

## ContextVision

BUY

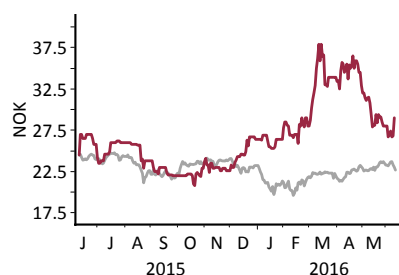
### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	224
Net debt (NOKm)	-38
EV (NOKm)	186
Net debt / equity	-65%

Issued shares (m)	7.7
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### Share price



–ContextVision–OSEBX (Rebased)

### Performance

	1m	3m	12m
COV	-1%	-23%	7%
OSEBX	-1%	2%	-6%

### Upcoming events

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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## Upgrade on share price weakness

We view the recent COV share price drop as unjustified and upgrade our recommendation to Buy with an unchanged TP of NOK 40/sh. Existing business is developing well, while the R&D initiatives provide huge growth potential in the long run.

### Huge growth potential within Digital Pathology

ContextVision (COV) is currently in transformation phase. Medical image enhancement has been the main business of the company for many years, but the market is mature and there is limited room for significant growth. Therefore, the company started to look for growth opportunities elsewhere and started an aggressive R&D programme last year. The focus of the programme is on Digital Pathology – a market estimated at SEK 1.2bn by 2018. For comparison, the market COV is currently operating in is estimated at around SEK 170m (the company is a market leader with ca 40% market share). Therefore, Digital Pathology opens up huge growth potential for the company and COV aims for a leader position within this market.

The first products from the initiative are expected to enter the market in 2018 (applications for prostate and other cancer detection/treatment). In our model, we include first modest sales from 2019 and growing market share of the Digital Pathology market gradually to 6.5% by 2022. This is not a leadership position COV aims at, but still indicates a strong growth potential.

### Solid existing business

Even though the markets COV is currently in are mature and growth potential is limited, the company managed to increase revenues by 12% last year (large part due to FX) and by an average of 6-7% over the past 5 years. We expect such profitable growth of existing business to continue in the coming few years until new products enter Digital Pathology market. Therefore, in addition to strong growth potential in new markets, the company has a stable and profitable existing business.

### Strong balance sheet supports growth initiatives

At the end of 1Q16, the company had a cash position of SEK 38m (the highest over the past ten years) with no interest-bearing debt. Thus, the strong balance sheet combined with the solid existing business support the ongoing growth initiatives and there is limited need for additional funding.

### Upgrade to Buy on share price weakness

The share price depreciated by 23% since the peak reached in mid-March. On the other hand, the existing business was developing well and the growth initiatives were on track. Therefore, we find the share price drop as unjustified and upgrade our recommendation to Buy (from Hold) with an unchanged target price of NOK 40/sh.

Estimate changes (SEKm)	2Q16E		3Q16E		2016E		2017E		2018E	
	New	Old	New	Old	New	Old	New	Old	New	Old
<b>Operating revenues</b>	<b>19.0</b>	<b>19.0</b>	<b>19.0</b>	<b>19.0</b>	<b>76.6</b>	<b>76.6</b>	<b>81.8</b>	<b>81.8</b>	<b>86.8</b>	<b>86.8</b>
EBITDA	1.4	1.4	1.8	1.8	7.4	7.4	5.2	5.2	4.9	4.9
EBITDA Margin	7%	7%	9%	9%	10%	10%	6%	6%	6%	6%
<b>EBIT (adj)</b>	<b>0.3</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>3.2</b>	<b>3.2</b>	<b>0.9</b>	<b>0.9</b>	<b>0.6</b>	<b>0.6</b>
Op. EBIT margin	2%	2%	4%	4%	4%	4%	1%	1%	1%	1%
Non-recurring items	-	-	0.9	0.9	1.1	1.1	1.1	1.1	0.9	0.9
EBIT	0.3	0.3	1.5	1.5	4.3	4.3	2.1	2.1	1.5	1.5
Pre-tax profit	0.3	0.3	1.5	1.5	4.3	4.3	2.1	2.1	1.5	1.5
Tax	-0.1	-0.1	-0.3	-0.3	-0.9	-0.9	-0.5	-0.5	-0.3	-0.3
Tax rate	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-
<b>Profit after tax</b>	<b>0.2</b>	<b>0.2</b>	<b>1.2</b>	<b>1.2</b>	<b>3.4</b>	<b>3.4</b>	<b>1.6</b>	<b>1.6</b>	<b>1.1</b>	<b>1.1</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 FCFF	-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	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
				SEK/NOK	1.00
Risk free rate	3.0%	NPV cash flow		# shares, m*	7.642
Beta	1.2	2Q-4Q 2016-2022E	62.8	* ex. treasury shares	
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>57.48</b>		
		<b>Value per share, NOK</b>	<b>57.48</b>		

## Sensitivity analysis

WACC	Lt. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9.2%	60.3	63.8	67.8	77.9	84.5
9.7%	55.9	58.9	62.3	70.7	76.0
10.2%	52.0	54.6	<b>57.5</b>	64.6	69.0
10.7%	48.6	50.8	53.3	59.3	63.0
11.2%	45.5	47.4	49.6	54.8	57.9

<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	29.00	29.00	29.00	29.00
Market cap (NOKm)	93	108	169	204	224	224	224	224
Enterprise value (NOKm)	72	81	140	169	192	199	203	195
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	1.3	1.4	2.3	2.3	2.5	2.4	2.3	1.7
EV/EBITDA	19.2	9.0	15.0	16.0	26.0	38.6	41.9	6.5
EV/EBIT (adj)	62.0	14.2	24.3	26.9	60.7	>100	>100	7.5
P/E (adj)	89.3	23.8	35.5	41.7	90.8	>100	>100	11.0
P/B (excl. goodwill)	2.7	2.6	3.6	3.6	3.7	3.6	3.6	2.7

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)
14/06/2016	Buy	40.00
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

### 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

This report has been prepared by Norne Securities AS, which is supervised by The Financial Supervisory Authority of Norway (Finanstilsynet). Industry standards issued by The Norwegian Securities Dealers Association (Verdipapirforetakenes Forbund) ([www.vpff.no](http://www.vpff.no)) have been used in preparing this report.

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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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This report has not been presented to the issuer before dissemination for a check of factual information.

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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