

## ContextVision AB Third quarter and nine months result 2008



### COV reports Q3 operating margin of 39%

#### Q3 HIGHLIGHTS:

- ▶ Q3 operating margin of 39%
- ▶ Operations generated strong cash flow of 8.2 MSEK
- ▶ Computer Tomography product agreement signed with leading OEM
- ▶ Several agreements signed with Leading X-ray Manufacturers
- ▶ Weaker short term sales but confirmation of long term guidance of going for doubling the 2007 revenue by 2010
- ▶ Repurchase of own shares to commence during Q4

#### FINANCIAL DATA (MSEK)

##### Third quarter 2008

- ▶ Sales of 16.6 (23.4)
- ▶ Operating profit of 6.5 (12.3) and profit before tax of 7.6 (12.2)
- ▶ Earnings per share of 0.67 (1.01) SEK

##### First nine months 2008

- ▶ Sales of 52.4 (50.5)
- ▶ Operating profit of 19.0 (19.3\*) and profit before tax of 21.3 (21.5\*)
- ▶ Earnings per share of 1.89 (1.86\*) SEK

\*Figures contains reversal of bonus provision increasing profit with 5.9 MSEK and SharpView related cost of 3.3 MSEK decreasing profit

*ContextVision is the software imaging partner to the most recognized medical equipment manufacturers worldwide, enabling them to rapidly deliver leading products to market and provide next-generation upgrades while focusing on their customers. Context Vision's world leading imaging software offers the greatest image clarity and quality available, enabling unprecedented diagnostic confidence. The company has offices worldwide with management in Stockholm, Sweden and listed on the Oslo Stock Exchange, Norway (ticker: COV)*

## Management Comment

Jan-Erik Hedborg, the company's CEO commented: *This has indeed been a very eventful quarter where we again have seen our world class products leading to new important agreements building our future growth. Also we have sensed that part of our current product portfolio, primarily our Ultrasound solution, is reaching a more mature level in the product life cycle, combined with increased financial challenges for our customers. Before our new product releases start to generate revenue this will lead to weaker short term sales. However, despite this we confirm our long term commitment of going for doubling the revenue of 2007 by 2010.*

*The knowledge that part of the product portfolio would reach a market maturity is definitely considered in our long term plan, however the slowdown is perhaps noted a bit earlier than expected. However, I want to emphasise that our current product line continues to attract new customers and generating a solid revenue base.*

*Sales for the quarter are lower than the same period previous year. The main reason for this is, as we stated last year, that sales were extraordinary high due to several new large agreements in the USA during Q3 2007. These agreements were associated with new OEM product launches which generated high volumes at sales introduction.*

*Our operational cost is well under control and actually even slightly lower than the same quarter previous year, allowing our business to generate a very healthy operating margin of 39%*

*We have during the quarter enjoyed great success in securing several new agreements within X-ray. Customers located in China, Israel, USA and most recently in South America have all chosen to integrate our image enhancement solution, GOPView XR2, into their systems, clearly confirming our global leadership in medical image enhancement. Our product's superior performance and proven image enhancement, as well as our close cooperation with the manufacturers' technical, clinical and commercial teams led to the selection of our product by major manufacturers of digital X-ray equipment.*

*Moreover, during the quarter we announced an agreement with a global OEM for our GOPView CT (Computed Tomography) image enhancement software. The OEM will incorporate our software into products that will be launched in 2009. GOPView CT delivers improved image quality as well as the opportunity for reduced patient dose exposure. This is a strategic agreement since it opens up the continued development of ContextVision's 3D image enhancement product for CT.*

*Furthermore, the board of directors has decided that repurchase of own shares will commence shortly after the release of the quarter three report. Information will follow in a separate press release within short.*

*Our product development is on schedule and in accordance with our communicated plans. The progress made and early customer reactions are very reassuring, confirming our strongest belief that our near-term releases, GOPView iRV and GOPiCE US, will once again put ContextVision on the cutting edge within medical image enhancement, spearheading our growth towards doubling the 2007 revenue by 2010.*

## **Net sales and operating profit**

### **Third quarter**

#### **Net sales**

- ▶ Quarter three sales for ContextVision were 16.6 MSEK, compared to 23.4 MSEK prior year. Main reason for the decrease in sales is, as was stated in the report previous year, that we had great success with several large new customer contracts in the USA, generating extraordinary high sales for that quarter. These agreements were associated with new OEM product launches which generated high volumes at sales introduction.
- ▶ Other income 2007 contained a government funding for research of 0.3 MSEK with no equivalent income 2008.

#### **Operating profit and margin**

- ▶ The operating profit was 6.5 (12.3) MSEK and operations produced a margin of 39% (52%). The decrease is solely related to the lower sales current quarter, described above. The operational cost is well under control, at a level even slightly below last year.

### **First nine months**

#### **Net sales**

- ▶ Total sales for ContextVision were 52.4 (50.2) MSEK, prior year excluding 0.3 MSEK sales related to the former subsidiary SharpView. First six month represented a growth of 34%, a slowdown has occurred in the third quarter due to some customers having own financial issues and a sensed maturity in the product portfolio, mainly for the Ultrasound product. Growth for the first nine months 2008 amounted to 4%.

Other income 2007 contained a government funding for research of 1.0 MSEK with no equivalent income 2008.

#### **Operating profit and margin**

- ▶ The operating profit was 18.9 (19.3) MSEK. Last year the operating profit included 3.3 MSEK in cost directly related to the former subsidiary SharpView and the reversal of a bonus provision of 5.9 MSEK, hence comparable operating profit was 16.7 MSEK. Operations produced a margin of 36%, comparable margin last year was 33%. Underlying revenue increased with 2.2 MSEK and underlying operating profit with 2.3 MSEK, meaning that operational cost has actually decreased allowing profit to increase with more than the revenue increase.

## Cash-flow and financing

- ▶ Cash flow from operations came out very strong for the quarter generating 8.2 MSEK.
- ▶ Liquid funds in ContextVision including current investments amounted to 34.5 (42.3) MSEK.
- ▶ Equity at period end amounted to 57.6 (60.2) MSEK giving a solidity of 72% (82%).

## Employees

- ▶ At period end the Company had 33 (30) employees whereof 12 are dedicated to research and development. Three are located in the United States of America and one in China.

## Business operations

- ▶ Sales by region for the quarter are as follows (MSEK): Asia 5.6 Europe 4.6 and USA 5.9. The reason for lower sales current quarter compared to the same period last year is primarily related to USA. The main reason for this is, as we stated last year, that sales were extraordinary high due to several new large agreements in the USA during Q3 2007. These agreements were associated with new OEM product launches which generated high volumes at sales introduction. Moreover, some of our larger customers in Europe has had lower sales than anticipated during the quarter, directly affecting the need of number of licenses purchased from ContextVision.
- ▶ Sales by product for the quarter are as follows (MSEK): Ultrasound 11.9, X-Ray 1.8, Magnetic Resonance 1.5 and Other 0.9. Ultrasound is still the main product within the Company and is expected to be reinforced by the coming 3D image enhancement product as well as GOPView US running on a GPU platform. Other sales current quarter contain first revenues from GOPView iRV (Interventional Radiology) and GOPView CT (Computed Tomography). Regarding Magnetic Resonance, the plan is to introduce 3D image enhancement which will be evaluated during fall 2008 and targeted to be introduced 2009/2010.

## Product development

- ▶ The Company currently maintains full focus on two product development programs, GOPView iRV™ (Interventional Radiology – former fluoroscopy) and GOPiCE US™ (3D image enhancement for ultrasound). Launch of GOPView iRV will be at the prestigious Trade show RSNA in Chicago in November, however, confirming the commercial value of this product an OEM contract for this product has already been signed and more pre-launch customer negotiations are ongoing. GOPiCE US is scheduled for release in April 2009. Regardless of the release date, very positive customer contacts showing the ground breaking 3D image enhancement software is undertaken and under progress, truly confirming the uniqueness of this product.

## Growth strategy

- ▶ As communicated in November 2007 ContextVision is going for doubling the revenue base of 2007 by 2010.
- ▶ The growth will be generated by existing customers and products, but naturally also by new customers and products, gearing maximum potential of our industry leading position in a growing market. Regarding new products introductions, successful launches of our image enhancement products for Interventional radiology and 3D are two of the main triggers for delivering the planned growth.

## Risks & uncertainties

- ▶ Consolidation of the medical business occur on a regular basis with the general purpose of enhancing technical competence and gaining market shares, at the same time as competition decreases. Besides consolidations, new players enter the market and challenge the established actors. The trends above represent both threats and opportunities for ContextVision.

The quarter 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 by the companies in the Group.

**The Board of Directors of ContextVision AB**  
Stockholm 2008-10-22

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

## Presentation and reporting dates

At October 23<sup>rd</sup> there will be a presentation of the last quarter by CEO Jan Erik Hedborg. Presentation is held at Felix Konferansesenter (Bryggetorget 3, Oslo) at 15.00 hrs.

If you cannot physically attend the presentation it will also be available as webcast, please follow link at 15.00 hrs:

[http://www.cik.no/contextvision/081023/081023\\_contextvision.php](http://www.cik.no/contextvision/081023/081023_contextvision.php)

Please visit our website for further information, [www.contextvision.com](http://www.contextvision.com), or use [shareholderinfo@contextvision.se](mailto:shareholderinfo@contextvision.se) to send a direct question to management.

## Reporting dates

Q4 2008 and  
Annual result 2008      February 19, 2009

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## ContextVision fast facts

- ▶ ContextVision is a spun-off from research done at the Image Processing Laboratory at Linköping University, Sweden. The corporate identity was established in 1983 with the first OEM agreement in radiology in 1987. ContextVision is traded on the Oslo Stock Exchange since 1997. This year ContextVision is proud to celebrate 25 years of success in Medical Imaging as an independent company!
- ▶ ContextVision enhances significant information in digital images using proprietary GOP technology. The company offers:
  - 25 years successful experience in OEM business
  - Unprecedented image enhancement for X-ray, MRI, CT, and ultra-sound images
  - 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 any image format and all major computer platform
- ▶ Context Vision'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.

### Income Statement (SEK 1000)

	Q3 2008	Q3 2007	Nine months 2008	Nine months 2007	Rolling 12- months	2007
Net sales	16 039	23 321	51 877	49 599	71 319	69 041
Other revenues	517	119	551	913	1 171	1 533
<b>Total revenues</b>	<b>16 556</b>	<b>23 440</b>	<b>52 428</b>	<b>50 512</b>	<b>72 490</b>	<b>70 574</b>
Goods for resale	-366	-669	-1 140	-1 394	-1 640	-1 894
Other external costs	-3 178	-3 168	-11 260	-11 763	-16 419	-16 922
Personnel costs	-5 812	-6 637	-19 122	-16 249	-25 504	-22 631
Depreciation assets	-678	-697	-1 907	-1 757	-2 547	-2 397
<b>Operating profit</b>	<b>6 522</b>	<b>12 269</b>	<b>18 999</b>	<b>19 349</b>	<b>26 380</b>	<b>26 730</b>
Interest income	1 038	123	2 383	2 230	2 517	2 364
Interest costs and similar profit / loss items	0	-161	-48	-60	-84	-96
<b>Profit before tax</b>	<b>7 560</b>	<b>12 231</b>	<b>21 334</b>	<b>21 519</b>	<b>28 813</b>	<b>28 998</b>
Tax	-2 105	-3 813	-5 947	-6 284	-8 591	-8 928
<b>Net results</b>	<b>5 455</b>	<b>8 418</b>	<b>15 387</b>	<b>15 235</b>	<b>20 222</b>	<b>20 070</b>
Of which attributable to:						
Equity holders of the Parent Company	5 455	8 418	15 387	15 476	20 222	20 311
Minority	-	-	-	-241	-	-241
<b>Earnings per share after tax, SEK</b>	<b>0,67</b>	<b>1,01</b>	<b>1,89</b>	<b>1,86</b>	<b>2,48</b>	<b>2,42</b>

### Balance Sheet (SEK 1000)

	Q3 2008	2007	Q3 2007
Intangible fixed assets	9 789	7 285	6 763
Tangible assets	1 368	1 561	1 582
Financial assets	10 449	50	50
Inventories	537	709	681
Current receivables	23 400	16 779	22 505
Current investments	14 958	27 606	27 703
Cash and bank	19 504	16 535	14 567
<b>Total assets</b>	<b>80 005</b>	<b>70 525</b>	<b>73 851</b>
Equity	57 588	54 358	60 269
Provisions	1 829	1 829	1 380
Current liabilities	20 588	14 338	12 202
<b>Total equity and liabilities</b>	<b>80 005</b>	<b>70 525</b>	<b>73 851</b>

### Change in equity (SEK 1000)

	2008	2007
Opening balance	54 358	51 668
Repurchase of own shares	-	-10 743
Dividend of SharpView shares	-	-6 832
Cash dividend	-12 202	-
Translation difference	45	-46
Net result	15 387	20 311
Closing balance	<b>57 588</b>	<b>54 358</b>

### Financial Highlights

	Q3 2008	Q3 2007	Nine months 2008	Nine months 2007	Rolling 12- months	2007
Earnings per share after tax, SEK	0,67	1,01	1,89	1,86	2,48	2,42
Operating margin (per cent)	39,4	52,3	36,2	38,3	36,4	37,9
Solidity (per cent)	72,0	81,6	72,0	81,6	72,0	77,1

**Consolidated Statement of Cash Flows (SEK 1000)**

	Q3 2008	Q3 2007	9 months 2008	9 months 2007
<b>Operating activities</b>				
Profit before tax	7 560	12 231	21 334	21 519
Depreciation of assets	678	697	1 907	1 757
Unrealised gain/loss on current investments	179	186	-635	-1 698
Changes in provisions	-	-	-	-5 943
Income tax paid	-821	-821	-6 464	-2 982
<b>Cash flow from operating activities before change in working capital</b>	<b>7 596</b>	<b>12 293</b>	<b>16 142</b>	<b>12 653</b>
<b>Change in working capital</b>				
Increase(-)/decrease(+) inventories	140	34	171	-82
Increase(-)/decrease(+) current receivables	934	-8 443	5 211	-7 206
Increase(+)/decrease(-) liabilities	-441	4 812	-5 549	6 808
<b>Cash flow from operating activities</b>	<b>8 229</b>	<b>8 696</b>	<b>15 975</b>	<b>12 173</b>
<b>Investing activities</b>				
Investments in intangible assets	-1 029	-1 496	-4 049	-3 758
Investments in tangible assets	-36	-939	-170	-1 468
Investment in financial assets	-	-	-10 399	-
Short term investment	-	-	13 817	3 602
<b>Cash flow from investing activities</b>	<b>-1 065</b>	<b>-2 435</b>	<b>-801</b>	<b>-1 624</b>
<b>Financing activities</b>				
Capitalization of SharpView	-	-1 500	-	-1 500
Cash effect of dividend of SharpView shares	-	-6 186	-	-6 186
Cash dividend	-	-	-12 205	-
<b>Cash flow from financing activities</b>	<b>0</b>	<b>-7 686</b>	<b>-12 205</b>	<b>-7 686</b>
<b>Cash flow for the period</b>	<b>7 164</b>	<b>-1 425</b>	<b>2 969</b>	<b>2 863</b>
<b>Change of liquid assets</b>				
Liquid assets at beginning of period	12 340	15 992	16 535	11 704
<b>Liquid assets at period end</b>	<b>19 504</b>	<b>14 567</b>	<b>19 504</b>	<b>14 567</b>

**Basis of preparation**

The interim condensed consolidated financial statements for the nine months ended September 30<sup>th</sup> 2008 have been prepared in accordance with IAS 34 Interim Financial Reporting. 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 31 December 2007.



## GLOSSARY

▶ CT (COMPUTED TOMOGRAPHY)

A diagnostic device through which a two-dimensional cross-sectional image of the studied tissue is obtained using X-rays.

▶ DR (DIRECT RADIOGRAPHY)

A detector that converts X-ray photons into digital signals, replacing the need for X-ray films.

▶ FLUOROSCOPY

An X-ray imaging technique that produces real-time images of a patient's internal structures on a TV monitor. Fluoroscopy allows the study of dynamic processes within the body and can be used for guidance in interventional procedures.

▶ GOP® (GENERAL OPERATOR PROCESSOR)

A term for ContextVision's methodology in detecting structures in an image and relating them to their wider context in order to increase visualization accuracy.

▶ GOPVIEW®

The family name for ContextVision's product lines of OEM-embedded software.

▶ HCU (HAND CARRIED ULTRASOUND)

A portable, battery-powered ultrasound machine no larger than a briefcase.

▶ 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.

▶ 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.

▶ 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 a picture of body tissues called a sonogram.

▶ 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.