

ContextVision

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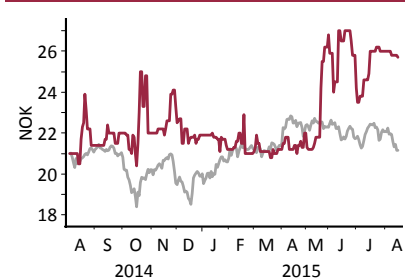
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV:NO

Market Cap (NOKm)	198.8
Net debt (NOKm)	-30.3
EV (NOKm)	168.6
Net debt / equity	-57%

Issued shares (m)	7.737
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Share price



—ContextVision—OSEBX (Rebased)

Performance

	1m	3m	12m
COV	-4%	14%	15%
OSEBX	-6%	-6%	2%

Upcoming events

2Q15 report	August 20 2015
3Q15 report	October 22 2015

ContextVision is a market making client of Norne Securities

Analyst

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Game-changing R&D leap coming, but still too early

Our Hold recommendation remains unchanged on COV share ahead of 2Q report with a higher TP of NOK 27/sh. The company's so called 'quantum leap' in R&D efforts has potential to be a game-changer, but with so few details it is still too difficult to quantify the potential rewards.

Solid YoY performance expected in 2Q

ContextVision (COV) will release its 2Q15 report on August 20th. Our revenue, EBITDA and EPS estimates stand at SEK 17.7m, SEK 2.9m and SEK 0.20, which is in line with the solid performance shown in 1Q15, but represents strong YoY growth (12%, 16% and 17% for revenues, EBITDA adj. and EPS adj. respectively). Notably, 2Q14 was affected by one-offs related to Sapheneia case (net SEK +1.2m).

Q2/15 results	Q2/14	Q1/15	Q2/15E
SEKm			Norne
Revenues	15.8	18.4	17.7
EBITDA adj.	2.5	3.0	2.9
EBITDA adj. margin	16%	16%	16%
EBIT	2.6	1.9	1.9
Net earnings	2.2	1.5	1.5
EPS reported (SEK)	0.28	0.19	0.20
EPS adjusted (SEK)	0.17	0.19	0.20

'Quantum leap' in R&D efforts

On June 11th, COV announced a 'quantum leap' in R&D. The company decided to invest aggressively into the strategic development of new technology. The strategy should allow to position COV in markets as large as SEK 1.5bn, 8 times higher than the current market of SEK 180m. The key to this is entering digital pathology market by utilizing COV's competence in deep learning technology. First products are expected to enter the market in 2018.

However, the costs and targets were not announced, as the company is preparing a more detailed plan at this point. COV got a research grant from EU of EUR 0.7m, had SEK 30m in cash at the end of 1Q15 and has positive cash flows from existing business. Therefore, there seem to be sufficient money to fund the program in the near term.

We remain neutral, as more details on costs and targets are needed

We keep our estimates unchanged ahead of 2Q report, as we did not see more concrete plans and targets for the increased R&D activities. The strategy has a potential to be a game-changer, albeit it is still too early to make significant model changes, in our view. Thus, we maintain our Hold recommendation at a higher TP of NOK 27/sh (stronger SEK vs NOK).

Interim financial statement (SEKm)	1Q15	2Q15E	3Q15E	4Q15E	2014	2015E	2016E	2017E
Operating revenues	18.4	17.7	18.1	18.6	64.4	72.7	81.7	89.9
EBITDA	3.0	2.9	3.7	2.9	10.1	12.4	19.7	27.2
EBITDA Margin	16%	16%	20%	15%	16%	17%	24%	30%
EBIT (adj)	1.9	1.9	2.7	1.9	6.2	8.4	15.7	23.2
EBIT (adj) margin	11%	11%	15%	10%	10%	12%	19%	26%
Non-recurring items	-	-	-	-	0.7	-	-	-
EBIT	1.9	1.9	2.7	1.9	6.9	8.4	15.7	23.2
Pre-tax profit	1.9	2.0	2.7	1.9	7.0	8.5	15.7	23.2
Tax	-0.5	-0.4	-0.6	-0.4	-1.6	-1.9	-3.5	-5.1
Tax rate	23%	22%	22%	22%	23%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-
Profit after tax	1.5	1.5	2.1	1.5	5.4	6.6	12.3	18.1

DCF model

SEKm	2Q-4Q 2015E	2016E	2017E	2018E	2019E
Revenues	54.4	81.7	89.9	96.0	99.7
EBIT	6.4	15.7	23.2	27.8	29.0
Tax on EBIT	-1.4	-3.5	-5.1	-6.1	-6.4
NOPLAT (+)	5.0	12.3	18.1	21.7	22.6
Depreciation & amortization (+)	3.0	3.9	3.9	3.9	3.9
Capital expenditure (-)	-9.0	-10.1	-8.1	-6.1	-6.1
Change in working capital (- or +)	0.5	-2.4	-1.6	-0.9	-0.8
Free Cash Flow to the Firm	-0.5	3.8	12.4	18.7	19.6
NPV of FCF	-0.5	3.2	9.5	13.0	12.4

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-30.3	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	1.00
Beta	1.2	2Q-4Q 2015-2019E	37.6	# shares, m	7.737
Market risk premium	6.0%	2020E-	164.8		
Cost of equity	10.2%	Total NPV cash flow	202.4		
WACC	10.2%	Equity value	232.6		
		Value per share, SEK	30.07		
		Value per share, NOK	30.07		

Sensitivity analysis

		L.t. growth				
		1.5%	2.0%	2.5%	3.5%	4.0%
WACC	9.2%	31.0	32.6	34.5	39.3	42.4
	9.7%	29.1	30.5	32.1	36.1	38.7
	10.2%	27.4	28.7	30.1	33.5	35.6
	10.7%	26.0	27.0	28.3	31.2	33.0
	11.2%	24.6	25.6	26.7	29.2	30.7

Profit & Loss (SEKm)	2010	2011	2012	2013	2014	2015E	2016E	2017E
Operating revenues	53.4	58.4	67.6	61.3	64.4	72.7	81.7	89.9
Operating expenses	-47.7	-49.4	-63.2	-51.6	-54.3	-60.3	-62.0	-62.8
EBITDA	5.7	8.9	4.4	9.7	10.1	12.4	19.7	27.2
Depreciation & Amortisation	-3.2	-3.4	-3.0	-3.5	-3.8	-4.1	-3.9	-3.9
EBIT (adj)	2.5	5.6	1.4	6.2	6.2	8.4	15.7	23.2
Non-recurring items	-5.2	-0.9	-0.7	-	0.7	-	-	-
EBIT	-2.6	4.7	0.6	6.2	6.9	8.4	15.7	23.2
Net interest & other financial effects	0.1	0.3	0.2	0.2	0.1	0.1	0.0	0.0
Pre-tax profit	-2.6	4.9	0.9	6.3	7.0	8.5	15.7	23.2
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.1	-1.3	-0.2	-1.5	-1.6	-1.9	-3.5	-5.1
Profit after tax	-3.6	3.6	0.6	4.9	5.4	6.6	12.3	18.1
EPS rep. (SEK)	-0.47	0.46	0.08	0.63	0.70	0.85	1.59	2.34
EPS adj. (SEK)	0.24	0.54	0.16	0.63	0.66	0.85	1.59	2.34
Margins								
Operating margin	5%	10%	2%	10%	10%	12%	19%	26%
ROE	5%	11%	3%	11%	11%	12%	19%	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%	13%	12%	10%
EBIT (adj)	-3%	121%	-76%	353%	1%	35%	88%	48%
EPS (adj)	-11%	125%	-71%	301%	5%	29%	86%	48%

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	24.0	30.2	34.3
Other intangible assets	0.1	0.1	1.1	1.1	1.0	0.9	0.9	0.9
Non-current Assets	13.9	14.6	14.2	14.0	18.2	25.0	31.1	35.2
Inventory	0.3	0.2	0.3	0.4	0.5	0.4	0.5	0.5
Receivables	14.1	14.3	15.5	13.8	13.5	16.3	18.6	20.1
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	16.9	19.7	24.7	29.2	31.1	29.8	33.6	46.0
Current Assets	31.2	34.1	40.5	43.3	45.1	46.5	52.7	66.7
Total assets	45.1	48.7	54.7	57.3	63.3	71.5	83.7	101.9
Shareholders equity	36.7	40.4	41.0	45.5	50.8	57.7	70.0	88.1
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	36.7	40.4	41.0	45.5	50.8	57.7	70.0	88.1
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	13.0	13.0	13.0
Current liabilities	8.4	8.2	13.6	11.4	11.8	13.0	13.0	13.0
Total liabilities	8.4	8.3	13.7	11.8	12.6	13.7	13.7	13.7
Total liabilities and equity	45.1	48.7	54.7	57.3	63.3	71.5	83.7	101.9
Working capital	14.3	14.5	15.8	14.2	14.0	16.7	19.1	20.7
Net IB debt	-16.9	-19.7	-24.7	-29.2	-31.1	-29.8	-33.6	-46.0
Capital employed	36.7	40.5	41.2	45.9	51.5	58.5	70.8	88.9
Net IB debt / equity	-46%	-49%	-60%	-64%	-61%	-52%	-48%	-52%
Equity / total assets	81%	83%	75%	79%	80%	81%	84%	87%

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	25.70	25.70	25.70
Market cap (NOKm)	133	87	93	108	169	199	199	199
Enterprise value (NOKm)	118	71	72	81	140	169	165	153
EPS rep. (SEK)	-0.47	0.46	0.08	0.63	0.70	0.85	1.59	2.34
EPS adj. (SEK)	0.24	0.54	0.16	0.63	0.66	0.85	1.59	2.34
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2010	2011	2012	2013	2014	2015E	2016E	2017E
EV/Sales	2.54	1.42	1.26	1.42	2.35	2.32	2.02	1.70
EV/EBITDA	23.73	9.25	19.19	8.99	15.02	13.60	8.40	5.62
EV/EBIT (adj)	53.72	14.85	62.05	14.15	24.31	20.18	10.51	6.58
P/E (adj)	81.6	24.4	89.3	23.8	35.5	30.1	16.2	11.0
P/B (excl. goodwill)	4.15	2.53	2.66	2.56	3.59	3.44	2.84	2.26

Growth (YoY)	2010	2011	2012	2013	2014	2015E	2016E	2017E
Revenues	-2%	9%	15%	-9%	5%	13%	12%	10%
EBITDA	6%	57%	-51%	121%	4%	24%	58%	38%
EBIT (adj)	-3%	121%	-76%	353%	1%	35%	88%	48%
Pre-tax profit (rep)	-68%	-292%	-83%	639%	11%	20%	86%	48%
Net profit	-56%	-198%	-83%	691%	11%	21%	87%	48%
EPS (rep)	-56%	-198%	-83%	691%	11%	21%	87%	48%
EPS (adj)	-11%	125%	-71%	301%	5%	29%	86%	48%

Margins	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	10.7 %	15.3 %	6.5 %	15.8 %	15.6 %	17.1 %	24.1 %	30.2 %
EBIT (adj)	4.7 %	9.5 %	2.0 %	10.1 %	9.6 %	11.5 %	19.2 %	25.8 %
Pre-tax profit	-4.8 %	8.4 %	1.3 %	10.4 %	10.9 %	11.6 %	19.3 %	25.8 %
Net profit	-6.8 %	6.1 %	0.9 %	8.0 %	8.4 %	9.0 %	15.0 %	20.2 %

Profitability	2010	2011	2012	2013	2014	2015E	2016E	2017E
ROE	4.8 %	10.9 %	3.0 %	11.3 %	10.7 %	12.2 %	19.2 %	22.9 %
ROCE	6.4 %	14.4 %	3.3 %	14.2 %	12.8 %	15.2 %	24.3 %	29.1 %
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)
18/08/2015	Hold	27.00
28/04/2015	Hold	24.00
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

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

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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/Compliance/Ansattes-egen-beholdning/>.

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Distribution of Norne Securities' recommendations during three months up till June 30, 2015:

	Buy	Hold	Sell
Total recommendations	50	27	10
% of total	57%	31%	11%
Corporate clients*	19	12	2
% of corporate clients*	58%	36%	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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