

ContextVision

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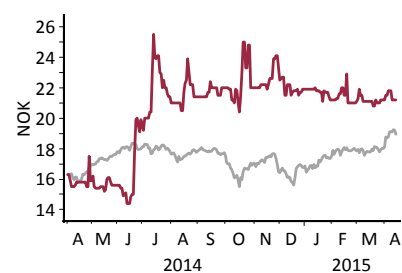
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV:NO

Market Cap (NOKm)	164.0
Net debt (NOKm)	-28.0
EV (NOKm)	136.0
Net debt / equity	-61%

Issued shares (m)	7.737
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Share price



—ContextVision—OSEBX (Rebased)

Performance

	1m	3m	12m
COV	0%	-4%	34%
OSEBX	8%	15%	20%

Upcoming events

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

Analyst

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Investment case unchanged ahead of 1Q

We maintain our Hold recommendation on COV share at an unchanged target price of NOK 24.00/sh ahead of 1Q report on April 23rd.

Stable YoY performance expected in 1Q15

ContextVision (COV) will release its 1Q15 report on Thursday, April 23rd. We expect revenues, EBITDA and EPS of SEK 17.3m, SEK 2.8m and SEK 0.19 respectively. This represents some QoQ growth, but is in line with the same quarter a year ago.

Q1/15 results	Q1/14	Q4/14	Q1/15E
SEKm			Norne
Revenues	17.6	16.2	17.3
EBITDA	2.8	1.8	2.8
EBITDA margin	16%	11%	16%
EBIT	1.8	1.0	1.8
Net earnings	1.5	0.7	1.5
EPS reported (SEK)	0.20	0.10	0.19
EPS adjusted (SEK)	0.19	0.10	0.19

Focus on growth initiatives

Currently, the company is focused on two areas:

1. Improving profitability in the existing business
2. Expanding the product offering

Organization was adapted towards this two-legged strategy, while increased R&D expenses in 2015 were communicated at the time of 4Q14 report. We will be eager to hear more on the progress of the growth initiatives and new product development in 1Q15 report.

New CFO appointed

Notably, there was a change of CFO in the company. Ms. Ann-Charlotte Linderoth was appointed as the new CFO from April 15th, replacing Mr. Bengt Hunyadi, who chose to pursue another career. Ms. Linderoth has already been working for COV since 2011 as a Financial Officer.

Investment case unchanged awaiting growth initiatives to bear fruits

We maintain our estimates, target price (NOK 24.00/sh) and a Hold recommendation unchanged ahead of 1Q15 report this week. The new growth initiatives are exciting, but we need to see a more tangible progress for an estimate increase and a more bullish view towards the stock.

Interim financial statement (SEKm)	4Q14	1Q15E	2Q15E	3Q15E	4Q15E	2014	2015E	2016E	2017E
Operating revenues	16.2	17.3	17.4	17.7	18.3	64.4	70.7	81.4	90.3
EBITDA	1.8	2.8	2.9	3.5	2.9	10.1	12.1	19.5	27.0
<i>EBITDA Margin</i>	<i>11%</i>	<i>16%</i>	<i>17%</i>	<i>20%</i>	<i>16%</i>	<i>16%</i>	<i>17%</i>	<i>24%</i>	<i>30%</i>
EBIT (adj)	1.0	1.8	2.0	2.5	1.9	6.2	8.2	15.7	23.1
<i>EBIT (adj) margin</i>	<i>6%</i>	<i>11%</i>	<i>11%</i>	<i>14%</i>	<i>10%</i>	<i>10%</i>	<i>12%</i>	<i>19%</i>	<i>26%</i>
Non-recurring items	-	-	-	-	-	0.7	-	-	-
EBIT	1.0	1.8	2.0	2.5	1.9	6.9	8.2	15.7	23.1
Pre-tax profit	1.0	1.9	2.0	2.6	2.0	7.0	8.5	16.0	23.5
Tax	-0.2	-0.4	-0.4	-0.6	-0.4	-1.6	-1.9	-3.5	-5.2
Tax rate	24%	22%	22%	22%	22%	23%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-
Profit after tax	0.7	1.5	1.6	2.0	1.5	5.4	6.7	12.5	18.3

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

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	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	21.20	21.20	21.20
Market cap (NOKm)	133	87	93	108	169	164	164	164
Enterprise value (NOKm)	118	71	72	81	140	141	138	127
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	2.21	1.88	1.56
EV/EBITDA	23.73	9.25	19.19	8.99	15.02	12.98	7.85	5.22
EV/EBIT (adj)	53.72	14.85	62.05	14.15	24.31	19.04	9.77	6.09
P/E (adj)	81.6	24.4	89.3	23.8	35.5	27.4	14.6	9.9
P/B (excl. goodwill)	4.15	2.53	2.66	2.56	3.59	3.17	2.61	2.07

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)
20/04/2015	Hold	24.00
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

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	> 25%	5% - 25%	< 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 March 31, 2015:

	Buy	Hold	Sell
Total recommendations	50	17	11
% of total	64%	22%	14%
Corporate clients*	22	10	2
% of corporate clients*	65%	29%	6%

* 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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