

## ContextVision

BUY

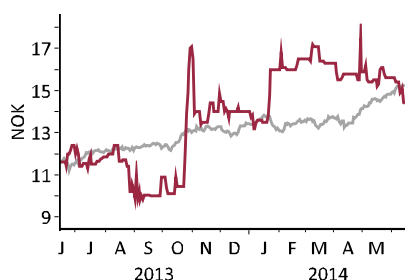
### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV:NO

Market Cap (NOKm)	111.4
Net debt (NOKm)	-28.6
EV (NOKm)	82.8
Net debt / equity	-67%

Issued shares (m)	7.737
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### Share price



— ContextVision—OSEBX (Rebased)

### Performance

	1m	3m	12m
COV	-3%	-12%	30%
OSEBX	4%	15%	32%

### Upcoming events

2Q14 report	August 21, 2014
3Q14 report	October 23, 2014

ContextVision is a market making client of Norne Securities

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## Upgrade on share weakness and good sales growth

We upgrade our recommendation from Hold to Buy on COV share, as we see the recent share price weakness providing attractive upside ahead of sales growth resumption in the coming quarters.

### Strong sales growth in 1Q...

ContextVision's (COV's) 1Q14 report late April surprised us positively on the top line, which was the main focus area. Revenues of SEK 17.6m came in 3.8% above our estimates and demonstrated a strong more than 10% growth YoY. However, EBIT of SEK 1.8m fell short of expectations due to higher-than-expected costs. COV indicated that higher costs are related to increased un-capitalized R&D investments. Moreover, we believe that some part of cost increase was also related to the company attending European Congress in Radiology that took place in Vienna in March.

### ...expected to continue

The company indicated that its Asian markets developed well and, more importantly, much potential is seen in the Chinese market going forward. Therefore, COV relocated some resources from Stockholm to Beijing. As for other regions, most of the growth came from the US (31% increase in sales YoY in 1Q), while Europe also showed healthy growth of close to 9% YoY.

We expect the YoY growth in top line to continue going forward spurred by the existing product portfolio, but more importantly by the new product launches. Admittedly, the new product development will also be associated with slightly higher costs over the coming quarters.

### Upgrade to Buy on share price weakness

We have made some changes to our model following the 1Q14 report and our target price was slightly upped to NOK 18.00/sh. Having in mind the sales growth resumption as well as the recent unjustified share price weakness, we upgrade our recommendation to Buy.

Interim financial statement (SEKm)	1Q14	2Q14E	3Q14E	4Q14E	2013	2014E	2015E	2016E
<b>Operating revenues</b>	<b>17.6</b>	<b>17.9</b>	<b>18.0</b>	<b>17.5</b>	<b>61.3</b>	<b>70.9</b>	<b>79.9</b>	<b>88.3</b>
EBITDA	2.8	3.7	3.6	2.5	9.7	12.5	16.7	19.9
EBITDA Margin	16%	21%	20%	14%	16%	18%	21%	22%
<b>EBIT (adj)</b>	<b>1.8</b>	<b>2.8</b>	<b>2.6</b>	<b>1.4</b>	<b>6.2</b>	<b>8.6</b>	<b>12.0</b>	<b>14.9</b>
EBIT (adj) margin	11%	16%	14%	8%	10%	12%	15%	17%
Non-recurring items	-	-	-	-	-	-	-	-
EBIT	1.8	2.8	2.6	1.4	6.2	8.6	12.0	14.9
Pre-tax profit	1.9	2.9	2.6	1.5	6.3	8.9	12.3	15.3
Tax	-0.4	-0.6	-0.6	-0.3	-1.5	-1.9	-2.7	-3.4
Tax rate	21%	22%	22%	22%	23%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-
<b>Profit after tax</b>	<b>1.5</b>	<b>2.2</b>	<b>2.0</b>	<b>1.1</b>	<b>4.9</b>	<b>6.9</b>	<b>9.6</b>	<b>11.9</b>

## DCF model

SEKm	2Q-4Q 2014E	2015E	2016E	2017E	2018E
<b>Revenues</b>	<b>53.4</b>	<b>79.9</b>	<b>88.3</b>	<b>95.9</b>	<b>100.2</b>
EBIT	6.7	12.0	14.9	18.0	18.8
Tax on EBIT	-1.5	-2.6	-3.3	-4.0	-4.1
NOPLAT (+)	5.2	9.4	11.6	14.1	14.7
Depreciation & amortization (+)	3.0	4.7	5.0	5.3	5.5
Capital expenditure (-)	-3.1	-4.7	-5.2	-5.7	-5.9
Change in working capital (- or +)	-2.3	-2.1	-2.0	-1.8	-1.0
<b>Free Cash Flow to the Firm</b>	<b>2.8</b>	<b>7.2</b>	<b>9.4</b>	<b>11.8</b>	<b>13.2</b>
NPV of FCF	2.6	6.1	7.2	8.2	8.3

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-31.8	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	0.90
Beta	1.2	2Q 2014-2018E	32.3	# shares, m	7.737
Market risk premium	6.0%	2019E-	109.5		
Cost of equity	10.3%	Total NPV cash flow	141.8		
<b>WACC</b>	<b>10.3%</b>	Equity value	173.6		
		<b>Value per share, SEK</b>	<b>22.43</b>		
		<b>Value per share, NOK</b>	<b>20.19</b>		

## Sensitivity analysis

		L.t. growth				
		2.0%	2.5%	2.5%	3.5%	4.0%
WACC	9.3%	21.7	22.8	22.8	25.6	27.4
	9.8%	20.5	21.4	21.4	23.8	25.3
	10.3%	19.4	20.2	<b>20.2</b>	22.2	23.5
	10.8%	18.4	19.1	19.1	20.9	21.9
	11.3%	17.5	18.2	18.2	19.7	20.6

<b>Profit &amp; Loss (SEKm)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
<b>Operating revenues</b>	<b>54.7</b>	<b>53.4</b>	<b>58.4</b>	<b>67.6</b>	<b>61.3</b>	<b>70.9</b>	<b>79.9</b>	<b>88.3</b>
Operating expenses	-49.3	-47.7	-49.4	-63.2	-51.6	-58.4	-63.2	-68.5
<b>EBITDA</b>	<b>5.4</b>	<b>5.7</b>	<b>8.9</b>	<b>4.4</b>	<b>9.7</b>	<b>12.5</b>	<b>16.7</b>	<b>19.9</b>
Depreciation & Amortisation	-2.8	-3.2	-3.4	-3.0	-3.5	-4.0	-4.7	-5.0
<b>EBIT (adj)</b>	<b>2.6</b>	<b>2.5</b>	<b>5.6</b>	<b>1.4</b>	<b>6.2</b>	<b>8.6</b>	<b>12.0</b>	<b>14.9</b>
Non-recurring items	-1.9	-5.2	-0.9	-0.7	-	-	-	-
EBIT	0.7	-2.6	4.7	0.6	6.2	8.6	12.0	14.9
Net interest & other financial effects	-8.7	0.1	0.3	0.2	0.2	0.3	0.3	0.4
<b>Pre-tax profit</b>	<b>-8.0</b>	<b>-2.6</b>	<b>4.9</b>	<b>0.9</b>	<b>6.3</b>	<b>8.9</b>	<b>12.3</b>	<b>15.3</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-0.3	-1.1	-1.3	-0.2	-1.5	-1.9	-2.7	-3.4
<b>Profit after tax</b>	<b>-8.3</b>	<b>-3.6</b>	<b>3.6</b>	<b>0.6</b>	<b>4.9</b>	<b>6.9</b>	<b>9.6</b>	<b>11.9</b>
<b>EPS rep. (SEK)</b>	<b>-1.07</b>	<b>-0.47</b>	<b>0.46</b>	<b>0.08</b>	<b>0.63</b>	<b>0.90</b>	<b>1.24</b>	<b>1.54</b>
<b>EPS adj. (SEK)</b>	<b>0.09</b>	<b>0.24</b>	<b>0.54</b>	<b>0.09</b>	<b>0.63</b>	<b>0.89</b>	<b>1.24</b>	<b>1.54</b>
<b>Margins</b>								
Operating margin	5%	5%	10%	2%	10%	12%	15%	17%
ROE	2%	5%	11%	2%	11%	14%	17%	18%
ROCE	6%	6%	14%	3%	14%	17%	21%	22%
Tax rate	-3%	-42%	27%	28%	23%	22%	22%	22%
<b>Growth rates (YoY)</b>								
Operating revenues	-25%	-2%	9%	16%	-9%	16%	13%	11%
EBIT (adj)	-89%	-3%	121%	-76%	353%	39%	40%	24%
EPS (adj)	-96%	164%	125%	-84%	627%	41%	39%	24%

<b>Balance sheet (SEKm)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	12.7	13.8	14.5	13.1	12.8	13.1	13.1	13.4
Other intangible assets	3.9	0.1	0.1	1.1	1.1	0.8	0.8	0.8
<b>Non-current Assets</b>	<b>16.6</b>	<b>13.9</b>	<b>14.6</b>	<b>14.2</b>	<b>14.0</b>	<b>13.9</b>	<b>13.9</b>	<b>14.2</b>
Inventory	0.4	0.3	0.2	0.3	0.4	0.6	0.6	0.7
Receivables	23.2	14.1	14.3	15.5	13.8	16.1	18.1	20.0
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	10.1	16.9	19.7	24.7	29.2	34.7	42.2	51.9
<b>Current Assets</b>	<b>33.7</b>	<b>31.2</b>	<b>34.1</b>	<b>40.5</b>	<b>43.3</b>	<b>51.3</b>	<b>60.9</b>	<b>72.6</b>
<b>Total assets</b>	<b>50.3</b>	<b>45.1</b>	<b>48.7</b>	<b>54.7</b>	<b>57.3</b>	<b>65.2</b>	<b>74.8</b>	<b>86.8</b>
Shareholders equity	41.1	36.7	40.4	41.0	45.5	52.5	62.1	74.0
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>41.1</b>	<b>36.7</b>	<b>40.4</b>	<b>41.0</b>	<b>45.5</b>	<b>52.5</b>	<b>62.1</b>	<b>74.0</b>
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	1.1	-	0.0	0.1	0.4	0.4	0.4	0.4
<b>Non-current liabilities</b>	<b>1.1</b>	<b>-</b>	<b>0.0</b>	<b>0.1</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	8.1	8.4	8.2	13.6	11.4	12.4	12.4	12.4
<b>Current liabilities</b>	<b>8.1</b>	<b>8.4</b>	<b>8.2</b>	<b>13.6</b>	<b>11.4</b>	<b>12.4</b>	<b>12.4</b>	<b>12.4</b>
<b>Total liabilities</b>	<b>9.1</b>	<b>8.4</b>	<b>8.3</b>	<b>13.7</b>	<b>11.8</b>	<b>12.7</b>	<b>12.7</b>	<b>12.7</b>
<b>Total liabilities and equity</b>	<b>50.3</b>	<b>45.1</b>	<b>48.7</b>	<b>54.7</b>	<b>57.3</b>	<b>65.2</b>	<b>74.8</b>	<b>86.8</b>
Working capital	23.6	14.3	14.5	15.8	14.2	16.6	18.7	20.7
Net IB debt	-10.1	-16.9	-19.7	-24.7	-29.2	-34.7	-42.2	-51.9
Capital employed	42.2	36.7	40.5	41.2	45.9	52.8	62.5	74.4
Net IB debt / equity	-24%	-46%	-49%	-60%	-64%	-66%	-68%	-70%
Equity / total assets	82%	81%	83%	75%	79%	80%	83%	85%

Share data	2009	2010	2011	2012	2013	2014E	2015E	2016E
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)	20.70	17.20	11.30	12.00	14.00	14.40	14.40	14.40
Market cap (NOKm)	160	133	87	93	108	111	111	111
Enterprise value (NOKm)	152	118	71	72	81	80	73	65
EPS rep. (SEK)	-1.07	-0.47	0.46	0.08	0.63	0.90	1.24	1.54
EPS adj. (SEK)	0.09	0.24	0.54	0.09	0.63	0.89	1.24	1.54
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2009	2010	2011	2012	2013	2014E	2015E	2016E
EV/Sales	3.43	2.54	1.42	1.26	1.42	1.26	1.02	0.81
EV/EBITDA	34.66	23.73	9.25	19.19	8.99	7.10	4.90	3.62
EV/EBIT (adj)	71.85	53.72	14.85	62.05	14.15	10.39	6.80	4.83
P/E (adj)	>100	81.6	24.4	>100	23.8	17.9	12.9	10.4
P/B (excl. goodwill)	4.80	4.15	2.53	2.66	2.56	2.36	1.99	1.67

Growth (YoY)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Revenues	-25%	-2%	9%	15%	-9%	16%	13%	11%
EBITDA	-80%	6%	57%	-51%	121%	29%	33%	19%
EBIT (adj)	-89%	-3%	121%	-76%	353%	39%	40%	24%
Pre-tax profit (rep)	-129%	-68%	-292%	-83%	639%	40%	39%	24%
Net profit	-141%	-56%	-198%	-83%	691%	42%	39%	24%
EPS (rep)	-141%	-56%	-198%	-83%	691%	42%	39%	24%
EPS (adj)	-96%	164%	125%	-84%	627%	41%	39%	24%

Margins	2009	2010	2011	2012	2013	2014E	2015E	2016E
EBITDA	9.9 %	10.7 %	15.3 %	6.5 %	15.8 %	17.7 %	20.9 %	22.5 %
EBIT (adj)	4.8 %	4.7 %	9.5 %	2.0 %	10.1 %	12.1 %	15.0 %	16.8 %
Pre-tax profit	-14.6 %	-4.8 %	8.4 %	1.3 %	10.4 %	12.5 %	15.4 %	17.3 %
Net profit	-15.1 %	-6.8 %	6.1 %	0.9 %	8.0 %	9.8 %	12.1 %	13.5 %

Profitability	2009	2010	2011	2012	2013	2014E	2015E	2016E
ROE	1.6 %	4.8 %	10.9 %	1.7 %	11.3 %	14.1 %	16.8 %	17.5 %
ROCE	5.6 %	6.4 %	14.4 %	3.3 %	14.2 %	17.4 %	20.8 %	21.7 %
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)
16/06/2014	Buy	18.00
17/04/2014	Hold	17.50
06/03/2014	Hold	18.00
17/02/2014	Hold	18.00
07/11/2013	Hold	15.00
17/10/2013	Hold	12.00
03/09/2013	Hold	12.50
14/08/2013	Buy	16.00
02/05/2013	Buy	17.00

## Valuation

To arrive at our share price target we have used a DCF valuation with a 10% discount.

## 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 market new products in the portfolio.

## Sources

The sources used in the preparation of this report were: ContextVision, Macrobond and Oslo Stock Exchange.

## DISCLOSURES AND DISCLAIMER

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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	> 30%	5% - 30%	< 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 not been presented to the issuer before dissemination for a check of factual information.

Share holdings of Norne employees in Context Vision:

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/no/Om-Norne-Securities/Ansattes-egen-beholdning/>. 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, 2014:

	Buy	Hold	Sell
Total recommendations	22	13	1
% of total	61%	36%	3%
Corporate clients*	14	6	0
% of corporate clients*	70%	30%	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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