ContextVision

CONTEXTVISION AB
FIRST QUARTER 2018

Q1 HIGHLIGHTS

- Highest first quarter sales ever
- Progress of the Digital Pathology program
- Started development of a new generation image enhancement products

Q1 FINANCIAL DATA

- Sales of 19.2 MSEK (17.3)
- Operating result of -3.1 MSEK (-3.4) and operating margin of -16.3 % (-19.6%)
- Earnings per share of -0.4 (-0.3) SEK

BEST FIRST QUARTER EVER AND PROGRESS TOWARDS THE DIGITAL PATHOLOGY MARKET

ANITA TOLLSTADIUS, THE COMPANY'S CEO COMMENTED:

ContextVision continue to deliver strong sales, reaching the best ever first quarter in the Company's history.

Sales passed 19 MSEK for the first time (19.2 MSEK), up 11% compared to first quarter last year. The company's digital pathology R&D efforts continue, moving towards a goal of delivering our first product by the end of the year.

Sales in Asia continue to grow, with a 14% increase compared to Q1 last year. During the first quarter, we saw growth in all countries we serve there: China, Korea and Japan. Our latest software has been introduced into new models, ensuring continued sales.

The U.S. market has started to recover, with sales 29% higher than the first quarter last year, which is very encouraging. We have returning customers already generating license revenues. Although sales will vary from one quarter to another, we have reason to believe that this is not a single event, but a reset of the sales level on an annualized basis.

In Europe, our sales remain stable. We have a very solid customer base and more recently acquired customers have also started to generate stable business.

Our sales increased across all key modalities: X-ray, MRI and Ultrasound. Our 3D ultrasound software has developed particularly well, with a 23% increase.

In March, we showcased a booth at the European Congress of Radiology (ECR). The European Society of Radiology has grown to become the largest radiological society in the world. This year's congress attracted a higher number of participants than ever, and has become more international. The theme was "Diverse and United," which reflects both a changing role for radiologists and a higher degree of collaboration between different disciplines. During ECR, we had many meetings in our booth with present and presumptive customers and image quality continues to be a hot topic.

We launched two new products during the RSNA meeting in December, and we now have customer contracts for both. This is indeed a very short lead-time and it demonstrates our capability to deliver new products that are well-suited for market needs.

Because of our broader research program and our focus on artificial intelligence, we have developed a lot of new competencies. These efforts are supporting the development of new decision support tools for digital pathology based on image analysis, but they have also allowed us to start the development of a new generation of image enhancement products. This new generation is built on the combination of our GOP technology and deep learning algorithms. The development of a first product designed for X-ray has started. In addition to upgrading our present portfolio, our research program and AI focus will also lead to completely new products in the future.

In line with our plan for future growth, we have continued to invest in digital pathology. Our research and development projects are moving forward based on the infrastructure we set up last year. To ensure a quick market entry, we have a very focused team building documentation for the best possible market access. In addition, pre-marketing activities are being planned for key international congresses during the next three quarters.

Our financial reporting has changed from January this year. The two business areas – medical imaging and digital pathology – are now being reported as segments. Research costs are included in the two business areas and not disclosed separately as previously. During the first quarter we finalized the reconstruction the office facilities in Linköping to make room for growth, and we have also had additional costs for R&D. Our total cost level is thereby 8 % higher than first quarter last year. Due to strong sales, our cash position is very stable, with a 40.3 MSEK in cash at quarter's end.

In conclusion, our R&D strategies have been successfully implemented within both medical imaging and digital pathology and we are pleased that we continue to make good progress.

FIRST QUARTER 2018

OPERATING SEGMENTS

- From January 2018 ContextVision reports its sales, costs and results in two separate operating segments; Business Unit Medical Imaging and Business Unit Digital Pathology. This reflects how the board of directors and the management review and measure the results.
- The Business Unit Medical Imaging comprise research, product development and OEM sales within medical imaging. The product portfolio consists of products developed for a variety of modalities, such as Ultrasound, X-ray, MRi, Mammography, CT and iRV.
- The Business Unit Digital Pathology presently includes research and product development of new products for the growing digital pathology market.

NET SALES AND OPERATING PROFIT

NET SALES

- For the first quarter 2018 the total sales amounted to 19.2 MSEK, compared to 17.3 MSEK in the same quarter previous year. It represents an increase of 11% and is the highest sales figure ever in the first quarter.
- All sales in the first quarter was generated from the Business Unit Medical Imaging. All sales income is generated outside Sweden and from external sales.
- The Business Unit Digital Pathology is expected to launch its first product by the end of 2018, and no sales was therefore reported for the business unit during the first quarter.
- The currency exchange rates had an average effect on sales of -0,4% during the quarter. There were positive effects from changes in the EUR exchange rate, while the changes in the USD and JPY exchange rates had a negative effect on sales.

OPERATING PROFIT AND MARGIN

- ContextVisions operating result for the first quarter was -3.1 MSEK (-3.4), and the operating margin -16.3% (-19.6%).
- Capitalization is recorded as intangible fixed assets only when product development meets certain requirements. Capitalized costs for development of two products (total 0.7 MSEK) have been recorded during the quarter. This is slightly higher than the level of capitalization previous year, when the capitalization in the same quarter was 0.4 MSEK. The level of capitalization is expected to increase during the year, when new product development projects will meet the requirements for capitalization.
- The higher external costs for the period, compared to previous year, is explained by intensified ongoing project and pre-marketing activities, primarily in the business unit Digital Pathology.

CASH-FLOW AND FINANCING

- In the first quarter the cash flow amounted to 0.4 MSEK (-2.0 MSEK).
- Cash amounted to 40.7 MSEK (40.9) at period end.
- Equity at quarter end amounted to 55.6 MSEK (58.8) giving an equity ratio of 72.0% (79.4%).

GOVERNMENT GRANT

- ContextVision was awarded an EU grant in 2015, together with its academic partner University of Applied Sciences an Arts Western Switzerland (HES-SO).
- The company's total part of the grant is TEUR 404, and it will be distributed during a three-year period.
- The first part of the grant (0.6 MSEK) was received in Q4 2015, and was recorded as a cost decrease.
- The second part of the grant (1.3 MSEK) was received in Q4 2016, and was recorded as a cost decrease.
- The third part of the grant (1.3 MSEK) was received in Q4 2017, and was recorded as a cost decrease.

- The final part of the grant is expected to be received in Q4 2018, and will then be recorded as a cost decrease.

EMPLOYEES AND MANAGEMENT

- At period end the company had 43 (43) employees of which 22 (23) are dedicated to research and development. 1 employee is located in the USA and 1 in China.

CONTEXTVISION GROUP

- The group consists of ContextVision AB (publ), company registration number 556377-8900 as parent company, and ContextVision Inc Corp registration number 36-4333625 State of Illinois, USA, as a wholly owned subsidiary.
- Operations in the group are conducted primarily in the parent company and consist of research and development, sales, marketing and administrative functions.

RISKS & UNCERTAINTIES

- ContextVision's major risk factors include business risks connected to the general global financial situation, to the level of healthcare investment on different markets, currency exchange risks, the company's ability to recruit and keep qualified employees and the effect of political decisions.
- The company's risk factors are described in more detail in the annual report 2017. The risks and uncertainties have not changed significantly since then.
- This quarterly report provides a fair and true overview of the company's and the Group's activities, position and results, and describes the risks and uncertainties of significance faced by ContextVision and the companies in the Group.

BASIS OF PREPARATION

- The interim condensed consolidated financial statements for the 1:st quarter ended March 31:st, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting and recommendation RFR 1 of the Swedish Financial Reporting Board (RFR), and with regards to the Parent Company, RFR 2.

  The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as of December 31, 2017. Apart from the changes in accounting principles stated below, there have been no changes in the accounting principles or methods for calculation during the period.

NEW AND CHANGED ACCOUNTING PRINCIPLES

- From 2018 ContextVision reports its sales and costs in two operating segments; Business Unit Medical Imaging and Business Unit Digital Pathology. This reflects how the board of directors and the management reports and measures the activities internally.
- From 2018 the new standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers is effective. The impact of the new standards, and how ContextVision applies to them is further described in the annual report 2017.
- The impact of the IFRS 15 standard on the Group's revenue for Q1 2018 is 0.0 MSEK. As of March 31st 2018 there are no contract assets or liabilities. The change to the standard does not influence the cash flow.
- IFRS 16 Leases enters into effect on January 1, 2019 and has been adopted by the EU. The company will continue to evaluate the effects of the new standard during 2018.

SUBSEQUENT EVENTS

- No significant events have occurred during the period between period-end and date of issuance of this report.

The Board of Directors of ContextVision AB
Stockholm 2018-04-25

This report has not been reviewed by the company's auditors.

PRESENTATION AND REPORTING DATES

This quarterly report will be published on the company's website on the 26nd of April, 2018.

There will be a video presentation released on the 27th of April, at 09.00 CET.

Please follow the link:
http://webtv.nu/contextvisionq12018

Please visit www.contextvision.com for further information, or use shareholderinfo@contextvision.se to send a question directly to management.

REPORTING DATES

Q4 and 12 months 2017	February 22, 2018
Annual report available on company's website	April 5, 2018
Q1 result 2018	April 26, 2018
Annual General Meeting	May 9, 2018
Q2 result 2018	August 16, 2018
Q3 result 2018	October 25, 2018
Q4 and 12 months 2018	February 21, 2019

FOR MORE INFORMATION PLEASE CONTACT:

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Phone +46 (0)8 750 35 50

CONTEXTVISION FAST FACTS

- ContextVision is a medical technology software company that specializes in image analysis and artificial intelligence.
- ContextVision is the global market leader within image enhancement and is a software partner to leading medical imaging manufacturers all over the world.
- The company is based in Sweden, with local representation in the U.S., Russia, Japan, China and Korea.
- ContextVision is a spin-off from the Image Processing Laboratory at Linköping University, Sweden. The corporate identity was established in 1983 with the first OEM agreement in radiology in 1987.
- The company's share is traded on the Oslo Stock Exchange since 1997, under the ticker COV.

THE COMPANY OFFERS:

- 30 years of successful experience in OEM business.
- Unprecedented image enhancement for ultrasound, X-Ray, MRI, CT, mammography and iRV.
- Long standing corporate commitment to R&D that ensures timely and rewarding upgrade paths.
- Strong customer relationships to ensure their success.
- Expert training in image processing for our customers.
- Compatibility across different image formats and major computer platforms.
- ContextVision's technology enables the company's customers to provide superior digital imaging solutions for hospitals and clinicians. Such solutions promise more rapid and accurate diagnoses, reduced operator eye fatigue, and ultimately, a greater return-on-investment for medical imaging users.

CONSOLIDATED INCOME STATEMENT (SEK 1000)

	Q1 2018	Q1 2017			FULL YEAR 2017
Net sales	19 211	17 261			80 512
Total revenues	**19 211**	**17 261**			**80 512**
Goods for resale	-426	-412			-2 235
Other external costs	-8 202	-6 776			-27 942
Personnel costs	-12 496	-12 120			-47 429
Depreciation assets	-1 224	-1 342			-4 878
Operating results	**-3 137**	**-3 390**			**-1 972**
Interest income	-	-			4
Interest cost	-	-1			-10
Results after financial items	**-3 137**	**-3 391**			**-1 978**
Tax	9	741			272
Net results	**-3 128**	**-2 650**			**-1 706**
Earnings per share after tax (SEK)	-0,4	-0,34			-0,22

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (SEK 1000)

	Q1 2018	Q1 2017			FULL YEAR 2017
Effect of currency hedging	-663	50			-229
Translation difference	19	-28			-145
Total other comprehensive income	**-644**	**22**			**-374**
Net result for the period	-3 128	-2 650			-1 706
Total comprehensive income for the period	**-3 772**	**-2 628**			**-2 080**

FINANCIAL HIGHLIGHTS

	Q1 2018	Q1 2017			FULL YEAR 2017
Earnings per share after tax (SEK) before/after dilution	-0,40	-0,34			-0,22
Average number of shares	7 736 750	7 736 750			7 736 750
Operating margin (per cent)	-16,3	-19,6			-2,5
Solidity (per cent)	72,0	79,4			75,1

DEFINITIONS

Earnings per share after tax (Return on equity): Net result for the period as a percentage of the average equity.
Operating margin: Operating income excluding non-recurring items as a percentage of net sales.
Profit margin: Result after financial items as a percentage of net sales.
Solidity (Equity ratio): Equity as a percentage of total assets.

SALES BY REGION (MSEK)

	Q1 2018	Q1 2017			FULL YEAR 2017
Asia	9,7	8,5			42,3
Europe	6,8	6,7			29,6
USA	2,7	2,1			8,6
Total	**19,2**	**17,3**			**80,5**

SALES BY PRODUCT (MSEK)

	Q1 2018	Q1 2017			FULL YEAR 2017
XR	3,0	2,4			9,5
US 2D	11,4	10,3			48,3
US 3D	3,1	2,5			13,2
MR	1,5	1,1			6,9
Others (iRV, CT, Mammo)	0,2	1,0			2,6
Total	**19,2**	**17,3**			**80,5**

BUSINESS UNITS / OPERATING SEGMENTS (MSEK)

	Q1 2018 BUSINESS UNIT MEDICAL IMAGING	Q1 2017 BUSINESS UNIT MEDICAL IMAGING	Q1 2018 BUSINESS UNIT DIGITAL PATHOLOGY	Q1 2017 BUSINESS UNIT DIGITAL PATHOLOGY	Q1 2018 GROUP TOTAL	Q1 2017 GROUP TOTAL
Net sales	19,2	17,3	-	-	19,2	17,3
Operating expenses	-15,8	-17,3	-6,5	-3,4	-22,3	-20,7
Operating results	3,4	0	-6,5	-3,4	-3,1	-3,4

CONSOLIDATED BALANCE SHEET (SEK 1000)

	MAR 31ST, 2018	MAR 31ST, 2017			
Intangible fixed assets	10 367	13 697			
Tangible assets	3 600	611			
Other financial assets	323	323			
Inventories	1 629	815			
Current receivables	20 544	17 620			
Cash and bank	40 733	40 946			
Total assets	**77 196**	**74 013**			
Equity	55 575	58 798			
Deferred taxes	1 122	1 531			
Current liabilities	20 499	13 684			
Total equity and liabilities	**77 196**	**74 013**			

CHANGE IN EQUITY (SEK 1000)

	Q1 2018	Q1 2017			FULL YEAR 2017
Opening balance	59 346	61 426			61 426
Total comprehensive income for the period	-3 772	-2 628			-2 080
Closing balance	**55 575**	**58 798**			**59 346**

CONSOLIDATED STATEMENT OF CASH FLOWS (SEK 1000)

	Q1 2018	Q1 2017			FULL YEAR 2017
Result after financial items	-3 137	-3 391			-1 978
Depreciation and write-down of assets	1 225	1 430			4 878
Unrealized gain/loss on current investments	-663	50			-229
Income tax paid	-194	-200			-2 358
Cash flow from operating activities before change in working capital	**-2 769**	**-2 111**			**313**
Change in working capital					
Increase (-)/decrease (+) inventories	-1 053	-521			-282
Increase (-)/decrease (+) current receivables	2 998	3 102			-700
Increase (+)/decrease (-) liabilities	1 974	-1 867			2 617
Cash flow from operating activities	**1 150**	**-1 397**			**1 948**
Investing activities					
Investments in intangible assets	-665	-429			-1 038
Investments in tangible assets	-79	-138			-3 494
Other financial assets	-	-			-
Cash flow from investing activities	**-744**	**-567**			**-4 532**
Financing activities					
Cash flow from financing activities	**0**	**0**			**0**
Cash flow for the period	**406**	**-1 964**			**-2 584**
Change of liquid assets					
Liquid assets at beginning of period	40 327	42 910			42 910
Liquid assets at period end	**40 733**	**40 946**			**40 327**

PARENT COMPANY INCOME STATEMENT (SEK 1000)

	Q1 2018	Q1 2017			FULL YEAR 2017
Net sales	19 211	17 261			80 512
Total revenues	**19 211**	**17 261**			**80 512**
Goods for resale	-426	-412			-2 235
Other external costs	-8 806	-7 672			-31 357
Personnel costs	-11 927	-11 285			-44 229
Depreciation assets	-1 224	-1 342			-4 878
Operating results	**-3 172**	**-3 451**			**-2 188**
Interest income	-	-			4
Interest cost	-	-1			-10
Dividends from group company	-	-			334
Results after financial items	**-3 172**	**-3 452**			**-1 860**
Provision for tax allocation reserve	-	-			1 650
Tax	22	714			-24
Net results	**-3 151**	**-2 738**			**-234**
Earnings per share after tax (SEK)	-0,41	-0,35			-0,03

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME (SEK 1000)

	Q1 2018	Q1 2017			FULL YEAR 2017
Effect of currency hedging	-663	50			-229
Total other comprehensive income	**-663**	**50**			**-229**
Net result for the period	-3 151	-2 738			-234
Total comprehensive income for the period	**-3 814**	**-2 688**			**-463**

FINANCIAL HIGHLIGHTS

	Q1 2018	Q1 2017			FULL YEAR 2017
Earnings per share after tax (SEK) before/after dilution	-0,41	-0,35			-0,03
Average number of shares	7 736 750	7 736 750			7 736 750
Operating margin (per cent)	-16,5	-20			-2,7
Solidity (per cent)	65,7	70,8			68,9

DEFINITIONS

Earnings per share after tax (Return on equity): Net result for the period as a percentage of the average equity.
Operating margin: Operating income excluding non-recurring items as a percentage of net sales.
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US 3D	3,1	2,5			13,2
MR	1,5	1,1			6,9
Others (iRV, CT, Mammo)	0,2	1,0			2,6
Total	**19,2**	**17,3**			**80,5**

PARENT COMPANY BALANCE SHEET (SEK 1000)

	MAR 31ST 2018	MAR 31ST 2017			
Intangible fixed assets	10 367	13 697			
Tangible assets	3 600	611			
Other financial assets	829	540			
Inventories	1 629	815			
Current receivables	20 232	17 576			
Cash and bank	40 320	40 409			
Total assets	**76 977**	**73 649**			
Equity	50 586	52 173			
Untaxed reserves	5 100	6 796			
Current liabilities	21 291	14 679			
Total equity and liabilities	**76 977**	**73 649**			

CHANGE IN EQUITY (SEK 1000)

	Q1 2018	Q1 2017			FULL YEAR 2017
Opening balance	54 400	54 862			54 862
Total comprehensive income for the period	-3 814	-2 688			-463
Closing balance	**50 586**	**52 173**			**54 400**

GLOSSARY

ARTIFICIAL INTELLIGENCE (AI)
Artificial Intelligence is the intelligence exhibited by machines or software.

DEEP LEARNING
Deep learning is the latest very powerful technology within machine learning; machine learning with deep neural networks

DIGITAL PATHOLOGY
Digital pathology refers to the digital images of histopathology samples. The digitalization is achieved by scanning the prepared samples.

GOP® (GENERAL OPERATOR PROCESSOR)
ContextVision's methodology and technology base for image analysis and image enhancement, detecting structures in an image and relating them to their wider context in order to increase visualization accuracy.

GOPICE® (IMAGE CUBICLE ENHANCMENENT)
ContextVision's real-time 3D volumetric image enhancement product, for OEM embedded software.

GOPVIEW® / PLUSVIEW®
The family names for ContextVision's 2D product lines of OEM-embedded software.

HANDHELD ULTRASOUND
A small ultrasound unit that can be held in the hand when performing the examination, e.g. smartphones and tablet-based systems.

IMAGE ANALYSIS
Processing a digital image in order to describe/classify its contents or to extract quantitative measurements.

IMAGE PROCESSING
A generic term used to describe the computation of digital images, typically to enhance or analyze them.

IMAGE ENHANCEMENT
To improve the visual quality of a digital image by increasing the visibility of relevant structures, as in edge/contrast enhancement and the suppression of noise or artifacts.

MACHINE LEARNING
Machine learning is the study of computer algorithms that improve automatically through experience

MAMMOGRAPHY
An X-ray method used to examine the human breast.

MODALITY
A device that generates internal images of the body, such as X-ray, ultrasound, magnetic resonance imaging, and computed tomography.

MRI (MAGNETIC RESONANCE IMAGING)
A non-invasive procedure, generated by variations in strong magnetic fields, that produces a two-dimensional view of an internal organ or structure, especially the brain and spinal cord.

OEM
The acronym for Original Equipment Manufacturer.

REALICE™
REALiCE is a volume enhancement and rendering product package for 3D and 4D fetal volume visualization.

US (ULTRASOUND)
A procedure in which high-energy sound waves are bounced off internal tissues or organs to create echoes. The echo patterns are displayed on the screen of an ultrasound machine, forming sa picture of body tissues called a sonogram.

VOLARVIEW™
ContextVision's image enhancement product for handheld ultrasound units.

XR (X-RAY)
A diagnostic device in which radiation is used to create images for examination of soft and hard tissue, such as muscle and bone.

ContextVision

ContextVision is a medical technology software company that specializes in image analysis and artificial intelligence. ContextVision is the global market leader within image enhancement and is a software partner to leading medical imaging manufacturers all over the world. Its cutting-edge technology helps doctors accurately interpret medical images, a crucial foundation for better diagnosis and treatment.

As an industry pioneer for more than 30 years, ContextVision is significantly investing in R&D to develop new applications of the latest artificial intelligence technologies and expanding into the growing digital pathology market. The release of its first product, supporting the diagnosis of prostate cancer, is planned in the near future.

The company is based in Sweden, with local representation in the U.S., Russia, Japan, China and Korea. ContextVision is listed on the Oslo Stock Exchange under the ticker COV.

FOR MORE INFORMATION, PLEASE VISIT WWW.CONTEXTVISION.COM