

ContextVision

HOLD

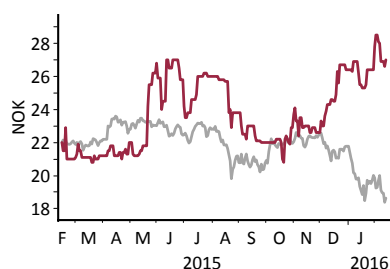
Key share data

| | |
|-----------|-------------|
| Sector | Health Care |
| Reuters | COVI.OL |
| Bloomberg | COV NO |

| | |
|-------------------|-------|
| Market Cap (NOKm) | 208.9 |
| Net debt (NOKm) | -36.4 |
| EV (NOKm) | 172.5 |
| Net debt / equity | -64% |

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

Share price



—ContextVision—OSEBX (Rebased)

Performance

| | 1m | 3m | 12m |
|-------|-----|------|------|
| COV | 0% | 14% | 19% |
| OSEBX | -6% | -15% | -15% |

Upcoming events

| | |
|-------------|-------------------|
| 4Q15 report | February 18, 2016 |
| AGM | April 20, 2016 |
| 1Q16 report | April 21, 2016 |
| 2Q16 report | August 18, 2016 |
| 3Q16 report | October 27, 2016 |

ContextVision is a market making client of Norne Securities

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Eyes on growth initiatives; stable existing business

We repeat our Hold recommendation on COV share ahead of its 4Q15 report due on February 18th. New TP stands at NOK 29/sh.

Good sales development, while costs are increasing due to growth initiatives

ContextVision (COV) will release its 4Q15 report on February 18th. We expect sales of NOK 17.9m, which is seasonally stronger QoQ and represents a solid 10% growth YoY. Still, costs are expected to grow as well due to the growth initiatives – developing products for the digital pathology market that is seen to be seven times larger than the market COV currently is in.

| Q4/15 results | Q4/14 | Q3/15 | Q4/15E |
|--------------------|-------|-------|--------|
| SEKm | | | Norne |
| Revenues | 16.2 | 17.0 | 17.9 |
| EBITDA adj. | 1.8 | 3.9 | 1.2 |
| EBITDA adj. margin | 11% | 23% | 7% |
| EBIT | 1.0 | 2.9 | 0.5 |
| Net earnings | 0.7 | 2.4 | 0.4 |
| EPS reported (SEK) | 0.10 | 0.31 | 0.05 |
| EPS adjusted (SEK) | 0.10 | 0.30 | 0.02 |

RSNA conference – key event for ContextVision

The usual RSNA (Radiological Society of North America) conference took place in 4Q and COV presented its upgraded versions of all image enhancement and analysis software for ultrasound there. Notably, COV also presented a prototype product called Virtual Expert Personal Image Optimizer to a few select potential customers. This technology enables ultrasound imaging to be automatically optimized for each patient. The news indicates that the company continues to advance with its growth strategy and specific products are already coming out of it. More such products should come out in the future, as this prototype is based on the company's newly developed Virtual Expert platform.

Hold remains, as new product development and launch takes time

We repeat our Hold recommendation ahead of 4Q report, as it will take time for the company's growth initiatives to materialize into revenue and profit growth. However, we see that the company is on the right path and this is confirmed by CEO purchase of 5,000 shares in COV right before Christmas. New target price stands at NOK 29.00/sh.

| Interim financial statement (SEKm) | 4Q15E | | 1Q16E | | 2014 | 2015E | | 2016E | | 2017E | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | New | Old | New | Old | | New | Old | New | Old | New | Old |
| Operating revenues | 17.9 | 17.9 | 19.1 | 19.1 | 64.4 | 71.4 | 71.4 | 78.2 | 78.2 | 84.3 | 84.3 |
| EBITDA | 1.2 | 1.2 | 1.5 | 1.5 | 10.1 | 10.3 | 10.3 | 6.2 | 6.2 | 6.5 | 6.5 |
| EBITDA Margin | 7% | 7% | 8% | 8% | 16% | 14% | 14% | 8% | 8% | 8% | 8% |
| EBIT (adj) | 0.2 | 0.2 | 0.4 | 0.4 | 6.2 | 6.0 | 6.0 | 2.0 | 2.0 | 2.2 | 2.2 |
| Op. EBIT margin | 1% | 1% | 2% | 2% | 10% | 8% | 8% | 3% | 3% | 3% | 3% |
| Non-recurring items | 0.3 | 0 | 0.3 | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 1 |
| EBIT | 0.5 | 0.5 | 0.7 | 0.7 | 6.9 | 6.3 | 6.3 | 3.2 | 3.2 | 3.5 | 3.5 |
| Pre-tax profit | 0.5 | 0.5 | 0.7 | 0.7 | 7.0 | 6.3 | 6.3 | 3.2 | 3.2 | 3.5 | 3.5 |
| Tax | -0.1 | -0.1 | -0.2 | -0.2 | -1.6 | -1.3 | -1.3 | -0.7 | -0.7 | -0.8 | -0.8 |
| Tax rate | 22% | 22% | 22% | 22% | 23% | 20% | 20% | 22% | 22% | 22% | 22% |
| Minority interests | - | - | - | - | - | - | - | - | - | - | - |
| Profit after tax | 0.4 | 0.4 | 0.5 | 0.5 | 5.4 | 5.0 | 5.0 | 2.5 | 2.5 | 2.7 | 2.7 |

DCF model

| SEKm | 4Q 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|------------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Revenues | 17.9 | 78.2 | 84.3 | 88.6 | 118.7 | 148.0 |
| EBIT | 0.5 | 3.2 | 3.5 | 3.0 | 26.8 | 51.1 |
| Tax on EBIT | -0.1 | -0.7 | -0.8 | -0.7 | -5.9 | -11.2 |
| NOPLAT (+) | 0.4 | 2.5 | 2.7 | 2.3 | 20.9 | 39.9 |
| Depreciation & amortization (+) | 1.1 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Capital expenditure (-) | -2.0 | -12.2 | -10.2 | -8.2 | -6.2 | -4.2 |
| Change in working capital (- or +) | 0.2 | -1.9 | -1.2 | -0.7 | -10.2 | -4.6 |
| Free Cash Flow to the Firm | -0.4 | -7.3 | -4.4 | -2.3 | 8.8 | 35.3 |
| NPV of FCF | -0.4 | -6.5 | -3.6 | -1.7 | 5.8 | 21.2 |

| WACC calculation | | Valuation, SEKm | | Assumptions | |
|--------------------------|--------------|-----------------------------|--------------|-------------|-------|
| Debt ratio | 0.0% | Net debt | -35.7 | L.t. growth | 2.0% |
| Cost of debt (after tax) | nm | Minority interest | 0 | Tax rate | 22% |
| | | | | SEK/NOK | 1.02 |
| Risk free rate | 3.0% | NPV cash flow | | | |
| Beta | 1.2 | 4Q 2015-2020E | 14.9 | # shares, m | 7.737 |
| Market risk premium | 6.0% | 2021E- | 263.6 | | |
| Cost of equity | 10.2% | Total NPV cash flow | 278.5 | | |
| WACC | 10.2% | Equity value | 314.2 | | |
| | | Value per share, SEK | 40.61 | | |
| | | Value per share, NOK | 41.42 | | |

Sensitivity analysis

| WACC | L.t. growth | | | | |
|-------|-------------|------|-------------|------|------|
| | 1.0% | 1.5% | 2.0% | 3.5% | 4.0% |
| 9.2% | 42.9 | 45.4 | 48.3 | 60.0 | 65.4 |
| 9.7% | 40.0 | 42.2 | 44.6 | 54.5 | 58.9 |
| 10.2% | 37.3 | 39.3 | 41.4 | 49.8 | 53.5 |
| 10.7% | 35.0 | 36.7 | 38.6 | 45.8 | 48.9 |
| 11.2% | 32.9 | 34.4 | 36.1 | 42.3 | 45.0 |

| Profit & Loss (SEKm) | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|--|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Operating revenues | 58.4 | 67.6 | 61.3 | 64.4 | 71.4 | 78.2 | 84.3 | 88.6 |
| Operating expenses | -49.4 | -63.2 | -51.6 | -54.3 | -61.1 | -72.0 | -77.8 | -82.3 |
| EBITDA | 8.9 | 4.4 | 9.7 | 10.1 | 10.3 | 6.2 | 6.5 | 6.3 |
| Depreciation & Amortisation | -3.4 | -3.0 | -3.5 | -3.8 | -4.3 | -4.3 | -4.3 | -4.3 |
| EBIT (adj) | 5.6 | 1.4 | 6.2 | 6.2 | 6.0 | 2.0 | 2.2 | 2.1 |
| Non-recurring items | -0.9 | -0.7 | - | 0.7 | 0.3 | 1.3 | 1.3 | 0.9 |
| EBIT | 4.7 | 0.6 | 6.2 | 6.9 | 6.3 | 3.2 | 3.5 | 3.0 |
| Net interest & other financial effects | 0.3 | 0.2 | 0.2 | 0.1 | - | - | - | - |
| Pre-tax profit | 4.9 | 0.9 | 6.3 | 7.0 | 6.3 | 3.2 | 3.5 | 3.0 |
| Minority interests | - | - | - | - | - | - | - | - |
| Taxes | -1.3 | -0.2 | -1.5 | -1.6 | -1.3 | -0.7 | -0.8 | -0.7 |
| Profit after tax | 3.6 | 0.6 | 4.9 | 5.4 | 5.0 | 2.5 | 2.7 | 2.3 |
| | | | | | | | | |
| EPS rep. (SEK) | 0.46 | 0.08 | 0.63 | 0.70 | 0.65 | 0.33 | 0.35 | 0.30 |
| EPS adj. (SEK) | 0.54 | 0.16 | 0.63 | 0.66 | 0.61 | 0.20 | 0.23 | 0.21 |
| | | | | | | | | |
| Margins | | | | | | | | |
| Operating margin | 10% | 2% | 10% | 10% | 8% | 3% | 3% | 2% |
| ROE | 11% | 3% | 11% | 11% | 9% | 3% | 3% | 3% |
| ROCE | 14% | 3% | 14% | 13% | 11% | 3% | 4% | 3% |
| Tax rate | 27% | 28% | 23% | 23% | 20% | 22% | 22% | 22% |
| | | | | | | | | |
| Growth rates (YoY) | | | | | | | | |
| Operating revenues | 9% | 16% | -9% | 5% | 11% | 10% | 8% | 5% |
| EBIT (adj) | >100% | -76% | >100% | 1% | -3% | -67% | 15% | -8% |
| EPS (adj) | >100% | -71% | >100% | 5% | -9% | -67% | 15% | -8% |

| Balance sheet (SEKm) | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|---------------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Goodwill | - | - | - | - | - | - | - | - |
| Deferred tax asset | - | - | - | - | - | - | - | - |
| Licences, property, plant & equipment | 14.5 | 13.1 | 12.8 | 17.2 | 19.0 | 27.0 | 32.9 | 36.8 |
| Other intangible assets | 0.1 | 1.1 | 1.1 | 1.0 | 0.3 | 0.3 | 0.3 | 0.3 |
| Non-current Assets | 14.6 | 14.2 | 14.0 | 18.2 | 19.4 | 27.3 | 33.2 | 37.2 |
| Inventory | 0.2 | 0.3 | 0.4 | 0.5 | 0.4 | 0.4 | 0.5 | 0.5 |
| Receivables | 14.3 | 15.5 | 13.8 | 13.5 | 16.1 | 18.0 | 19.2 | 19.9 |
| Other current assets | - | - | - | - | - | - | - | - |
| Cash and cash equivalents | 19.7 | 24.7 | 29.2 | 31.1 | 35.2 | 27.9 | 23.4 | 21.2 |
| Current Assets | 34.1 | 40.5 | 43.3 | 45.1 | 51.7 | 46.3 | 43.1 | 41.5 |
| Total assets | 48.7 | 54.7 | 57.3 | 63.3 | 71.0 | 73.6 | 76.3 | 78.6 |
| Shareholders equity | 40.4 | 41.0 | 45.5 | 50.8 | 56.4 | 58.9 | 61.7 | 64.0 |
| Non-controlling interests | - | - | - | - | - | - | - | - |
| Total equity | 40.4 | 41.0 | 45.5 | 50.8 | 56.4 | 58.9 | 61.7 | 64.0 |
| 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 | 0.8 |
| Non-current liabilities | 0.0 | 0.1 | 0.4 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Current interest bearing debt | - | - | - | - | - | - | - | - |
| Trade payables | - | - | - | - | - | - | - | - |
| Other current liabilities | 8.2 | 13.6 | 11.4 | 11.8 | 13.9 | 13.9 | 13.9 | 13.9 |
| Current liabilities | 8.2 | 13.6 | 11.4 | 11.8 | 13.9 | 13.9 | 13.9 | 13.9 |
| Total liabilities | 8.3 | 13.7 | 11.8 | 12.6 | 14.6 | 14.6 | 14.6 | 14.6 |
| Total liabilities and equity | 48.7 | 54.7 | 57.3 | 63.3 | 71.0 | 73.6 | 76.3 | 78.6 |
| Working capital | 14.5 | 15.8 | 14.2 | 14.0 | 16.4 | 18.4 | 19.6 | 20.3 |
| Net IB debt | -19.7 | -24.7 | -29.2 | -31.1 | -35.2 | -27.9 | -23.4 | -21.2 |
| Capital employed | 40.5 | 41.2 | 45.9 | 51.5 | 57.2 | 59.7 | 62.4 | 64.8 |
| Net IB debt / equity | -49% | -60% | -64% | -61% | -62% | -47% | -38% | -33% |
| Equity / total assets | 83% | 75% | 79% | 80% | 79% | 80% | 81% | 81% |

| Share data | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| 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) | 11.30 | 12.00 | 14.00 | 21.90 | 26.40 | 27.00 | 27.00 | 27.00 |
| Market cap (NOKm) | 87 | 93 | 108 | 169 | 204 | 209 | 209 | 209 |
| Enterprise value (NOKm) | 71 | 72 | 81 | 140 | 169 | 180 | 185 | 187 |
| EPS rep. (SEK) | 0.46 | 0.08 | 0.63 | 0.70 | 0.65 | 0.33 | 0.35 | 0.30 |
| EPS adj. (SEK) | 0.54 | 0.16 | 0.63 | 0.66 | 0.61 | 0.20 | 0.23 | 0.21 |
| DPS. (SEK) | - | - | - | - | - | - | - | - |

| Valuation | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|----------------------|------|------|------|------|-------|-------|-------|-------|
| EV/Sales | 1.42 | 1.26 | 1.42 | 2.35 | 2.37 | 2.26 | 2.15 | 2.07 |
| EV/EBITDA | 9.3 | 19.2 | 9.0 | 15.0 | 16.5 | 28.4 | 27.9 | 29.1 |
| EV/EBIT (adj) | 14.9 | 62.0 | 14.2 | 24.3 | 28.2 | 90.3 | 80.8 | 89.4 |
| P/E (adj) | 24.4 | 89.3 | 23.8 | 35.5 | 43.6 | >100 | >100 | >100 |
| P/B (excl. goodwill) | 2.53 | 2.66 | 2.56 | 3.59 | 3.62 | 3.47 | 3.32 | 3.20 |

| Growth (YoY) | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|----------------------|-------|------|-------|------|-------|-------|-------|-------|
| Revenues | 9% | 15% | -9% | 5% | 11% | 10% | 8% | 5% |
| EBITDA | 57% | -51% | >100% | 4% | 2% | -39% | 5% | -3% |
| EBIT (adj) | >100% | -76% | >100% | 1% | -3% | -67% | 15% | -8% |
| Pre-tax profit (rep) | nm | -83% | >100% | 11% | -10% | -49% | 9% | -14% |
| Net profit | nm | -83% | >100% | 11% | -7% | -50% | 9% | -14% |
| EPS (rep) | nm | -83% | >100% | 11% | -7% | -50% | 9% | -14% |
| EPS (adj) | >100% | -71% | >100% | 5% | -9% | -67% | 15% | -8% |

| Margins | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|----------------|--------|-------|--------|--------|--------|-------|-------|-------|
| EBITDA | 15.3 % | 6.5 % | 15.8 % | 15.6 % | 14.4 % | 8.0 % | 7.7 % | 7.1 % |
| EBIT (adj) | 9.5 % | 2.0 % | 10.1 % | 9.6 % | 8.4 % | 2.5 % | 2.7 % | 2.3 % |
| Pre-tax profit | 8.4 % | 1.3 % | 10.4 % | 10.9 % | 8.8 % | 4.1 % | 4.2 % | 3.4 % |
| Net profit | 6.1 % | 0.9 % | 8.0 % | 8.4 % | 7.0 % | 3.2 % | 3.2 % | 2.6 % |

| Profitability | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E |
|----------------|--------|-------|--------|--------|--------|-------|-------|-------|
| ROE | 10.9 % | 3.0 % | 11.3 % | 10.7 % | 8.7 % | 2.6 % | 2.9 % | 2.6 % |
| ROCE | 14.4 % | 3.3 % | 14.2 % | 12.8 % | 11.0 % | 3.4 % | 3.7 % | 3.2 % |
| 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) |
|------------|----------------|--------------------|
| 15/02/2016 | Hold | 29.00 |
| 10/11/2015 | Hold | 25.00 |
| 12/10/2015 | Hold | 25.00 |
| 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 |

Valuation

To arrive at our share price target we have used a DCF valuation with a 30% 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.

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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 | > 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.

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 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/Compliance/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, 2015:

| | Buy | Hold | Sell |
|-------------------------|-----|------|------|
| Total recommendations | 43 | 38 | 14 |
| % of total | 45% | 40% | 15% |
| Corporate clients* | 23 | 16 | 2 |
| % of corporate clients* | 56% | 39% | 5% |

* 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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