

## ContextVision

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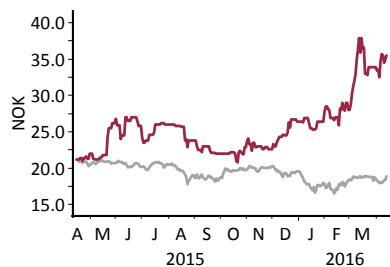
### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	274.7
Net debt (NOKm)	-36.0
EV (NOKm)	238.7
Net debt / equity	-62%

Issued shares (m)	7.737
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### Share price



—ContextVision—OSEBX (Rebased)

### Performance

	1m	3m	12m
COV	-3%	30%	65%
OSEBX	0%	6%	-10%

### Upcoming events

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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## Flat QoQ result expected; R&D program is pivotal

We maintain our Hold recommendation ahead of the 1Q16 report from COV next week. We are impressed by the progress of the growth initiatives and increase our TP to NOK 40/sh, but market's expectations are also high and valuation is demanding.

### Stable performance expected QoQ

ContextVision (COV) will release its 1Q16 report on April 21<sup>st</sup>. We expect a rather flat QoQ performance with sales of SEK 19.2m and EBITDA of SEK 1.6m. Due to the increased spending on R&D program, profits are forecasted down YoY (adj. EPS at SEK 0.06 vs SEK 0.19 a year ago), but the initial results of the growth initiative are very encouraging.

Q1/16 results	Q1/15	Q4/15	Q1/16E
SEKm			Norne
Revenues	18.4	18.8	19.2
EBITDA adj.	3.0	1.6	1.6
EBITDA adj. margin	16%	8%	9%
EBIT	1.9	1.1	0.9
Net earnings	1.5	0.7	0.7
EPS reported (SEK)	0.19	0.09	0.09
EPS adjusted (SEK)	0.19	0.05	0.06

### Bullish management comments in presentation and annual report

Since our last company update in February, the company released its annual report for 2015 and held a presentation in Oslo on March 3<sup>rd</sup>. In both of these the management was highly positive on the current stable business and more importantly the ongoing growth initiatives (increased spending on R&D). In the annual report the company states that they *have set new objectives to become a leader in further imaging applications using the latest technologies within machine learning*. These are ambitious goals, as the new markets the company talks about are related to digital pathology, which is estimated to reach SEK 1.2bn by 2018 when first products should come out from COV. Having these comments in mind, we have taken another look at our model and expanded it. Now we expect the company to reach 6.5% of the projected digital pathology market by end 2022 (5% by 2020 previously).

### Exciting opportunities ahead, but Hold maintained due to demanding pricing

We are encouraged by the recent statements from the company as well as the continuous insider purchases. Thus, after updating our model, we increase our target price to NOK 40/sh (NOK 31/sh previously), which is based on DCF with a 30% discount. However, we repeat our Hold recommendation on the stock, as the pricing seems demanding after the recent share price rally indicating that expectations are high. It is worth noting that it will still take approximately two years before new products reach the market and some time after that to reveal the sales growth potential.

Interim financial statement (SEKm)	1Q16E		2Q16E		2015	2016E		2017E		2018E	
	New	Old	New	Old		New	Old	New	Old	New	Old
<b>Operating revenues</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>72.2</b>	<b>78.0</b>	<b>78.3</b>	<b>84.2</b>	<b>84.5</b>	<b>89.6</b>	<b>89.8</b>
EBITDA	1.6	1.7	1.2	1.3	10.5	6.9	7.2	5.5	6.0	5.4	6.8
EBITDA Margin	9%	9%	7%	7%	15%	9%	9%	7%	7%	6%	8%
<b>EBIT (adj)</b>	<b>0.6</b>	<b>0.6</b>	<b>0.2</b>	<b>0.3</b>	<b>6.3</b>	<b>2.6</b>	<b>2.9</b>	<b>1.3</b>	<b>1.7</b>	<b>1.2</b>	<b>2.5</b>
Op. EBIT margin	3%	3%	1%	1%	9%	3%	4%	1%	2%	1%	3%
Non-recurring items	0.3	0.3	0.3	0.3	0.7	1.1	1.2	1.1	1.2	0.9	0.9
EBIT	0.9	0.9	0.5	0.5	7.0	3.7	4.1	2.4	2.9	2.0	3.4
Pre-tax profit	0.9	0.9	0.5	0.6	7.0	3.7	4.1	2.4	2.9	2.0	3.4
Tax	-0.2	-0.2	-0.1	-0.1	-1.6	-0.8	-0.9	-0.5	-0.6	-0.4	-0.8
Tax rate	22%	22%	22%	22%	23%	22%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-	-
<b>Profit after tax</b>	<b>0.7</b>	<b>0.7</b>	<b>0.4</b>	<b>0.4</b>	<b>5.3</b>	<b>2.9</b>	<b>3.2</b>	<b>1.9</b>	<b>2.3</b>	<b>1.6</b>	<b>2.7</b>

## DCF model

SEKm	2016E	2017E	2018E	2019E	2020E	2021E	2022E
<b>Revenues</b>	<b>78.0</b>	<b>84.2</b>	<b>89.6</b>	<b>120.9</b>	<b>150.4</b>	<b>165.5</b>	<b>176.0</b>
EBIT	3.7	2.4	2.0	26.6	50.5	60.1	65.5
Tax on EBIT	-0.8	-0.5	-0.4	-5.9	-11.1	-13.2	-14.4
NOPLAT (+)	2.9	1.9	1.6	20.8	39.4	46.9	51.1
Depreciation & amortization (+)	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Capital expenditure (-)	-11.2	-10.7	-8.2	-6.2	-4.2	-4.2	-4.2
Change in working capital (- or +)	-0.3	-1.4	-1.2	-10.4	-4.8	-3.3	-1.9
<b>Free Cash Flow to the Firm</b>	<b>-4.3</b>	<b>-5.9</b>	<b>-3.6</b>	<b>8.5</b>	<b>34.7</b>	<b>43.6</b>	<b>49.3</b>
NPV of FCF	-3.9	-4.9	-2.7	5.8	21.3	24.4	25.0

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-35.6	L.t. growth	2.5%
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	2016-2022E	65.0	# shares, m	7.737
Market risk premium	6.0%	2023E-	332.3		
Cost of equity	10.2%	Total NPV cash flow	397.3		
<b>WACC</b>	<b>10.2%</b>	Equity value	432.9		
		<b>Value per share, SEK</b>	<b>55.96</b>		
		<b>Value per share, NOK</b>	<b>56.52</b>		

## Sensitivity analysis

	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
<b>9.2%</b>	59.4	62.9	66.8	76.7	83.1
<b>9.7%</b>	55.0	58.0	61.3	69.6	74.8
<b>10.2%</b>	51.2	53.7	<b>56.5</b>	63.5	67.8
<b>10.7%</b>	47.7	49.9	52.4	58.3	61.9
<b>11.2%</b>	44.7	46.6	48.7	53.8	56.8

<b>Profit &amp; Loss (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
<b>Operating revenues</b>	<b>67.6</b>	<b>61.3</b>	<b>64.4</b>	<b>72.2</b>	<b>78.0</b>	<b>84.2</b>	<b>89.6</b>	<b>120.9</b>
Operating expenses	-63.2	-51.6	-54.3	-61.7	-71.2	-78.7	-84.1	-90.0
<b>EBITDA</b>	<b>4.4</b>	<b>9.7</b>	<b>10.1</b>	<b>10.5</b>	<b>6.9</b>	<b>5.5</b>	<b>5.4</b>	<b>30.9</b>
Depreciation & Amortisation	-3.0	-3.5	-3.8	-4.3	-4.3	-4.3	-4.3	-4.3
<b>EBIT (adj)</b>	<b>1.4</b>	<b>6.2</b>	<b>6.2</b>	<b>6.3</b>	<b>2.6</b>	<b>1.3</b>	<b>1.2</b>	<b>26.6</b>
Non-recurring items	-0.7	-	0.7	0.7	1.1	1.1	0.9	-
EBIT	0.6	6.2	6.9	7.0	3.7	2.4	2.0	26.6
Net interest & other financial effects	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>0.9</b>	<b>6.3</b>	<b>7.0</b>	<b>7.0</b>	<b>3.7</b>	<b>2.4</b>	<b>2.0</b>	<b>26.6</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-0.2	-1.5	-1.6	-1.6	-0.8	-0.5	-0.4	-5.9
<b>Profit after tax</b>	<b>0.6</b>	<b>4.9</b>	<b>5.4</b>	<b>5.3</b>	<b>2.9</b>	<b>1.9</b>	<b>1.6</b>	<b>20.8</b>
<b>EPS rep. (SEK)</b>	<b>0.08</b>	<b>0.63</b>	<b>0.70</b>	<b>0.69</b>	<b>0.38</b>	<b>0.24</b>	<b>0.20</b>	<b>2.69</b>
<b>EPS adj. (SEK)</b>	<b>0.16</b>	<b>0.63</b>	<b>0.66</b>	<b>0.63</b>	<b>0.26</b>	<b>0.13</b>	<b>0.12</b>	<b>2.69</b>
<b>Margins</b>								
Operating margin	2%	10%	10%	9%	3%	1%	1%	22%
ROE	3%	11%	11%	9%	3%	2%	1%	28%
ROCE	3%	14%	13%	11%	4%	2%	2%	36%
Tax rate	28%	23%	23%	23%	22%	22%	22%	22%
<b>Growth rates (YoY)</b>								
Operating revenues	16%	-9%	5%	12%	8%	8%	6%	35%
EBIT (adj)	-76%	>100%	1%	1%	-59%	-52%	-7%	>100%
EPS (adj)	-71%	>100%	5%	-5%	-59%	-52%	-7%	>100%

<b>Cash flow (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Pre-tax profit	0.9	6.3	7.0	7.0	3.7	2.4	2.0	26.6
Depreciation and amortisation	3.8	3.5	3.9	4.3	4.3	4.3	4.3	4.3
Unrealized gain/loss on current investments	-0.2	0.2	-0.6	0.8	-	-	-	-
Paid taxes	-1.4	-0.7	-0.3	-2.0	-0.8	-0.5	-0.4	-5.9
Other	-	-	-	-	-	-	-	-
Change in working capital	5.3	-1.8	0.2	-0.9	-0.3	-1.4	-1.2	-10.4
<b>Operating cash flow (OCF)</b>	<b>8.5</b>	<b>7.7</b>	<b>10.3</b>	<b>9.2</b>	<b>6.9</b>	<b>4.7</b>	<b>4.6</b>	<b>14.7</b>
Capital expenditures	-2.4	-3.2	-8.5	-5.4	-11.2	-10.7	-8.2	-6.2
Other cash flow from investments	-1.0	-	0.2	0.7	-	-	-	-
<b>Free Cash Flow (FCF)</b>	<b>5.0</b>	<b>4.4</b>	<b>2.0</b>	<b>4.5</b>	<b>-4.3</b>	<b>-5.9</b>	<b>-3.6</b>	<b>8.5</b>
Cash flow from financing activities	-	-	-	-	-	-	-	-
<b>Change in cash</b>	<b>5.0</b>	<b>4.4</b>	<b>2.0</b>	<b>4.5</b>	<b>-4.3</b>	<b>-5.9</b>	<b>-3.6</b>	<b>8.5</b>

<b>Balance sheet (SEKm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	13.1	12.8	17.2	18.1	25.0	31.4	35.3	37.3
Other intangible assets	1.1	1.1	1.0	0.3	0.3	0.3	0.3	0.3
<b>Non-current Assets</b>	<b>14.2</b>	<b>14.0</b>	<b>18.2</b>	<b>18.3</b>	<b>25.3</b>	<b>31.7</b>	<b>35.6</b>	<b>37.5</b>
Inventory	0.3	0.4	0.5	0.4	0.4	0.5	0.5	0.8
Receivables	15.5	13.8	13.5	18.1	18.4	19.7	21.0	31.1
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	24.7	29.2	31.1	35.6	31.3	25.4	21.8	30.3
<b>Current Assets</b>	<b>40.5</b>	<b>43.3</b>	<b>45.1</b>	<b>54.2</b>	<b>50.2</b>	<b>45.6</b>	<b>43.3</b>	<b>62.1</b>
<b>Total assets</b>	<b>54.7</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>75.4</b>	<b>77.3</b>	<b>78.9</b>	<b>99.7</b>
Shareholders equity	41.0	45.5	50.8	57.0	60.0	61.8	63.4	84.2
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>41.0</b>	<b>45.5</b>	<b>50.8</b>	<b>57.0</b>	<b>60.0</b>	<b>61.8</b>	<b>63.4</b>	<b>84.2</b>
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	0.1	0.4	0.8	1.2	1.2	1.2	1.2	1.2
<b>Non-current liabilities</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>	<b>1.2</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	13.6	11.4	11.8	14.3	14.3	14.3	14.3	14.3
<b>Current liabilities</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>14.3</b>
<b>Total liabilities</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>15.5</b>
<b>Total liabilities and equity</b>	<b>54.7</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>75.4</b>	<b>77.3</b>	<b>78.9</b>	<b>99.7</b>
Working capital	15.8	14.2	14.0	18.5	18.8	20.2	21.5	31.8
Net IB debt	-24.7	-29.2	-31.1	-35.6	-31.3	-25.4	-21.8	-30.3
Capital employed	41.2	45.9	51.5	58.2	61.2	63.0	64.6	85.4
Net IB debt / equity	-60%	-64%	-61%	-62%	-52%	-41%	-34%	-36%
Equity / total assets	75%	79%	80%	79%	79%	80%	80%	84%

Share data	2012	2013	2014	2015	2016E	2017E	2018E	2019E
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)	12.00	14.00	21.90	26.40	35.50	35.50	35.50	35.50
Market cap (NOKm)	93	108	169	204	275	275	275	275
Enterprise value (NOKm)	72	81	140	169	243	249	253	244
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.38	0.24	0.20	2.69
EPS adj. (SEK)	0.16	0.63	0.66	0.63	0.26	0.13	0.12	2.69
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EV/Sales	1.26	1.42	2.35	2.33	3.08	2.93	2.79	2.00
EV/EBITDA	19.2	9.0	15.0	16.0	35.1	44.7	46.1	7.8
EV/EBIT (adj)	62.0	14.2	24.3	26.9	92.7	>100	>100	9.1
P/E (adj)	89.3	23.8	35.5	41.7	>100	>100	>100	13.1
P/B (excl. goodwill)	2.66	2.56	3.59	3.58	4.54	4.40	4.29	3.23

Growth (YoY)	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Revenues	16%	-9%	5%	12%	8%	8%	6%	35%
EBITDA	-51%	121%	4%	5%	-35%	-20%	-2%	470%
EBIT (adj)	-76%	353%	1%	1%	-59%	-52%	-7%	>1,000%
Pre-tax profit (rep)	-83%	639%	11%	-1%	-46%	-36%	-16%	>1,000%
Net profit (rep)	-83%	691%	11%	-2%	-45%	-36%	-16%	>1,000%
EPS (rep)	-83%	691%	11%	-2%	-45%	-36%	-16%	>1,000%
EPS (adj)	-71%	301%	5%	-5%	-59%	-52%	-7%	>1,000%

Margins	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EBITDA	6.5 %	15.8 %	15.6 %	14.6 %	8.8 %	6.5 %	6.1 %	25.6 %
EBIT (adj)	2.0 %	10.1 %	9.6 %	8.7 %	3.3 %	1.5 %	1.3 %	22.0 %
Pre-tax profit	1.3 %	10.4 %	10.9 %	9.6 %	4.8 %	2.9 %	2.3 %	22.0 %
Net profit	0.9 %	8.0 %	8.4 %	7.4 %	3.7 %	2.2 %	1.8 %	17.2 %

Profitability	2012	2013	2014	2015	2016E	2017E	2018E	2019E
ROE	3.0 %	11.3 %	10.7 %	9.1 %	3.5 %	1.6 %	1.5 %	28.2 %
ROCE	3.3 %	14.2 %	12.8 %	11.4 %	4.3 %	2.0 %	1.8 %	35.5 %
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)
14/04/2016	Hold	40.00
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

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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

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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/compliance/>. 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, 2016:

	Buy	Hold	Sell
Total recommendations	41	34	10
% of total	48%	40%	12%
Corporate clients*	20	22	3
% of corporate clients*	44%	49%	7%

\* 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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