

ContextVision

HOLD

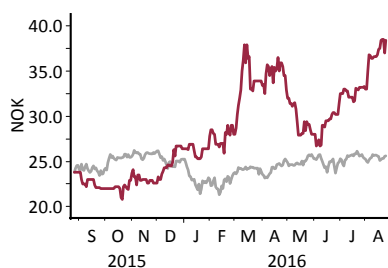
Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	296
Net debt (NOKm)	-39
EV (NOKm)	258
Net debt / equity	-67%

Issued shares (m)	7.7
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Share price



—ContextVision—OSEBX (Rebased)

Performance

	1m	3m	12m
COV	11%	26%	55%
OSEBX	0%	1%	8%

Upcoming events

3Q16 report	October 27, 2016
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Norne Securities AS is a market maker in the shares of ContextVision

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More fairly valued after rally

ContextVision's 2Q results showed that its existing business is doing well, cash position remains very strong even with high R&D spending, and growth strategy is also on track towards digital pathology market in 2018. Still, due to the recent rally in the share price we downgrade our recommendation to Hold at a tad higher TP of NOK 41/sh.

Adj. 2Q EBITDA exceeded forecast

ContextVision released its 2Q16 report last week. Sales were only 4% short of our forecast but adj. EBITDA (excluding research costs) of SEK 5.0m was 31% higher than expected by us. EBIT came in line and the bottom line was virtually as expected.

Q2/16 results	Q2/15	Q1/16	Q2/16	Q2/16E	Deviation
SEKm			Reported	Norne	
Revenues	18.1	18.4	18.3	19.0	-4%
EBITDA adj.	4.1	5.7	5.0	3.8	31%
EBITDA adj. margin	23%	31%	27%	20%	7.1%p
Research costs	-2.0	-3.2	-4.4	-3.2	nm
EBITDA	2.1	2.5	0.6	0.6	-6%
EBIT	1.0	1.4	-0.5	-0.5	nm
Net earnings	0.8	1.1	-0.5	-0.4	nm
EPS reported (SEK)	0.10	0.14	-0.06	-0.05	nm
EPS adjusted (SEK)	0.30	0.47	0.39	0.28	40%

Increased research spending, but cash position remains strong

The cost of research mainly within digital pathology field during 2Q amounted to SEK 4.4m, an increase of 37% compared to 1Q. We expected a figure of SEK 3.2m. We are not discouraged by the higher-than-expected costs, as this also indicates that activity is high. More importantly, COV continues to progress well with the project – patent filed, international advisory board created, developed new method for selection of input data for the development of artificial intelligence. Also, despite high costs, cash position managed to even grow slightly from the last quarter to SEK 38.6m, exceeding our estimate of SEK 34.9m.

Impressive progress but share price almost caught up with it

Our 2016 adj. EBITDA estimates remained largely intact, while long-term forecasts were adjusted slightly upwards. We have also increased our research spending projections, which resulted in somewhat lower bottom line estimates. We are encouraged by the company's existing business development and impressed by the research activity progress. However, after the recent rally (33% since our upgrade in mid-June), the stock seems more fairly valued and we downgrade our recommendation to Hold. TP is upped a bit to NOK 41/sh (NOK 40/sh previously).

Estimate changes (SEKm)	2Q16		3Q16E		2016E		2017E		2018E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Operating revenues	18.3	19.0	17.6	19.0	74.7	76.6	79.5	81.8	84.4	86.8
EBITDA	5.0	3.8	4.5	5.9	19.6	19.6	15.5	13.7	12.6	11.9
EBITDA Margin	27%	20%	25%	31%	26%	26%	20%	17%	15%	14%
EBIT (adj)	3.9	2.7	3.4	4.8	15.3	15.4	11.2	9.4	8.3	7.6
Op. EBIT margin	21%	14%	19%	25%	21%	20%	14%	12%	10%	9%
Non-recurring items	-4.4	-3.2	-4.4	-2.3	-15.5	-11.6	-12.9	-8.1	-10.4	-5.9
EBIT	-0.5	-0.5	-1.0	2.5	-0.2	3.8	-1.7	1.3	-2.2	1.7
Pre-tax profit	-0.6	-0.5	-1.0	2.5	-0.2	3.8	-1.7	1.3	-2.2	1.7
Tax	0.1	0.1	0.2	-0.5	0.0	-0.8	0.4	-0.3	0.5	-0.4
Tax rate	15%	22%	22%	22%	7%	22%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-
Profit after tax	-0.5	-0.4	-0.8	1.9	-0.2	2.9	-1.3	1.0	-1.7	1.3

DCF model

SEKm	2H 2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues	38.0	79.5	84.4	115.4	144.8	159.7	170.0
EBIT	-1.1	-1.7	-2.2	21.9	46.3	57.9	66.0
Tax on EBIT	0.2	0.4	0.5	-4.8	-10.2	-12.7	-14.5
NOPLAT (+)	-0.8	-1.3	-1.7	17.1	36.1	45.2	51.5
Depreciation & amortization (+)	2.1	4.3	4.3	4.3	4.3	4.3	4.3
Capital expenditure (-)	-2.8	-11.2	-9.7	-6.2	-4.2	-4.2	-4.2
Change in working capital (- or +)	-0.4	-1.3	-1.2	-10.3	-4.7	-3.3	-1.9
Free Cash Flow to the Firm	-1.9	-9.6	-8.3	4.9	31.5	42.0	49.7
NPV of FCFE	-1.8	-8.3	-6.5	3.5	20.3	24.6	26.4

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-38.6	L.t. 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	2H 2016-2022E	58.2	* ex. treasury shares	
Market risk premium	6.0%	2023E-	351.9		
Cost of equity	10.2%	Total NPV cash flow	410.1		
WACC	10.2%	Equity value	448.7		
		Value per share, SEK	58.72		
		Value per share, NOK	58.72		

Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9.2%	61.5	65.1	69.3	79.8	86.5
9.7%	57.0	60.1	63.6	72.4	77.9
10.2%	53.0	55.7	58.7	66.1	70.7
10.7%	49.5	51.8	54.4	60.7	64.6
11.2%	46.4	48.4	50.7	56.1	59.3

Profit & Loss (SEKm)	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Operating revenues	67.6	61.3	64.4	72.2	74.7	79.5	84.4	115.4
Operating expenses	-63.2	-51.6	-50.7	-53.1	-55.1	-64.0	-71.9	-79.6
EBITDA	4.4	9.7	13.7	19.1	19.6	15.5	12.6	35.8
Depreciation & Amortisation	-3.0	-3.5	-3.8	-4.3	-4.3	-4.3	-4.3	-4.3
EBIT (adj)	1.4	6.2	9.8	14.9	15.3	11.2	8.3	31.5
Non-recurring items	-0.7	-	-2.9	-7.9	-15.5	-12.9	-10.4	-9.6
EBIT	0.6	6.2	6.9	7.0	-0.2	-1.7	-2.2	21.9
Net interest & other financial effects	0.2	0.2	0.1	0.0	-0.0	0.0	0.0	0.0
Pre-tax profit	0.9	6.3	7.0	7.0	-0.2	-1.7	-2.2	21.9
Minority interests	-	-	-	-	-	-	-	-
Taxes	-0.2	-1.5	-1.6	-1.6	0.0	0.4	0.5	-4.8
Profit after tax	0.6	4.9	5.4	5.3	-0.2	-1.3	-1.7	17.1
EPS rep. (SEK)	0.08	0.63	0.70	0.69	-0.03	-0.17	-0.22	2.21
EPS adj. (SEK)	0.16	0.63	1.03	1.50	1.54	1.13	0.83	3.18
Margins								
Operating margin	2%	10%	15%	21%	21%	14%	10%	27%
ROE	3%	11%	16%	22%	21%	16%	12%	40%
ROCE	3%	14%	20%	27%	26%	20%	15%	50%
Tax rate	28%	23%	23%	23%	7%	22%	22%	22%
Growth rates (YoY)								
Operating revenues	16%	-9%	5%	12%	3%	6%	6%	37%
EBIT (adj)	-76%	>100%	59%	52%	3%	-27%	-26%	>100%
EPS (adj)	-71%	>100%	62%	46%	3%	-27%	-26%	>100%

Cash flow (SEKm)	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Pre-tax profit	0.9	6.3	7.0	7.0	-0.2	-1.7	-2.2	21.9
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	-0.2	-	-	-
Paid taxes	-1.4	-0.7	-0.3	-2.0	-1.7	0.4	0.5	-4.8
Other	-	-	-	-	-	-	-	-
Change in working capital	5.3	-1.8	0.2	-0.9	3.3	-1.3	-1.2	-10.3
Operating cash flow (OCF)	8.5	7.7	10.3	9.2	5.5	1.6	1.4	11.1
Capital expenditures	-2.4	-3.2	-8.5	-5.4	-4.5	-11.2	-9.7	-6.2
Other cash flow from investments	-1.0	-	0.2	0.7	-	-	-	-
Free Cash Flow (FCF)	5.0	4.4	2.0	4.5	1.0	-9.6	-8.3	4.9
Cash flow from financing activities	-	-	-	-	-	-	-	-
Change in cash	5.0	4.4	2.0	4.5	1.0	-9.6	-8.3	4.9

Balance sheet (SEKm)	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Goodwill	-	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-	-
Licences, property, plant & equipment	13.1	12.8	17.2	18.1	18.1	25.0	30.4	32.3
Other intangible assets	1.1	1.1	1.0	0.3	0.3	0.3	0.3	0.3
Non-current Assets	14.2	14.0	18.2	18.3	18.3	25.3	30.7	32.6
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	18.3	19.6	20.8	30.9
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	24.7	29.2	31.1	35.6	36.7	27.1	18.8	23.7
Current Assets	40.5	43.3	45.1	54.2	55.4	47.2	40.1	55.2
Total assets	54.7	57.3	63.3	72.5	73.8	72.4	70.7	87.8
Shareholders equity	41.0	45.5	50.8	57.0	56.7	55.3	53.7	70.8
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	41.0	45.5	50.8	57.0	56.7	55.3	53.7	70.8
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	-	-	-	-	-	-
Other long-term liabilities	0.1	0.4	0.8	1.2	1.1	1.1	1.1	1.1
Non-current liabilities	0.1	0.4	0.8	1.2	1.1	1.1	1.1	1.1
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	13.6	11.4	11.8	14.3	16.0	16.0	16.0	16.0
Current liabilities	13.6	11.4	11.8	14.3	16.0	16.0	16.0	16.0
Total liabilities	13.7	11.8	12.6	15.5	17.1	17.1	17.1	17.1
Total liabilities and equity	54.7	57.3	63.3	72.5	73.8	72.4	70.7	87.8
Working capital	15.8	14.2	14.0	18.5	18.7	20.1	21.3	31.6
Net IB debt	-24.7	-29.2	-31.1	-35.6	-36.7	-27.1	-18.8	-23.7
Capital employed	41.2	45.9	51.5	58.2	57.8	56.5	54.8	71.9
Net IB debt / equity	-60%	-64%	-61%	-62%	-65%	-49%	-35%	-33%
Equity / total assets	75%	79%	80%	79%	77%	76%	76%	81%

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	38.30	38.30	38.30	38.30
Market cap (NOKm)	93	108	169	204	296	296	296	296
Enterprise value (NOKm)	72	81	140	169	260	269	278	273
EPS rep. (SEK)	0.08	0.63	0.70	0.69	-0.03	-0.17	-0.22	2.21
EPS adj. (SEK)	0.16	0.63	1.03	1.50	1.54	1.13	0.83	3.18
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EV/Sales	1.3	1.4	2.3	2.3	3.5	3.4	3.3	2.4
EV/EBITDA	19.2	9.0	11.1	8.8	13.2	17.4	22.1	7.6
EV/EBIT (adj)	62.0	14.2	15.4	11.3	17.0	24.0	33.5	8.7
P/E (adj)	89.3	23.8	23.0	17.6	24.8	33.8	45.9	12.1
P/B (excl. goodwill)	2.7	2.6	3.6	3.6	5.2	5.4	5.5	4.2

Growth (YoY)	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Revenues	16%	-9%	5%	12%	3%	6%	6%	37%
EBITDA	-51%	121%	41%	40%	3%	-21%	-19%	185%
EBIT (adj)	-76%	353%	59%	52%	3%	-27%	-26%	281%
Pre-tax profit (rep)	-83%	639%	11%	-1%	nm	nm	nm	nm
Net profit (rep)	-83%	691%	11%	-2%	nm	nm	nm	nm
EPS (rep)	-83%	691%	11%	-2%	nm	nm	nm	nm
EPS (adj)	-71%	301%	62%	46%	3%	-27%	-26%	281%

Margins	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EBITDA	6.5 %	15.8 %	21.2 %	26.5 %	26.3 %	19.5 %	14.9 %	31.0 %
EBIT (adj)	2.0 %	10.1 %	15.2 %	20.6 %	20.5 %	14.1 %	9.8 %	27.3 %
Pre-tax profit	1.3 %	10.4 %	10.9 %	9.6 %	-0.3 %	-2.1 %	-2.6 %	19.0 %
Net profit	0.9 %	8.0 %	8.4 %	7.4 %	-0.3 %	-1.7 %	-2.0 %	14.8 %

Profitability	2012	2013	2014	2015	2016E	2017E	2018E	2019E
ROE	3.0 %	11.3 %	16.5 %	21.5 %	21.0 %	15.6 %	11.8 %	39.5 %
ROCE	3.3 %	14.2 %	20.1 %	27.1 %	26.4 %	19.7 %	14.9 %	49.8 %
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)
26/08/2016	Hold	41.00
28/07/2016	Buy	40.00
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

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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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 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 June 30, 2016:

	Buy	Hold	Sell
Total recommendations	61	42	10
% of total	54%	37%	9%
Corporate clients*	19	17	2
% of corporate clients*	50%	45%	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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