

## ContextVision

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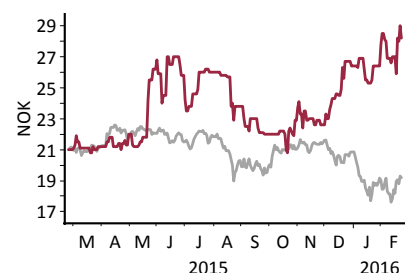
### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	215.9
Net debt (NOKm)	-36.0
EV (NOKm)	179.9
Net debt / equity	-62%

Issued shares (m)	7.737
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### Share price



—ContextVision—OSEBX (Rebased)

### Performance

	1m	3m	12m
COV	10%	27%	38%
OSEBX	2%	-10%	-8%

### Upcoming events

AGM	April 20, 2016
1Q16 report	April 21, 2016
2Q16 report	August 18, 2016
3Q16 report	October 27, 2016

Norne Securities AS is a market maker in the shares of ContextVision

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## Strong sales and good progress on R&D programme

COV presented a solid 4Q report last week with strong sales and good progress on the R&D programme. Therefore, our estimates were raised slightly, which resulted in a higher target price of NOK 31.00/sh, while Hold recommendation remained unchanged.

### Strong sales growth continues

ContextVision (COV) released its 4Q15 report last Thursday. Sales were high at SEK 18.8m, which was 4.6% better than our estimates and represented an impressive 15.5% growth YoY (+10.0% QoQ). However, costs were elevated due to the increased R&D efforts and in line with our expectations leading to adj. EBITDA of SEK 1.6m (adjusted for SEK 0.6m reduction in costs due to the government grant), which did not deviate from our SEK 1.2m projection much. The bottom line was close to zero, but still in plus and a tad better than we forecasted.

Q4/15 results	Q4/14	Q3/15	Q4/15	Q4/15E	Deviation
SEKm			Reported	Norne	
Revenues	16.2	17.0	18.8	17.9	4.6%
EBITDA adj.	1.8	3.9	1.6	1.2	27.8%
EBITDA adj. margin	11%	23%	8%	7%	2%p
EBIT	1.0	2.9	1.1	0.5	>100%
Net earnings	0.7	2.4	0.7	0.4	82.8%
EPS reported (SEK)	0.10	0.31	0.09	0.05	82.8%
EPS adjusted (SEK)	0.10	0.29	0.05	0.02	>100%

### Aggressive R&D spending leads to better-than-expected results

COV was also very excited about its aggressive R&D strategy. In the report, the company indicated that the program had generated even better results than expected and new applications using deep learning technologies are being considered. During 4Q15 COV received the first part of the EU Eurostars grant which accounted for SEK 0.6m and it was registered as a cost decrease. We are encouraged by the progress the company has made, but at this point we stick to our long-term estimates of achieving 5% share of the digital pathology market by end 2020.

### Estimates slightly up; Hold maintained and TP increased to NOK 31/sh

Following the strong 4Q report, our estimates were increased (with exception of 2017 that were adjusted marginally down). The faster pace in the R&D activities show positive signs toward the success of deep learning technology development. However, there is still a way to go till the market entry for new products and the stock price is elevated. Therefore, our Hold recommendation remains at a slightly higher TP of NOK 31.00/sh.

Interim financial statement (SEKm)	4Q15		1Q16E		2015	2016E		2017E		2018E	
	Act.	Est.	New	Old		New	Old	New	Old	New	Old
<b>Operating revenues</b>	<b>18.8</b>	<b>17.9</b>	<b>19.2</b>	<b>19.1</b>	<b>72.2</b>	<b>78.3</b>	<b>78.2</b>	<b>84.5</b>	<b>84.3</b>	<b>89.8</b>	<b>88.6</b>
EBITDA	1.6	1.2	1.7	1.5	10.5	7.2	6.2	6.0	6.5	6.8	6.3
EBITDA Margin	8%	7%	9%	8%	15%	9%	8%	7%	8%	8%	7%
<b>EBIT (adj)</b>	<b>0.5</b>	<b>0.2</b>	<b>0.6</b>	<b>0.4</b>	<b>6.3</b>	<b>2.9</b>	<b>2.0</b>	<b>1.7</b>	<b>2.2</b>	<b>2.5</b>	<b>2.1</b>
Op. EBIT margin	3%	1%	3%	2%	9%	4%	3%	2%	3%	3%	2%
Non-recurring items	0.6	0.3	0.3	0.3	0.7	1.2	1.3	1.2	1.3	0.9	0.9
EBIT	1.1	0.5	0.9	0.7	7.0	4.1	3.2	2.9	3.5	3.4	3.0
Pre-tax profit	1.1	0.5	0.9	0.7	7.0	4.1	3.2	2.9	3.5	3.4	3.0
Tax	-0.4	-0.1	-0.2	-0.2	-1.6	-0.9	-0.7	-0.6	-0.8	-0.8	-0.7
Tax rate	39%	22%	22%	22%	23%	22%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-	-
<b>Profit after tax</b>	<b>0.7</b>	<b>0.4</b>	<b>0.7</b>	<b>0.5</b>	<b>5.3</b>	<b>3.2</b>	<b>2.5</b>	<b>2.3</b>	<b>2.7</b>	<b>2.7</b>	<b>2.3</b>

## DCF model

SEKm	2016E	2017E	2018E	2019E	2020E
<b>Revenues</b>	<b>78.3</b>	<b>84.5</b>	<b>89.8</b>	<b>121.2</b>	<b>150.7</b>
EBIT	4.1	2.9	3.4	28.4	52.8
Tax on EBIT	-0.9	-0.6	-0.8	-6.2	-11.6
NOPLAT (+)	3.2	2.3	2.7	22.1	41.2
Depreciation & amortization (+)	4.3	4.3	4.3	4.3	4.3
Capital expenditure (-)	-10.7	-10.2	-8.2	-6.2	-4.2
Change in working capital (- or +)	-0.4	-1.4	-1.2	-10.4	-4.8
<b>Free Cash Flow to the Firm</b>	<b>-3.6</b>	<b>-5.0</b>	<b>-2.5</b>	<b>9.9</b>	<b>36.5</b>
NPV of FCF	-3.2	-4.1	-1.9	6.7	22.5

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-35.6	L.t. growth	2.0%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
				SEK/NOK	1.01
Risk free rate	3.0%	NPV cash flow			
Beta	1.2	2016-2020E	19.9	# shares, m	7.737
Market risk premium	6.0%	2021E-	279.4		
Cost of equity	10.2%	Total NPV cash flow	299.3		
<b>WACC</b>	<b>10.2%</b>	Equity value	335.0		
		<b>Value per share, SEK</b>	<b>43.30</b>		
		<b>Value per share, NOK</b>	<b>43.73</b>		

## Sensitivity analysis

		L.t. growth				
		1.0%	1.5%	2.0%	3.5%	4.0%
WACC	9.2%	45.2	47.9	50.9	63.1	68.8
	9.7%	42.2	44.5	47.1	57.4	62.1
	10.2%	39.4	41.5	<b>43.7</b>	52.6	56.4
	10.7%	37.0	38.8	40.8	48.4	51.7
	11.2%	34.9	36.4	38.2	44.8	47.6

<b>Profit &amp; Loss (SEKm)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Operating revenues</b>	<b>58.4</b>	<b>67.6</b>	<b>61.3</b>	<b>64.4</b>	<b>72.2</b>	<b>78.3</b>	<b>84.5</b>	<b>89.8</b>
Operating expenses	-49.4	-63.2	-51.6	-54.3	-61.7	-71.1	-78.5	-83.1
<b>EBITDA</b>	<b>8.9</b>	<b>4.4</b>	<b>9.7</b>	<b>10.1</b>	<b>10.5</b>	<b>7.2</b>	<b>6.0</b>	<b>6.8</b>
Depreciation & Amortisation	-3.4	-3.0	-3.5	-3.8	-4.3	-4.3	-4.3	-4.3
<b>EBIT (adj)</b>	<b>5.6</b>	<b>1.4</b>	<b>6.2</b>	<b>6.2</b>	<b>6.3</b>	<b>2.9</b>	<b>1.7</b>	<b>2.5</b>
Non-recurring items	-0.9	-0.7	-	0.7	0.7	1.2	1.2	0.9
EBIT	4.7	0.6	6.2	6.9	7.0	4.1	2.9	3.4
Net interest & other financial effects	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>4.9</b>	<b>0.9</b>	<b>6.3</b>	<b>7.0</b>	<b>7.0</b>	<b>4.1</b>	<b>2.9</b>	<b>3.4</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-1.3	-0.2	-1.5	-1.6	-1.6	-0.9	-0.6	-0.8
<b>Profit after tax</b>	<b>3.6</b>	<b>0.6</b>	<b>4.9</b>	<b>5.4</b>	<b>5.3</b>	<b>3.2</b>	<b>2.3</b>	<b>2.7</b>
<b>EPS rep. (SEK)</b>	<b>0.46</b>	<b>0.08</b>	<b>0.63</b>	<b>0.70</b>	<b>0.69</b>	<b>0.41</b>	<b>0.30</b>	<b>0.35</b>
<b>EPS adj. (SEK)</b>	<b>0.54</b>	<b>0.16</b>	<b>0.63</b>	<b>0.66</b>	<b>0.63</b>	<b>0.29</b>	<b>0.17</b>	<b>0.25</b>
<b>Margins</b>								
Operating margin	10%	2%	10%	10%	9%	4%	2%	3%
ROE	11%	3%	11%	11%	9%	4%	2%	3%
ROCE	14%	3%	14%	13%	11%	5%	3%	4%
Tax rate	27%	28%	23%	23%	23%	22%	22%	22%
<b>Growth rates (YoY)</b>								
Operating revenues	9%	16%	-9%	5%	12%	8%	8%	6%
EBIT (adj)	>100%	-76%	>100%	1%	1%	-54%	-41%	46%
EPS (adj)	>100%	-71%	>100%	5%	-5%	-53%	-41%	46%

<b>Balance sheet (SEKm)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	14.5	13.1	12.8	17.2	18.1	24.5	30.4	34.3
Other intangible assets	0.1	1.1	1.1	1.0	0.3	0.3	0.3	0.3
<b>Non-current Assets</b>	<b>14.6</b>	<b>14.2</b>	<b>14.0</b>	<b>18.2</b>	<b>18.3</b>	<b>24.8</b>	<b>30.7</b>	<b>34.6</b>
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	18.1	18.5	19.8	21.0
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	19.7	24.7	29.2	31.1	35.6	32.1	27.0	24.5
<b>Current Assets</b>	<b>34.1</b>	<b>40.5</b>	<b>43.3</b>	<b>45.1</b>	<b>54.2</b>	<b>51.0</b>	<b>47.3</b>	<b>46.1</b>
<b>Total assets</b>	<b>48.7</b>	<b>54.7</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>75.7</b>	<b>78.0</b>	<b>80.7</b>
Shareholders equity	40.4	41.0	45.5	50.8	57.0	60.2	62.5	65.2
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>40.4</b>	<b>41.0</b>	<b>45.5</b>	<b>50.8</b>	<b>57.0</b>	<b>60.2</b>	<b>62.5</b>	<b>65.2</b>
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	0.0	0.1	0.4	0.8	1.2	1.2	1.2	1.2
<b>Non-current liabilities</b>	<b>0.0</b>	<b>0.1</b>	<b>0.4</b>	<b>0.8</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	8.2	13.6	11.4	11.8	14.3	14.3	14.3	14.3
<b>Current liabilities</b>	<b>8.2</b>	<b>13.6</b>	<b>11.4</b>	<b>11.8</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>
<b>Total liabilities</b>	<b>8.3</b>	<b>13.7</b>	<b>11.8</b>	<b>12.6</b>	<b>15.5</b>	<b>15.5</b>	<b>15.5</b>	<b>15.5</b>
<b>Total liabilities and equity</b>	<b>48.7</b>	<b>54.7</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>75.7</b>	<b>78.0</b>	<b>80.7</b>
Working capital	14.5	15.8	14.2	14.0	18.5	18.9	20.3	21.5
Net IB debt	-19.7	-24.7	-29.2	-31.1	-35.6	-32.1	-27.0	-24.5
Capital employed	40.5	41.2	45.9	51.5	58.2	61.4	63.7	66.4
Net IB debt / equity	-49%	-60%	-64%	-61%	-62%	-53%	-43%	-38%
Equity / total assets	83%	75%	79%	80%	79%	80%	80%	81%

Share data	2011	2012	2013	2014	2015	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	27.90	27.90	27.90
Market cap (NOKm)	87	93	108	169	204	216	216	216
Enterprise value (NOKm)	71	72	81	140	169	183	189	191
EPS rep. (SEK)	0.46	0.08	0.63	0.70	0.69	0.41	0.30	0.35
EPS adj. (SEK)	0.54	0.16	0.63	0.66	0.63	0.29	0.17	0.25
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2011	2012	2013	2014	2015	2016E	2017E	2018E
EV/Sales	1.42	1.26	1.42	2.35	2.33	2.32	2.21	2.11
EV/EBITDA	9.3	19.2	9.0	15.0	16.0	25.3	31.2	27.9
EV/EBIT (adj)	14.9	62.0	14.2	24.3	26.9	62.3	>100	74.9
P/E (adj)	24.4	89.3	23.8	35.5	41.7	93.8	>100	>100
P/B (excl. goodwill)	2.53	2.66	2.56	3.59	3.58	3.55	3.42	3.28

Growth (YoY)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Revenues	9%	15%	-9%	5%	12%	8%	8%	6%
EBITDA	57%	-51%	>100%	4%	5%	-32%	-17%	13%
EBIT (adj)	>100%	-76%	>100%	1%	1%	-54%	-41%	46%
Pre-tax profit (rep)	nm	-83%	>100%	11%	-1%	-41%	-29%	17%
Net profit	nm	-83%	>100%	11%	-2%	-40%	-29%	17%
EPS (rep)	nm	-83%	>100%	11%	-2%	-40%	-29%	17%
EPS (adj)	>100%	-71%	>100%	5%	-5%	-53%	-41%	46%

Margins	2011	2012	2013	2014	2015	2016E	2017E	2018E
EBITDA	15.3 %	6.5 %	15.8 %	15.6 %	14.6 %	9.2 %	7.1 %	7.6 %
EBIT (adj)	9.5 %	2.0 %	10.1 %	9.6 %	8.7 %	3.7 %	2.0 %	2.8 %
Pre-tax profit	8.4 %	1.3 %	10.4 %	10.9 %	9.6 %	5.3 %	3.5 %	3.8 %
Net profit	6.1 %	0.9 %	8.0 %	8.4 %	7.4 %	4.1 %	2.7 %	3.0 %

Profitability	2011	2012	2013	2014	2015	2016E	2017E	2018E
ROE	10.9 %	3.0 %	11.3 %	10.7 %	9.1 %	3.9 %	2.2 %	3.1 %
ROCE	14.4 %	3.3 %	14.2 %	12.8 %	11.4 %	4.9 %	2.8 %	3.9 %
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)
24/02/2016	Hold	31.00
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

## 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.

## DISCLOSURES AND DISCLAIMER

### STANDARDS AND SUPERVISORY AUTHORITY

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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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