

ContextVision

HOLD

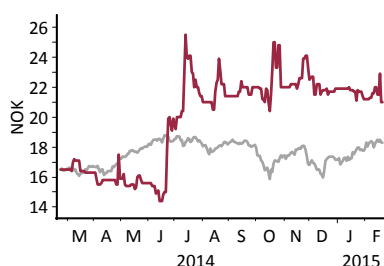
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV:NO

Market Cap (NOKm)	162.5
Net debt (NOKm)	-28.0
EV (NOKm)	134.5
Net debt / equity	-61%

Issued shares (m)	7.737
-------------------	-------

Share price



—ContextVision—OSEBX (Rebased)

Performance

	1m	3m	12m
COV	-3%	-7%	30%
OSEBX	3%	2%	11%

Upcoming events

Annual report	March 18 2015
AGM	April 22 2015
1Q15 report	April 23 2015
2Q15 report	August 20 2015
3Q15 report	October 22 2015

ContextVision is a market making client of Norne Securities

Analysts

Tomas Skeivys, CFA

+47 21 95 37 49

tomas.skeivys@norne.no

Ernesta Zuromskaite

+47 21 96 61 02

ernesta.zuromskaite@norne.no

Better-than-expected 4Q and increased R&D focus

ContextVision reported better-than-expected 4Q figures last week and announced about increased R&D focus and costs in 2015. This was not surprising for us and in line with the company's strategy. Therefore, we maintain our Hold recommendation at an unchanged TP of NOK 24.00/sh.

Q4 figures better-than-expected

ContextVision (COV) released its 4Q14 report on February 19th. Figures surprised us on the positive side. Revenues of SEK 16.2m (+5.0% YoY) were slightly above our SEK 15.8m projection. COV indicated that a favourable sales development was experienced in Asia and Europe, while activity was stable in the US. Notably, the key new product is within 3D ultrasound and these sales almost doubled in 2014 vs 2013.

The positive deviation on the top line went down the P&L and all lines were stronger-than-forecasted. We were expecting close to zero on the bottom line, while the company managed to achieve SEK 0.7m in net profit for the quarter.

Increased R&D focus and expenditures in 2015

Other than the figures, the key news was related to the R&D activities. The company's focus on future growth was increasing during 2014 and it will further strengthen in 2015 with higher R&D funding approved by the Board for this year. The company is experiencing very good feedback and sales of its 3D ultrasound product evidenced by the sales development in 2014 as well as high attention in the annual RSNA (Radiological Society of North America) conference in December.

With increased innovation activities, COV targets to expand its product portfolio within the promising ultrasound segment or even to launch a new line of business. Organizational changes were also made accordingly, i.e. two new business units established, each responsible for particular areas such as existing sales to OEMs and Business Development. We welcome the change and feel more comfortable with our projections for 2015.

No major changes to investment case

Following the 4Q report, we made some small upward adjustments for 2015-17 estimates, while our long-term expectations remained largely unchanged. We therefore maintain our DCF-based TP of NOK 24.00/sh. and a Hold recommendation. The existing main business within ultrasound is growing and the company is in a very interesting phase of indicating and exploiting particular growth opportunities. However, until these start bearing tangible results, we remain neutral.

Interim financial statement (SEKm)	4Q14		1Q15E		2014	2015E		2016E		2017E	
	Act.	Est.	New	Old		New	Old	New	Old	New	Old
Operating revenues	16.2	15.8	17.3	19.0	64.4	70.7	70.2	81.4	78.5	90.3	90.4
EBITDA	1.8	1.4	2.8	4.9	10.1	12.1	12.5	19.5	17.1	27.0	26.0
EBITDA Margin	11%	9%	16%	26%	16%	17%	18%	24%	22%	30%	29%
EBIT (adj)	1.0	0.3	1.8	3.8	6.2	8.2	7.9	15.7	12.3	23.1	20.9
Op. EBIT margin	6%	2%	11%	20%	10%	12%	11%	19%	16%	26%	23%
Non-recurring items	-	-	-	-	1	-	-	-	-	-	-
EBIT	1.0	0.3	1.8	3.8	6.9	8.2	7.9	15.7	12.3	23.1	20.9
Pre-tax profit	1.0	0.4	1.9	3.9	7.0	8.5	8.2	16.0	12.7	23.5	21.4
Tax	-0.2	-0.1	-0.4	-0.9	-1.6	-1.9	-1.8	-3.5	-2.8	-5.2	-4.7
Tax rate	24%	22%	22%	22%	23%	22%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-	-
Profit after tax	0.7	0.3	1.5	3.1	5.4	6.7	6.4	12.5	9.9	18.3	16.7

DCF model

SEKm	2015E	2016E	2017E	2018E	2019E
Revenues	70.7	81.4	90.3	97.0	102.8
EBIT	8.2	15.7	23.1	27.4	30.4
Tax on EBIT	-1.8	-3.4	-5.1	-6.0	-6.7
NOPLAT (+)	6.4	12.2	18.0	21.4	23.7
Depreciation & amortization (+)	3.8	3.8	3.8	3.8	3.8
Capital expenditure (-)	-12.2	-10.2	-8.2	-6.2	-5.8
Change in working capital (- or +)	-3.6	-2.7	-1.8	-1.1	-1.4
Free Cash Flow to the Firm	-5.6	3.1	11.8	17.9	20.3
NPV of FCF	-5.0	2.6	8.9	12.2	12.5

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-31.1	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			
Beta	1.2	2015-2019E	31.0	# shares, m	7.737
Market risk premium	6.0%	2020E-	166.5		
Cost of equity	10.2%	Total NPV cash flow	197.5		
WACC	10.2%	Equity value	228.6		
		Value per share, SEK	29.55		
		Value per share, NOK	26.60		

Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9.2%	27.5	29.0	30.7	35.0	37.8
9.7%	25.7	27.0	28.5	32.1	34.5
10.2%	24.2	25.3	26.6	29.7	31.6
10.7%	22.9	23.8	24.9	27.6	29.2
11.2%	21.6	22.5	23.5	25.8	27.2

Profit & Loss (SEKm)	2010	2011	2012	2013	2014	2015E	2016E	2017E
Operating revenues	53.4	58.4	67.6	61.3	64.4	70.7	81.4	90.3
Operating expenses	-47.7	-49.4	-63.2	-51.6	-54.3	-58.7	-61.9	-63.3
EBITDA	5.7	8.9	4.4	9.7	10.1	12.1	19.5	27.0
Depreciation & Amortisation	-3.2	-3.4	-3.0	-3.5	-3.8	-3.8	-3.8	-3.8
EBIT (adj)	2.5	5.6	1.4	6.2	6.2	8.2	15.7	23.1
Non-recurring items	-5.2	-0.9	-0.7	-	0.7	-	-	-
EBIT	-2.6	4.7	0.6	6.2	6.9	8.2	15.7	23.1
Net interest & other financial effects	0.1	0.3	0.2	0.2	0.1	0.3	0.3	0.4
Pre-tax profit	-2.6	4.9	0.9	6.3	7.0	8.5	16.0	23.5
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.1	-1.3	-0.2	-1.5	-1.6	-1.9	-3.5	-5.2
Profit after tax	-3.6	3.6	0.6	4.9	5.4	6.7	12.5	18.3
EPS rep. (SEK)	-0.47	0.46	0.08	0.63	0.70	0.86	1.61	2.37
EPS adj. (SEK)	0.24	0.54	0.16	0.63	0.66	0.86	1.61	2.37
Margins								
Operating margin	5%	10%	2%	10%	10%	12%	19%	26%
ROE	5%	11%	3%	11%	11%	12%	20%	23%
ROCE	6%	14%	3%	14%	13%	15%	24%	29%
Tax rate	-42%	27%	28%	23%	23%	22%	22%	22%
Growth rates (YoY)								
Operating revenues	-2%	9%	16%	-9%	5%	10%	15%	11%
EBIT (adj)	-3%	121%	-76%	353%	1%	32%	91%	48%
EPS (adj)	-11%	125%	-71%	301%	5%	30%	87%	47%

Balance sheet (SEKm)	2010	2011	2012	2013	2014	2015E	2016E	2017E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	13.8	14.5	13.1	12.8	17.2	25.6	32.0	36.3
Other intangible assets	0.1	0.1	1.1	1.1	1.0	1.0	1.0	1.0
Non-current Assets	13.9	14.6	14.2	14.0	18.2	26.6	33.0	37.3
Inventory	0.3	0.2	0.3	0.4	0.5	0.5	0.6	0.7
Receivables	14.1	14.3	15.5	13.8	13.5	17.0	19.7	21.5
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	16.9	19.7	24.7	29.2	31.1	25.8	29.2	41.3
Current Assets	31.2	34.1	40.5	43.3	45.1	43.4	49.5	63.5
Total assets	45.1	48.7	54.7	57.3	63.3	70.0	82.4	100.8
Shareholders equity	36.7	40.4	41.0	45.5	50.8	57.4	69.9	88.2
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	36.7	40.4	41.0	45.5	50.8	57.4	69.9	88.2
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	-	0.0	0.1	0.4	0.8	0.8	0.8	0.8
Non-current liabilities	-	0.0	0.1	0.4	0.8	0.8	0.8	0.8
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	8.4	8.2	13.6	11.4	11.8	11.8	11.8	11.8
Current liabilities	8.4	8.2	13.6	11.4	11.8	11.8	11.8	11.8
Total liabilities	8.4	8.3	13.7	11.8	12.6	12.6	12.6	12.6
Total liabilities and equity	45.1	48.7	54.7	57.3	63.3	70.0	82.4	100.8
Working capital	14.3	14.5	15.8	14.2	14.0	17.6	20.3	22.1
Net IB debt	-16.9	-19.7	-24.7	-29.2	-31.1	-25.8	-29.2	-41.3
Capital employed	36.7	40.5	41.2	45.9	51.5	58.2	70.6	89.0
Net IB debt / equity	-46%	-49%	-60%	-64%	-61%	-45%	-42%	-47%
Equity / total assets	81%	83%	75%	79%	80%	82%	85%	88%

Share data	2010	2011	2012	2013	2014	2015E	2016E	2017E
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)	17.20	11.30	12.00	14.00	21.90	21.00	21.00	21.00
Market cap (NOKm)	133	87	93	108	169	162	162	162
Enterprise value (NOKm)	118	71	72	81	140	139	136	125
EPS rep. (SEK)	-0.47	0.46	0.08	0.63	0.70	0.86	1.61	2.37
EPS adj. (SEK)	0.24	0.54	0.16	0.63	0.66	0.86	1.61	2.37
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2010	2011	2012	2013	2014	2015E	2016E	2017E
EV/Sales	2.54	1.42	1.26	1.42	2.35	2.19	1.86	1.54
EV/EBITDA	23.73	9.25	19.19	8.99	15.02	12.83	7.76	5.16
EV/EBIT (adj)	53.72	14.85	62.05	14.15	24.31	18.83	9.66	6.02
P/E (adj)	81.6	24.4	89.3	23.8	35.5	27.1	14.5	9.8
P/B (excl. goodwill)	4.15	2.53	2.66	2.56	3.59	3.14	2.58	2.05

Growth (YoY)	2010	2011	2012	2013	2014	2015E	2016E	2017E
Revenues	-2%	9%	15%	-9%	5%	10%	15%	11%
EBITDA	6%	57%	-51%	121%	4%	20%	62%	38%
EBIT (adj)	-3%	121%	-76%	353%	1%	32%	91%	48%
Pre-tax profit (rep)	-68%	-292%	-83%	639%	11%	21%	87%	47%
Net profit	-56%	-198%	-83%	691%	11%	23%	87%	47%
EPS (rep)	-56%	-198%	-83%	691%	11%	23%	87%	47%
EPS (adj)	-11%	125%	-71%	301%	5%	30%	87%	47%

Margins	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	10.7 %	15.3 %	6.5 %	15.8 %	15.6 %	17.0 %	24.0 %	29.9 %
EBIT (adj)	4.7 %	9.5 %	2.0 %	10.1 %	9.6 %	11.6 %	19.2 %	25.6 %
Pre-tax profit	-4.8 %	8.4 %	1.3 %	10.4 %	10.9 %	12.1 %	19.6 %	26.0 %
Net profit	-6.8 %	6.1 %	0.9 %	8.0 %	8.4 %	9.4 %	15.3 %	20.3 %

Profitability	2010	2011	2012	2013	2014	2015E	2016E	2017E
ROE	4.8 %	10.9 %	3.0 %	11.3 %	10.7 %	12.3 %	19.6 %	23.2 %
ROCE	6.4 %	14.4 %	3.3 %	14.2 %	12.8 %	15.0 %	24.3 %	29.0 %
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)
23/02/2015	Hold	24.00
12/02/2015	Hold	24.00
05/11/2014	Hold	24.00
20/10/2014	Hold	24.00
18/09/2014	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

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;
- The company invests heavily in R&D and being able to capitalize on these investments in the future is the key for the company's long term growth.

Sources

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

DISCLOSURES AND DISCLAIMER

STANDARDS AND SUPERVISORY AUTHORITY

This report has been prepared by Norne Securities AS, which is supervised by The Financial Supervisory Authority of Norway (Finanstilsynet). Industry standards issued by The Norwegian Securities Dealers Association (Verdipapirforetakenes Forbund) (www.vpff.no) have been used in preparing this report.

DISCLAIMER

This report is provided for information purposes only. It should not be used or considered as an offer to sell or a solicitation of an offer to buy any securities. This report is prepared for general circulation and general information only. It does not take into account the specific investment objectives, investment knowledge and experience and financial situation of any recipient. Investors seeking to buy or sell any securities discussed or recommended in this report, should seek independent financial advice relating thereto and make his/her own appraisal of the tax or other financial merits of the investment. Any opinions expressed are subject to change without prior notice. This report is based on information from various sources believed to be reliable. Although all reasonable care has been taken to ensure that the information herein is not misleading, Norne Securities AS makes no guarantee, representation or warranty, expressed or implied as to its accuracy, adequacy or completeness. Neither Norne Securities AS, its employees, nor any other person connected with it, accepts any liability whatsoever for any direct, indirect or incidental, special or consequential loss of any kind arising out of the use or reliance on the information in this report.

This report is intended for use only by those persons to whom it is made available by Norne Securities AS. This report may not be distributed, quoted from or reproduced, in full or in part, in any manner without written approval by Norne Securities AS.

RECOMMENDATION STRUCTURE

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.

DISCLOSURE OF INTERESTS

Norne Securities AS may at any time perform investment banking or other services or solicit investment banking or other mandates from the company or companies covered in this report. Norne Securities AS may hold positions in securities covered in this report due to its own-account trading that is part of its investment services operations, such as market making. Norne Securities AS has appointed and may at any time appoint tied agents to provide investment services on behalf of Norne Securities AS. Tied agents are listed in the public registry of the Norwegian Financial Supervisory Authority, and an updated overview of appointed tied agents of Norne Securities AS can be found on <https://www.norne.no/Om-Norne-Securities/Tilknyttede-agenter/>

PREVENTING CONFLICTS OF INTEREST

Norne Securities AS has arrangements in place with the aim of preventing conflicts of interest. As part of these arrangements, Norne Securities AS has established information barriers between different parts of the company to restrict and control the exchange of sensitive information. No direct link exists between remuneration of the Norne Securities AS analysts and investment banking services provided by Norne Securities AS. Under our internal regulations, which have been prepared in accordance with applicable legislation and relevant industry standards, our analysts are not permitted to purchase new securities in the companies they cover.

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/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 December 31, 2014:

	Buy	Hold	Sell
Total recommendations	47	21	8
% of total	62%	28%	11%
Corporate clients*	19	8	1
% of corporate clients*	68%	29%	4%

* 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.

CAUTIONARY NOTE REGARDING RISK

An investment in the company involves risk, and several factors could cause the actual results, performance or achievements of the company to be materially different from future results, performance or achievements that may be expressed or implied by statements and information in this presentation. Including, among others, risk or uncertainties associated with the company's business segments, development, growth management, financing, market acceptance and relations with customer, and more generally, general economic and business conditions, changes in domestic and foreign laws and regulations, taxes, changes in competition and pricing environment, fluctuations in currency exchange rates and interest rates and other factors. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. Past performance is not a guide to future performance. Investing in securities may result in a loss of all or part of the investment.

DISTRIBUTION RESTRICTIONS

This report is not intended for and must not be distributed to private customers in the UK or US. Norne Securities AS and its employees are not subject to the Rules of the Financial Industry Regulatory Authority (FINRA) governing research analyst conflicts. The research reports are intended for distribution in the United States solely to "major U.S. institutional investors" as defined in Rule 15a-6 under the United States Securities Exchange Act of 1934, as amended and may not be furnished to any other person in the United States. Each major U.S. institutional investor that receives a copy of a Norne Securities AS research report by its acceptance thereof represents and agrees that it shall not distribute or provide copies to any other person. Reports are prepared by Norne Securities AS and distributed to major U.S. institutional investors under Rule 15a-6(a)(2).

COPYRIGHT

This report may not be duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws.

THIS REPORT IS SUBJECT TO NORWEGIAN LAW, AND ANY DISPUTE ARISING IN RESPECT OF THIS REPORT IS SUBJECT TO THE EXCLUSIVE JURISDICTION OF NORWEGIAN COURTS.