

## ContextVision

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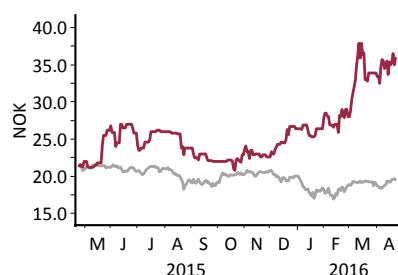
### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	278
Net debt (NOKm)	-38
EV (NOKm)	239
Net debt / equity	-65%

Issued shares (m)	7.7
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### Share price



—ContextVision—OSEBX (Rebased)

### Performance

	1m	3m	12m
COV	3%	37%	64%
OSEBX	2%	12%	-9%

### Upcoming events

2Q16 report	August 18, 2016
3Q16 report	October 27, 2016

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

### Analyst

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## Existing business maintains good profitability; growth strategy on track

COV's 1Q report last week did not bring any breaking news – the profitability was strong even with a bit lower sales. At the same time it is encouraging to see that the initiatives towards the digital pathology are on track, while the existing business maintains good top line and margins. After making only minor adjustments to our model, we reiterate Hold recommendation with an unchanged target price of NOK 40/sh.

### Good profitability in 1Q

ContextVision (COV) released its 1Q16 report last Thursday. Sales of SEK 18.4m were slightly below our SEK 19.2m estimate. However, profitability was good and EBITDA of SEK 2.5m exceeded our SEK 1.6m projection. Notably, the company did not recognise any cost reduction related to the government grant, as it will be paid in 4Q16 and only then the cost reduction will happen.

It is worth noting that the company is growing strongly in Asia (+30% YoY), as Japanese market is developing well. Even though European sales declined 11% YoY, the company indicates that this was as expected, while the struggles in the US continue with YoY sales drop of 32% (+28% QoQ from a very weak 4Q15). COV indicates that some of its customers are suffering from weaker demand in the US, thus affecting sales.

Q1/16 results	Q1/15	Q4/15	Q1/16	Q1/16E	Deviation
SEKm			Reported	Norne	
Revenues	18.4	18.8	18.4	19.2	-4%
EBITDA adj.	3.0	1.6	2.5	1.6	50%
EBITDA adj. margin	16%	8%	13%	9%	4.8%p
EBIT	1.9	1.1	1.4	0.9	64%
Net earnings	1.5	0.7	1.1	0.7	65%
EPS reported (SEK)	0.19	0.09	0.14	0.09	65%
EPS adjusted (SEK)	0.19	0.05	0.14	0.06	144%

### New contract within ultrasound; on track towards digital pathology market

COV announced that it has signed a contract with a major global ultrasound manufacturer. Notably, the new contract broadens the previous one. Also, the company indicated that the developments towards digital pathology market are on track and the management was highly optimistic, but no breaking news was announced.

### Small downward adjustment to sales does not impact valuation

Our sales estimates were revised down slightly following the report, but the effect was largely offset by cost forecast adjustments. Thus, we maintain our target price of NOK 40/sh and Hold recommendation, as the company's progress is encouraging, but pricing remains rich.

Interim financial statement (SEKm)	1Q16		2Q16E		2015	2016E		2017E		2018E	
	Act.	Est.	New	Old		New	Old	New	Old	New	Old
<b>Operating revenues</b>	<b>18.4</b>	<b>19.2</b>	<b>19.0</b>	<b>19.2</b>	<b>72.2</b>	<b>76.6</b>	<b>78.0</b>	<b>81.8</b>	<b>84.2</b>	<b>86.8</b>	<b>89.6</b>
EBITDA	2.5	1.6	1.4	1.2	10.5	7.4	6.9	5.2	5.5	4.9	5.4
EBITDA Margin	13%	9%	7%	7%	15%	10%	9%	6%	7%	6%	6%
<b>EBIT (adj)</b>	<b>1.4</b>	<b>0.6</b>	<b>0.3</b>	<b>0.2</b>	<b>6.3</b>	<b>3.2</b>	<b>2.6</b>	<b>0.9</b>	<b>1.3</b>	<b>0.6</b>	<b>1.2</b>
Op. EBIT margin	8%	3%	2%	1%	9%	4%	3%	1%	1%	1%	1%
Non-recurring items	-	0.3	-	0.3	0.7	1.1	1.1	1.1	1.1	0.9	0.9
EBIT	1.4	0.9	0.3	0.5	7.0	4.3	3.7	2.1	2.4	1.5	2.0
Pre-tax profit	1.4	0.9	0.3	0.5	7.0	4.3	3.7	2.1	2.4	1.5	2.0
Tax	-0.3	-0.2	-0.1	-0.1	-1.6	-0.9	-0.8	-0.5	-0.5	-0.3	-0.4
Tax rate	21%	22%	22%	22%	23%	22%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-	-
<b>Profit after tax</b>	<b>1.1</b>	<b>0.7</b>	<b>0.2</b>	<b>0.4</b>	<b>5.3</b>	<b>3.4</b>	<b>2.9</b>	<b>1.6</b>	<b>1.9</b>	<b>1.1</b>	<b>1.6</b>

## DCF model

SEKm	2Q-4Q 2016E	2017E	2018E	2019E	2020E	2021E	2022E
<b>Revenues</b>	<b>58.2</b>	<b>81.8</b>	<b>86.8</b>	<b>117.8</b>	<b>147.2</b>	<b>162.2</b>	<b>172.5</b>
EBIT	2.9	2.1	1.5	26.0	49.9	59.6	65.2
Tax on EBIT	-0.6	-0.5	-0.3	-5.7	-11.0	-13.1	-14.3
NOPLAT (+)	2.2	1.6	1.1	20.3	38.9	46.5	50.8
Depreciation & amortization (+)	3.2	4.2	4.2	4.2	4.2	4.2	4.2
Capital expenditure (-)	-7.7	-11.7	-8.2	-6.2	-4.2	-4.2	-4.2
Change in working capital (- or +)	-3.6	-1.3	-1.2	-10.3	-4.7	-3.3	-1.9
<b>Free Cash Flow to the Firm</b>	<b>-5.8</b>	<b>-7.2</b>	<b>-4.0</b>	<b>8.0</b>	<b>34.2</b>	<b>43.2</b>	<b>49.0</b>
NPV of FCF	-5.4	-6.1	-3.1	5.6	21.6	24.7	25.4

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-38.0	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	2Q-4Q 2016-2022E	62.8	# shares, m	7.737
Market risk premium	6.0%	2023E-	338.4		
Cost of equity	10.2%	Total NPV cash flow	401.2		
<b>WACC</b>	<b>10.2%</b>	Equity value	439.3		
		<b>Value per share, SEK</b>	<b>56.78</b>		
		<b>Value per share, NOK</b>	<b>57.34</b>		

## Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9.2%	60.2	63.7	67.7	77.8	84.3
9.7%	55.8	58.7	62.1	70.5	75.9
10.2%	51.9	54.4	<b>57.3</b>	64.4	68.8
10.7%	48.4	50.7	53.2	59.2	62.9
11.2%	45.4	47.3	49.5	54.7	57.8

<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>76.6</b>	<b>81.8</b>	<b>86.8</b>	<b>117.8</b>
Operating expenses	-63.2	-51.6	-54.3	-61.7	-69.2	-76.7	-81.9	-87.5
<b>EBITDA</b>	<b>4.4</b>	<b>9.7</b>	<b>10.1</b>	<b>10.5</b>	<b>7.4</b>	<b>5.2</b>	<b>4.9</b>	<b>30.3</b>
Depreciation & Amortisation	-3.0	-3.5	-3.8	-4.3	-4.2	-4.2	-4.2	-4.2
<b>EBIT (adj)</b>	<b>1.4</b>	<b>6.2</b>	<b>6.2</b>	<b>6.3</b>	<b>3.2</b>	<b>0.9</b>	<b>0.6</b>	<b>26.0</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	4.3	2.1	1.5	26.0
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>4.3</b>	<b>2.1</b>	<b>1.5</b>	<b>26.0</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-0.2	-1.5	-1.6	-1.6	-0.9	-0.5	-0.3	-5.7
<b>Profit after tax</b>	<b>0.6</b>	<b>4.9</b>	<b>5.4</b>	<b>5.3</b>	<b>3.4</b>	<b>1.6</b>	<b>1.1</b>	<b>20.3</b>
<b>EPS rep. (SEK)</b>	<b>0.08</b>	<b>0.63</b>	<b>0.70</b>	<b>0.69</b>	<b>0.43</b>	<b>0.21</b>	<b>0.15</b>	<b>2.62</b>
<b>EPS adj. (SEK)</b>	<b>0.16</b>	<b>0.63</b>	<b>0.66</b>	<b>0.63</b>	<b>0.32</b>	<b>0.09</b>	<b>0.06</b>	<b>2.62</b>
<b>Margins</b>								
Operating margin	2%	10%	10%	9%	4%	1%	1%	22%
ROE	3%	11%	11%	9%	4%	1%	1%	28%
ROCE	3%	14%	13%	11%	5%	1%	1%	35%
Tax rate	28%	23%	23%	23%	22%	22%	22%	22%
<b>Growth rates (YoY)</b>								
Operating revenues	16%	-9%	5%	12%	6%	7%	6%	36%
EBIT (adj)	-76%	>100%	1%	1%	-50%	-71%	-34%	>100%
EPS (adj)	-71%	>100%	5%	-5%	-50%	-71%	-34%	>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	4.3	2.1	1.5	26.0
Depreciation and amortisation	3.8	3.5	3.9	4.3	4.2	4.2	4.2	4.2
Unrealized gain/loss on current investments	-0.2	0.2	-0.6	0.8	0.1	-	-	-
Paid taxes	-1.4	-0.7	-0.3	-2.0	-1.1	-0.5	-0.3	-5.7
Other	-	-	-	-	-	-	-	-
Change in working capital	5.3	-1.8	0.2	-0.9	-1.9	-1.3	-1.2	-10.3
<b>Operating cash flow (OCF)</b>	<b>8.5</b>	<b>7.7</b>	<b>10.3</b>	<b>9.2</b>	<b>5.6</b>	<b>4.5</b>	<b>4.2</b>	<b>14.2</b>
Capital expenditures	-2.4	-3.2	-8.5	-5.4	-9.0	-11.7	-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>-3.4</b>	<b>-7.2</b>	<b>-4.0</b>	<b>8.0</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>-3.4</b>	<b>-7.2</b>	<b>-4.0</b>	<b>8.0</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	22.8	30.3	34.2	36.2
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>23.1</b>	<b>30.5</b>	<b>34.5</b>	<b>36.4</b>
Inventory	0.3	0.4	0.5	0.4	0.4	0.5	0.5	0.7
Receivables	15.5	13.8	13.5	18.1	18.1	19.4	20.5	30.6
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	24.7	29.2	31.1	35.6	32.2	25.0	21.0	29.1
<b>Current Assets</b>	<b>40.5</b>	<b>43.3</b>	<b>45.1</b>	<b>54.2</b>	<b>50.8</b>	<b>44.9</b>	<b>42.1</b>	<b>60.4</b>
<b>Total assets</b>	<b>54.7</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>73.8</b>	<b>75.4</b>	<b>76.6</b>	<b>96.9</b>
Shareholders equity	41.0	45.5	50.8	57.0	60.4	62.0	63.1	83.5
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>41.0</b>	<b>45.5</b>	<b>50.8</b>	<b>57.0</b>	<b>60.4</b>	<b>62.0</b>	<b>63.1</b>	<b>83.5</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	12.2	12.2	12.2	12.2
<b>Current liabilities</b>	<b>13.6</b>	<b>11.4</b>	<b>11.8</b>	<b>14.3</b>	<b>12.2</b>	<b>12.2</b>	<b>12.2</b>	<b>12.2</b>
<b>Total liabilities</b>	<b>13.7</b>	<b>11.8</b>	<b>12.6</b>	<b>15.5</b>	<b>13.4</b>	<b>13.4</b>	<b>13.4</b>	<b>13.4</b>
<b>Total liabilities and equity</b>	<b>54.7</b>	<b>57.3</b>	<b>63.3</b>	<b>72.5</b>	<b>73.8</b>	<b>75.4</b>	<b>76.6</b>	<b>96.9</b>
Working capital	15.8	14.2	14.0	18.5	18.5	19.9	21.0	31.4
Net IB debt	-24.7	-29.2	-31.1	-35.6	-32.2	-25.0	-21.0	-29.1
Capital employed	41.2	45.9	51.5	58.2	61.6	63.2	64.4	84.7
Net IB debt / equity	-60%	-64%	-61%	-62%	-53%	-40%	-33%	-35%
Equity / total assets	75%	79%	80%	79%	82%	82%	82%	86%

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	35.90	35.90	35.90	35.90
Market cap (NOKm)	93	108	169	204	278	278	278	278
Enterprise value (NOKm)	72	81	140	169	245	252	256	248
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.43	0.21	0.15	2.62
EPS adj. (SEK)	0.16	0.63	0.66	0.63	0.32	0.09	0.06	2.62
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EV/Sales	1.26	1.42	2.35	2.33	3.17	3.05	2.93	2.09
EV/EBITDA	19.2	9.0	15.0	16.0	32.8	48.4	52.4	8.1
EV/EBIT (adj)	62.0	14.2	24.3	26.9	76.8	>100	>100	9.4
P/E (adj)	89.3	23.8	35.5	41.7	>100	>100	>100	13.5
P/B (excl. goodwill)	2.66	2.56	3.59	3.58	4.55	4.43	4.35	3.30

Growth (YoY)	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Revenues	16%	-9%	5%	12%	6%	7%	6%	36%
EBITDA	-51%	121%	4%	5%	-30%	-30%	-6%	524%
EBIT (adj)	-76%	353%	1%	1%	-50%	-71%	-34%	>1,000%
Pre-tax profit (rep)	-83%	639%	11%	-1%	-38%	-52%	-29%	>1,000%
Net profit (rep)	-83%	691%	11%	-2%	-37%	-52%	-29%	>1,000%
EPS (rep)	-83%	691%	11%	-2%	-37%	-52%	-29%	>1,000%
EPS (adj)	-71%	301%	5%	-5%	-50%	-71%	-34%	>1,000%

Margins	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EBITDA	6.5 %	15.8 %	15.6 %	14.6 %	9.7 %	6.3 %	5.6 %	25.7 %
EBIT (adj)	2.0 %	10.1 %	9.6 %	8.7 %	4.1 %	1.1 %	0.7 %	22.1 %
Pre-tax profit	1.3 %	10.4 %	10.9 %	9.6 %	5.6 %	2.5 %	1.7 %	22.1 %
Net profit	0.9 %	8.0 %	8.4 %	7.4 %	4.4 %	2.0 %	1.3 %	17.2 %

Profitability	2012	2013	2014	2015	2016E	2017E	2018E	2019E
ROE	3.0 %	11.3 %	10.7 %	9.1 %	4.2 %	1.2 %	0.8 %	27.7 %
ROCE	3.3 %	14.2 %	12.8 %	11.4 %	5.3 %	1.5 %	0.9 %	34.9 %
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)
25/04/2016	Hold	40.00
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

### 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

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 to the report 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/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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