EPS came in at SEK -0.40 vs SEK -0.51 expected. Cash position also remained solid at SEK 41m at the end of the quarter and in line with our estimate.

1Q/18 results	1Q/17	4Q/17	1Q/18	1Q/18E	Deviation
SEKm			Reported	Norne	
Revenues	17.3	22.5	19.2	18.4	4%
EBITDA	-2.0	2.5	-1.9	-3.9	nm
EBIT	-3.4	1.4	-3.1	-5.1	nm
Net earnings	-2.7	1.7	-3.1	-4.0	nm
EPS reported (SEK)	-0.34	0.22	-0.40	-0.51	nm

Digital Pathology market entry on track for end-2018

The company continues to prepare for Digital Pathology market entry by the end of the year. Documentation is being prepared for the best possible market access and pre-marketing activities are being planned in the following three quarters. As mentioned before, the competence within deep learning is also being applied to the existing Medical Imaging business and improvements should ensure that the company's strong position in this market is maintained.

Buy and NOK 90/sh TP reiterated after small estimate adjustments

Following the report, we have not made major adjustments to our estimates (sales were upped a bit, but so were the costs). The company's existing Medical Imaging business is doing very well, which supports the high R&D spending on existing products and for the new Digital Pathology market entry by the end of the year. Ahead of exciting period ahead with new market entry and encouraged by strong Medical Imaging business, we keep our Buy recommendation at an unchanged TP of NOK 90/sh.

Estimate changes (SEKm)	1Q18		2Q18E		2018E		2019E		2020E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	19.2	18.4	21.8	21.6	86	85	115	111	167	160
EBIT	-3.1	-5.1	-1.6	-2.1	-2	-4	20	21	66	66
Pre-tax profit	-3.1	-5.1	-1.6	-2.1	-2	-4	20	21	66	66
Tax	0.0	1.1	0.3	0.5	-0	1	-4	-5	-15	-14
Tax rate	0%	22%	22%	22%	-0	0	0	0	0	0
Minority interests	-	-	-	-	-	-	-	-	-	-
Profit after tax	-3.1	-4.0	-1.2	-1.7	-2	-3	16	16	52	51
Revenue split by segment										
Medical Imaging	19.2	18.4	21.8	21.6	86.4	84.6	91.1	87.6	94.7	90.1
X-ray	3.0	2.4	3.0	2.4	12	10	12	10	12	10
Ultrasound 2D	11.4	10.8	13.0	12.6	52	51	56	52	58	54
Ultrasound 3D	3.1	2.8	4.2	4.2	15	15	16	16	17	16
Magnetic Resonance Imaging	1.5	1.8	1.5	1.8	6	7	6	7	6	7
Others (iRV, CT, Mammo)	0.2	0.7	0.2	0.7	1	3	1	3	1	3
Digital Pathology	-	-	-	-	-	-	24	23	72	70
Total	19.2	18.4	21.8	21.6	86	85	115	111	167	160

DCF model

SEKm	2Q-4Q 2018E	2019E	2020E	2021E	2022E
Revenues	67	115	167	192	211
EBIT	1	20	66	88	103
Tax on EBIT	0	-4	-15	-19	-23
NOPLAT (+)	1	16	52	68	81
Depreciation & amortization (+)	4	5	5	5	5
Capital expenditure (-)	-12	-19	-11	-5	-5
Change in working capital (- or +)	-3	-12	-10	-5	-5
Free Cash Flow to the Firm	-9	-11	35	63	76
NPV of FCFF	-9	-9	27	44	48

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-41	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	0.91
Beta	1.2	2Q-4Q 2018-2022E	101	# shares, m	7.7
Market risk premium	6.0%	2023E-	636		
Cost of equity	10.2%	Total NPV cash flow	737		
WACC	10.2%	Equity value	777		
		Value per share, SEK	100.46		
		Value per share, NOK	91.42		

Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
8%	114.3	122.8	133.0	160.0	178.5
9%	97.3	103.5	110.5	128.6	140.3
10%	82.2	86.5	91.4	103.4	110.9
12%	66.1	68.9	71.9	79.2	83.4
15%	49.1	50.6	52.2	55.9	58.0

Profit & Loss (SEKm)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Operating revenues	61.3	64.4	72.2	81.9	80.5	86.4	114.8	166.9
Operating expenses	-51.6	-50.7	-61.7	-71.3	-78.9	-83.2	-89.7	-95.9
EBITDA	9.7	13.7	10.5	10.6	1.6	3.2	25.1	71.0
Depreciation & Amortisation	-3.5	-3.8	-4.3	-4.8	-4.9	-4.9	-4.9	-4.9
EBIT (adj)	6.2	9.8	6.3	5.8	-3.3	-1.7	20.3	66.1
Non-recurring items	-	-2.9	0.7	-	1.3	-	-	-
EBIT	6.2	6.9	7.0	5.8	-2.0	-1.7	20.3	66.1
Net interest & other financial effects	0.2	0.1	-	-0.0	-0.0	-	-	-
Pre-tax profit	6.3	7.0	7.0	5.8	-2.0	-1.7	20.3	66.1
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.5	-1.6	-1.6	-1.5	0.3	-0.3	-4.5	-14.6
Profit after tax	4.9	5.4	5.3	4.3	-1.7	-2.0	15.8	51.6
EPS rep. (SEK)	0.63	0.70	0.69	0.55	-0.22	-0.26	2.04	6.67
EPS adj. (SEK)	0.63	1.03	0.63	0.58	-0.33	-0.17	2.04	6.67
Margins								
Operating margin	10%	15%	9%	7%	-4%	-2%	18%	40%
ROE	11%	16%	9%	8%	-4%	-2%	24%	52%
ROCE	14%	20%	11%	10%	-5%	-3%	31%	67%
Tax rate	23%	23%	23%	26%	14%	-18%	22%	22%
Growth rates (YoY)								
Operating revenues	-9%	5%	12%	13%	-2%	7%	33%	45%
EBIT (adj)	353%	59%	-36%	-8%	nm	nm	nm	227%
EPS (adj)	301%	62%	-38%	-8%	nm	nm	nm	227%

Cash flow (SEKm)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Pre-tax profit	6.3	7.0	7.0	5.8	-2.0	-1.7	20.3	66.1
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	-0.7	-	-
Paid taxes	-0.7	-0.3	-2.0	-3.5	-3.4	-0.5	-4.5	-14.6
Other	-	-	-	-	-	-	-	-
Change in working capital	-1.8	0.2	-0.9	1.1	2.6	1.3	-12.1	-9.9
Operating cash flow (OCF)	7.7	10.3	9.2	9.5	1.9	3.3	8.6	46.6
Capital expenditures	-3.2	-8.5	-5.4	-2.2	-4.5	-12.6	-19.5	-11.5
Other cash flow from investments	-	0.2	0.7	-0.1	-	-	-	-
Free Cash Flow (FCF)	4.4	2.0	4.5	7.3	-2.6	-9.3	-10.9	35.1
Cash flow from financing activities	-	-	-	-	-	-	-	-
Change in cash	4.4	2.0	4.5	7.3	-2.6	-9.3	-10.9	35.1

Balance sheet (SEKm)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	12.8	17.2	18.1	15.2	14.5	22.2	36.8	43.4
Other intangible assets	1.1	1.0	0.3	0.3	0.4	0.3	0.3	0.3
Non-current Assets	14.0	18.2	18.3	15.5	14.9	22.5	37.1	43.7
Inventory	0.4	0.5	0.4	0.3	0.6	0.7	1.1	1.4
Receivables	13.8	13.5	18.1	20.6	23.3	24.0	35.8	45.3
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	29.2	31.1	35.6	42.9	40.3	31.1	20.2	55.3
Current Assets	43.3	45.1	54.2	63.8	64.2	55.8	57.0	102.0
Total assets	57.3	63.3	72.5	79.3	79.1	78.3	94.1	145.7
Shareholders equity	45.5	50.8	57.0	61.4	59.3	56.7	72.5	124.1
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	45.5	50.8	57.0	61.4	59.3	56.7	72.5	124.1
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
Non-current liabilities	0.4	0.8	1.2	1.5	1.1	1.1	1.1	1.1
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	11.4	11.8	14.3	16.4	18.6	20.5	20.5	20.5
Current liabilities	11.4	11.8	14.3	16.4	18.6	20.5	20.5	20.5
Total liabilities	11.8	12.6	15.5	17.9	19.7	21.6	21.6	21.6
Total liabilities and equity	57.3	63.3	72.5	79.3	79.1	78.3	94.1	145.7
Working capital	14.2	14.0	18.5	20.9	23.8	24.7	36.8	46.7
Net IB debt	-29.2	-31.1	-35.6	-42.9	-40.3	-31.1	-20.2	-55.3
Capital employed	45.9	51.5	58.2	62.9	60.5	57.8	73.6	125.2
Net IB debt / equity	-64%	-61%	-62%	-70%	-68%	-55%	-28%	-45%
Equity / total assets	79%	80%	79%	77%	75%	72%	77%	85%

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	54.00	54.00	54.00
Market cap (NOKm)	108	169	204	383	445	418	418	418
Enterprise value (NOKm)	81	140	169	343	405	390	399	367
EPS rep. (SEK)	0.63	0.70	0.69	0.55	-0.22	-0.26	2.04	6.67
EPS adj. (SEK)	0.63	1.03	0.63	0.58	-0.33	-0.17	2.04	6.67
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2013	2014	2015	2016	2017	2018E	2019E	2020E
EV/Sales	1.4	2.3	2.3	4.5	5.1	5.0	3.8	2.4
EV/EBITDA	9.0	11.1	16.0	34.8	>100	>100	17.5	5.7
EV/EBIT (adj)	14.2	15.4	26.9	63.9	neg	neg	21.7	6.1
P/E (adj)	23.8	23.0	41.7	91.5	neg	neg	29.1	8.9
P/B (excl. goodwill)	2.6	3.6	3.6	6.7	7.6	8.1	6.3	3.7

Growth (YoY)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Revenues	-9%	5%	12%	13%	-2%	7%	33%	45%
EBITDA	121%	41%	-23%	1%	-85%	97%	693%	183%
EBIT (adj)	353%	59%	-36%	-8%	nm	nm	nm	227%
Pre-tax profit (rep)	639%	11%	-1%	-17%	nm	nm	nm	227%
Net profit (rep)	691%	11%	-2%	-20%	nm	nm	nm	227%
EPS (rep)	691%	11%	-2%	-20%	nm	nm	nm	227%
EPS (adj)	301%	62%	-38%	-8%	nm	nm	nm	227%

Margins	2013	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA	15.8 %	21.2 %	14.6 %	12.9 %	2.0 %	3.7 %	21.9 %	42.6 %
EBIT (adj)	10.1 %	15.2 %	8.7 %	7.0 %	-4.1 %	-2.0 %	17.6 %	39.6 %
Pre-tax profit	10.4 %	10.9 %	9.6 %	7.0 %	-2.5 %	-2.0 %	17.6 %	39.6 %
Net profit	8.0 %	8.4 %	7.4 %	5.2 %	-2.1 %	-2.3 %	13.8 %	30.9 %

Profitability	2013	2014	2015	2016	2017	2018E	2019E	2020E
ROE	11.3 %	16.5 %	9.1 %	7.6 %	-4.2 %	-2.3 %	24.5 %	52.5 %
ROCE	14.2 %	20.1 %	11.4 %	9.5 %	-5.3 %	-2.9 %	30.8 %	66.5 %
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)
02/05/2018	Buy	90.00
23/04/2018	Buy	90.00
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

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 March 31, 2018:

	Buy	Hold	Sell
Total recommendations	57	28	5
% of total	63%	31%	6%
Corporate clients*	24	10	0
% of corporate clients*	71%	29%	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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