

ContextVision

HOLD

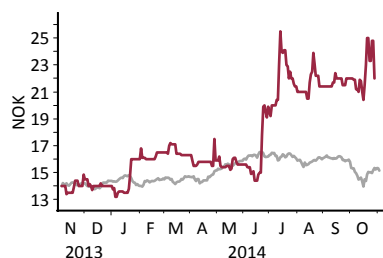
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV:NO

Market Cap (NOKm)	170.2
Net debt (NOKm)	-30.2
EV (NOKm)	140.0
Net debt / equity	-66%

Issued shares (m)	7.737
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Share price



—ContextVision—OSEBX (Rebased)

Performance

	1m	3m	12m
COV	-3%	2%	53%
OSEBX	-1%	-5%	8%

Upcoming events

4Q14 report	February 19 2015
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ContextVision is a market making client of Norne Securities

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Neutral stance maintained after 3Q

ContextVision reported solid 3Q results on October 23rd. The long term innovation and growth initiatives are also moving forward well. After slight estimate revisions, we repeat Hold at an unchanged target price of NOK 24/sh. awaiting more information about the concrete goals and costs of the company's long-term growth initiatives.

Better than expected 3Q with very good margins

ContextVision (COV) released its 3Q14 report on October 23rd. Even though revenues were below expectations, EBITDA and EPS were above projections due to significantly better-than-expected margins. Also, final payments for the legal cases related to Sapheneia were made and this issue is now settled. Therefore, future figures should no longer be affected by this long lasting legal battle.

Q3/14 results	Q3/13	Q2/14	Q3/14	Q3/14E	Deviation
SEKm			Reported	Norne	
Revenues	15.9	15.8	14.8	16.0	-7.3%
EBITDA adjusted	4.1	2.5	3.0	2.1	44.0%
EBITDA adj. margin	25.9%	15.6%	20.0%	12.8%	7.1%p
EBITDA	4.1	3.6	2.5	1.1	>100%
EBIT	3.2	2.6	1.5	0.0	nm
Net earnings	2.5	2.2	1.0	0.0	nm
EPS reported (SEK)	0.33	0.28	0.13	0.01	>100%
EPS adjusted (SEK)	0.33	0.17	0.20	0.11	89.7%

Investing in the future with good initial indications

The company commented more on its significantly increased R&D Activity in the report. Interest and feedback in the new 3D ultrasound product is encouraging and the company expects first sales to materialize by the end of 2015. Also, the new product platform Virtual Expert is receiving positive feedback. As usual, the company will attend the annual RSNA (Radiological Society of North America) conference in 4Q, which should give even more feel on the potential success of COV's new products and initiatives.

Hold and TP of NOK 24/sh. repeated

Following the 3Q14 report and meeting with the management, we have made slight estimate revisions. As the long-term estimates were unaffected, this has resulted in an unchanged target price of NOK 24/sh. and we repeat our Hold recommendation for the stock. The company is in an exciting transformational phase and the next 12 months will be highly interesting in terms of the news and decisions with respect to long-term growth. However, at this point, we lack the details of the cost/benefit and value of this and remain neutral.

Interim financial statement (SEKm)	3Q14		4Q14E		2013	2014E		2015E		2016E	
	Act.	Est.	New	Old		New	Old	New	Old	New	Old
Operating revenues	14.8	16.0	15.8	18.0	61.3	63.9	67.3	70.2	73.7	78.5	82.5
EBITDA	3.0	2.1	1.4	3.6	9.7	9.6	11.0	12.5	13.4	17.1	18.2
EBITDA Margin	20%	13%	9%	20%	16%	15%	16%	18%	18%	22%	22%
EBIT (adj)	1.9	1.0	0.3	2.5	6.2	5.5	6.8	7.9	8.7	12.3	13.3
Op. EBIT margin	13%	6%	2%	14%	10%	9%	10%	11%	12%	16%	16%
Non-recurring items	-0	-1	-	-	-	1	0	-	-	-	-
EBIT	1.5	-0.0	0.3	2.5	6.2	6.2	7.0	7.9	8.7	12.3	13.3
Pre-tax profit	1.3	0.1	0.4	2.6	6.3	6.4	7.4	8.2	9.0	12.7	13.7
Tax	-0.3	-0.0	-0.1	-0.6	-1.5	-1.4	-1.6	-1.8	-2.0	-2.8	-3.0
Tax rate	24%	22%	22%	22%	23%	23%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-	-
Profit after tax	1.0	0.0	0.3	2.0	4.9	5.0	5.8	6.4	7.0	9.9	10.7

DCF model

SEKm	4Q 2014E	2015E	2016E	2017E	2018E
Revenues	15.8	70.2	78.5	90.4	101.1
EBIT	0.3	7.9	12.3	20.9	28.0
Tax on EBIT	-0.1	-1.7	-2.7	-4.6	-6.2
NOPLAT (+)	0.2	6.1	9.6	16.3	21.9
Depreciation & amortization (+)	1.1	4.6	4.8	5.1	5.4
Capital expenditure (-)	-2.2	-8.7	-6.7	-5.7	-5.7
Change in working capital (- or +)	-1.0	-1.3	-1.9	-2.8	-2.5
Free Cash Flow to the Firm	-1.9	0.7	5.7	12.8	19.1
NPV of FCF	-1.8	0.7	4.6	9.4	12.6

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-33.5	L.t. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
				SEK/NOK	0.90
Risk free rate	3.0%	NPV cash flow		# shares, m	7.737
Beta	1.2	4Q 2014-2018E	25.4		
Market risk premium	6.0%	2019E-	168.0		
Cost of equity	10.2%	Total NPV cash flow	193.4		
WACC	10.2%	Equity value	227.0		
		Value per share, SEK	29.34		
		Value per share, NOK	26.40		

Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9.2%	27.1	28.6	30.3	34.7	37.5
9.7%	25.4	26.7	28.2	31.9	34.2
10.2%	24.0	25.1	26.4	29.5	31.5
10.7%	22.7	23.7	24.8	27.5	29.2
11.2%	21.5	22.4	23.4	25.8	27.2

Profit & Loss (SEKm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Operating revenues	54.7	53.4	58.4	67.6	61.3	63.9	70.2	78.5
Operating expenses	-49.3	-47.7	-49.4	-63.2	-51.6	-54.3	-57.8	-61.4
EBITDA	5.4	5.7	8.9	4.4	9.7	9.6	12.5	17.1
Depreciation & Amortisation	-2.8	-3.2	-3.4	-3.0	-3.5	-4.1	-4.6	-4.8
EBIT (adj)	2.6	2.5	5.6	1.4	6.2	5.5	7.9	12.3
Non-recurring items	-1.9	-5.2	-0.9	-0.7	-	0.7	-	-
EBIT	0.7	-2.6	4.7	0.6	6.2	6.2	7.9	12.3
Net interest & other financial effects	-8.7	0.1	0.3	0.2	0.2	0.2	0.4	0.4
Pre-tax profit	-8.0	-2.6	4.9	0.9	6.3	6.4	8.2	12.7
Minority interests	-	-	-	-	-	-	-	-
Taxes	-0.3	-1.1	-1.3	-0.2	-1.5	-1.4	-1.8	-2.8
Profit after tax	-8.3	-3.6	3.6	0.6	4.9	5.0	6.4	9.9
EPS rep. (SEK)	-1.07	-0.47	0.46	0.08	0.63	0.64	0.83	1.28
EPS adj. (SEK)	0.27	0.24	0.54	0.16	0.63	0.60	0.83	1.28
Margins								
Operating margin	5%	5%	10%	2%	10%	9%	11%	16%
ROE	5%	5%	11%	3%	11%	10%	12%	16%
ROCE	6%	6%	14%	3%	14%	11%	14%	20%
Tax rate	-3%	-42%	27%	28%	23%	23%	22%	22%
Growth rates (YoY)								
Operating revenues	-25%	-2%	9%	16%	-9%	4%	10%	12%
EBIT (adj)	-89%	-3%	121%	-76%	353%	-10%	42%	56%
EPS (adj)	-89%	-11%	125%	-71%	301%	-5%	38%	54%

Balance sheet (SEKm)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	12.7	13.8	14.5	13.1	12.8	16.7	20.1	20.9
Other intangible assets	3.9	0.1	0.1	1.1	1.1	0.8	0.8	0.8
Non-current Assets	16.6	13.9	14.6	14.2	14.0	17.4	20.9	21.7
Inventory	0.4	0.3	0.2	0.3	0.4	0.5	0.5	0.6
Receivables	23.2	14.1	14.3	15.5	13.8	14.9	16.2	18.1
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	10.1	16.9	19.7	24.7	29.2	31.8	33.4	40.6
Current Assets	33.7	31.2	34.1	40.5	43.3	47.2	50.1	59.2
Total assets	50.3	45.1	48.7	54.7	57.3	64.6	71.0	80.9
Shareholders equity	41.1	36.7	40.4	41.0	45.5	50.8	57.2	67.1
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	41.1	36.7	40.4	41.0	45.5	50.8	57.2	67.1
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
Non-current liabilities	1.1	-	0.0	0.1	0.4	0.4	0.4	0.4
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	8.1	8.4	8.2	13.6	11.4	13.5	13.5	13.5
Current liabilities	8.1	8.4	8.2	13.6	11.4	13.5	13.5	13.5
Total liabilities	9.1	8.4	8.3	13.7	11.8	13.8	13.8	13.8
Total liabilities and equity	50.3	45.1	48.7	54.7	57.3	64.6	71.0	80.9
Working capital	23.6	14.3	14.5	15.8	14.2	15.4	16.7	18.6
Net IB debt	-10.1	-16.9	-19.7	-24.7	-29.2	-31.8	-33.4	-40.6
Capital employed	42.2	36.7	40.5	41.2	45.9	51.1	57.5	67.4
Net IB debt / equity	-24%	-46%	-49%	-60%	-64%	-63%	-58%	-61%
Equity / total assets	82%	81%	83%	75%	79%	79%	81%	83%

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	22.00	22.00	22.00
Market cap (NOKm)	160	133	87	93	108	170	170	170
Enterprise value (NOKm)	152	118	71	72	81	142	140	134
EPS rep. (SEK)	-1.07	-0.47	0.46	0.08	0.63	0.64	0.83	1.28
EPS adj. (SEK)	0.27	0.24	0.54	0.16	0.63	0.60	0.83	1.28
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2009	2010	2011	2012	2013	2014E	2015E	2016E
EV/Sales	3.43	2.54	1.42	1.26	1.42	2.46	2.22	1.89
EV/EBITDA	34.66	23.73	9.25	19.19	8.99	16.35	12.48	8.69
EV/EBIT (adj)	71.85	53.72	14.85	62.05	14.15	28.47	19.82	12.08
P/E (adj)	94.1	81.6	24.4	89.3	23.8	40.7	29.5	19.1
P/B (excl. goodwill)	4.80	4.15	2.53	2.66	2.56	3.72	3.31	2.82

Growth (YoY)	2009	2010	2011	2012	2013	2014E	2015E	2016E
Revenues	-25%	-2%	9%	15%	-9%	4%	10%	12%
EBITDA	-80%	6%	57%	-51%	121%	-1%	30%	37%
EBIT (adj)	-89%	-3%	121%	-76%	353%	-10%	42%	56%
Pre-tax profit (rep)	-129%	-68%	-292%	-83%	639%	1%	28%	54%
Net profit	-141%	-56%	-198%	-83%	691%	2%	29%	54%
EPS (rep)	-141%	-56%	-198%	-83%	691%	2%	29%	54%
EPS (adj)	-89%	-11%	125%	-71%	301%	-5%	38%	54%

Margins	2009	2010	2011	2012	2013	2014E	2015E	2016E
EBITDA	9.9 %	10.7 %	15.3 %	6.5 %	15.8 %	15.1 %	17.8 %	21.8 %
EBIT (adj)	4.8 %	4.7 %	9.5 %	2.0 %	10.1 %	8.6 %	11.2 %	15.7 %
Pre-tax profit	-14.6 %	-4.8 %	8.4 %	1.3 %	10.4 %	10.0 %	11.7 %	16.2 %
Net profit	-15.1 %	-6.8 %	6.1 %	0.9 %	8.0 %	7.8 %	9.1 %	12.6 %

Profitability	2009	2010	2011	2012	2013	2014E	2015E	2016E
ROE	4.6 %	4.8 %	10.9 %	3.0 %	11.3 %	9.7 %	11.9 %	15.9 %
ROCE	5.6 %	6.4 %	14.4 %	3.3 %	14.2 %	11.4 %	14.5 %	19.7 %
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)
05/11/2014	Hold	24.00
20/10/2014	Hold	24.00
18/08/2014	Hold	24.00
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

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, Infront and Oslo Stock Exchange.

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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.

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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 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/norne-securities/Media/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 September 30, 2014:

	Buy	Hold	Sell
Total recommendations	53	26	5
% of total	63%	31%	6%
Corporate clients*	24	9	0
% of corporate clients*	73%	27%	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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