

## ContextVision

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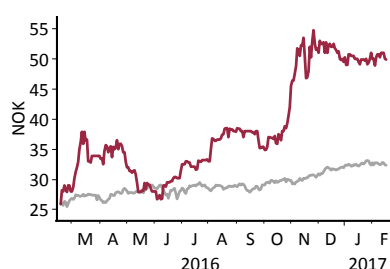
### Key share data

Sector	Health Care
Reuters	COVI.OL
Bloomberg	COV NO

Market Cap (NOKm)	386
Net debt (NOKm)	-37
EV (NOKm)	349
Net debt / equity	-66%

Issued shares (m)	7.7
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### Share price



—ContextVision—OSEBX (Rebased)

### Performance

	1m	3m	12m
COV	2%	-5%	89%
OSEBX	0%	7%	30%

### Upcoming events

4Q16 report	February 23, 2017
1Q17 report	April 27, 2017
AGM	May 10, 2017
2Q17 report	August 17, 2017
3Q17 report	October 26, 2017

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

### Analyst

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## Updates on research program and RSNA in focus

We maintain our Hold recommendation on COV share ahead of 4Q report due on February 23<sup>rd</sup>. Solid results are expected and we are eager to hear an update on the research program and feedback from the RSNA conference.

### Solid underlying business to continue in 4Q

ContextVision (COV) will release its 4Q16 report on February 23<sup>rd</sup>. We expect solid figures with sales of SEK 20.6m, which is up 10% YoY and in line with the very strong 3Q16. Adjusted EBITDA is seen landing at SEK 5.4m – significantly better than SEK 4.2m a year ago, but short of an impressive 3Q16 figure of SEK 8.0m (costs are seasonally higher in 4Q not least due to participation in the annual Radiological Society of North America (RSNA) conference). Research costs are estimated at SEK 4.6m, on par with the previous two quarters. The company should also recognize the earlier awarded government grant in 4Q as a reduction in costs and we estimate positive impact of ca SEK 1m. Netting it all out, we expect positive reported bottom line and adj. EPS of SEK 0.43 vs SEK 0.31 a year ago and SEK 0.67 in 3Q16.

Q4/16 results	Q4/15	Q3/16	Q4/16E
SEKm			Norne
Revenues	18.8	20.3	20.6
EBITDA adj.	4.2	8.0	5.4
EBITDA adj. margin	22%	39%	26%
Research costs	-2.6	-4.7	-4.6
EBITDA	2.2	3.3	1.8
EBIT	1.1	2.0	0.6
Net earnings	0.7	1.5	0.5
EPS reported (SEK)	0.09	0.19	0.06
EPS adjusted (SEK)	0.31	0.67	0.43

### Little news lately; awaiting update on RSNA conference and new products

There were little news since our last update on the company in early November. COV, as usual, was present at the annual RSNA conference, where it unveiled *New Brand, AI Research and Product Updates*. We'll be looking for indications of feedback received during the conference on this. More importantly, we are eager to hear an update on the research program and new products that are coming out of it. So far the research program was progressing very well with results exceeding expectations.

### Hold maintained with TP upped to NOK 54/sh.

We maintain our Hold recommendation on COV share ahead of 4Q report at a higher TP of NOK 54/sh. (from NOK 50/sh, as discount to DCF lowered). We believe in exciting future for COV due to impressive research program results so far, but much is priced in at current levels, in our view.

Estimate changes (SEKm)	4Q16E		1Q17E		2016E		2017E		2018E	
	New	Old	New	Old	New	Old	New	Old	New	Old
<b>Operating revenues</b>	<b>20.6</b>	<b>20.6</b>	<b>19.4</b>	<b>19.4</b>	<b>77.7</b>	<b>77.7</b>	<b>82.2</b>	<b>82.2</b>	<b>87.1</b>	<b>87.1</b>
EBITDA	5.4	5.4	5.4	5.4	24.0	24.0	23.3	23.3	22.4	22.4
EBITDA Margin	26%	26%	28%	28%	31%	31%	28%	28%	26%	26%
<b>EBIT (adj)</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>	<b>19.4</b>	<b>19.4</b>	<b>18.7</b>	<b>18.7</b>	<b>17.8</b>	<b>17.8</b>
Op. EBIT margin	21%	21%	22%	22%	25%	25%	23%	23%	20%	20%
Non-recurring items	-3.7	-3.6	-4.2	-4.2	-16.0	-15.9	-17.0	-17.0	-12.0	-12.0
EBIT	0.6	0.7	0.0	0.0	3.5	3.5	1.7	1.8	5.8	5.8
Pre-tax profit	0.6	0.7	0.0	0.0	3.4	3.5	1.7	1.8	5.8	5.8
Tax	-0.1	-0.1	-0.0	-0.0	-0.8	-0.8	-0.4	-0.4	-1.3	-1.3
Tax rate	22%	22%	22%	22%	24%	24%	22%	22%	22%	22%
Minority interests	-	-	-	-	-	-	-	-	-	-
<b>Profit after tax</b>	<b>0.5</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>2.6</b>	<b>2.7</b>	<b>1.4</b>	<b>1.4</b>	<b>4.5</b>	<b>4.6</b>

## DCF model

SEKm	4Q 2016E	2017E	2018E	2019E	2020E	2021E	2022E
<b>Revenues</b>	<b>20.6</b>	<b>82.2</b>	<b>87.1</b>	<b>120.4</b>	<b>153.5</b>	<b>168.5</b>	<b>178.9</b>
EBIT	0.6	1.7	5.8	35.8	63.8	75.1	81.4
Tax on EBIT	-0.1	-0.4	-1.3	-7.9	-14.0	-16.5	-17.9
NOPLAT (+)	0.5	1.4	4.5	27.9	49.8	58.6	63.5
Depreciation & amortization (+)	1.1	4.6	4.6	4.6	4.6	4.6	4.6
Capital expenditure (-)	-1.5	-11.2	-9.7	-6.2	-4.2	-4.2	-4.2
Change in working capital (- or +)	0.4	-1.3	-1.2	-11.7	-4.7	-3.3	-1.9
<b>Free Cash Flow to the Firm</b>	<b>0.5</b>	<b>-6.6</b>	<b>-1.8</b>	<b>14.6</b>	<b>45.4</b>	<b>55.7</b>	<b>62.0</b>
NPV of FCF	0.5	-5.8	-1.4	10.6	30.0	33.4	33.8

WACC calculation		Valuation, SEKm		Assumptions	
Debt ratio	0.0%	Net debt	-39.0	Lt. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
				SEK/NOK	0.94
Risk free rate	3.0%	NPV cash flow			
Beta	1.2	4Q 2016-2022E	101.1	# shares, m*	7.642
Market risk premium	6.0%	2023E-	449.5		
Cost of equity	10.2%	Total NPV cash flow	550.6		
<b>WACC</b>	<b>10.2%</b>	Equity value	589.6		
		<b>Value per share, SEK</b>	<b>77.15</b>		
		<b>Value per share, NOK</b>	<b>72.53</b>		

## Sensitivity analysis

WACC	L.t. growth				
	1.5%	2.0%	2.5%	3.5%	4.0%
9.2%	75.8	80.1	85.1	97.7	105.8
9.7%	70.4	74.1	78.4	88.9	95.5
10.2%	65.7	68.9	<b>72.5</b>	81.4	86.9
10.7%	61.5	64.3	67.4	75.0	79.6
11.2%	57.7	60.2	62.9	69.4	73.4

<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>77.7</b>	<b>82.2</b>	<b>87.1</b>	<b>120.4</b>
Operating expenses	-63.2	-51.6	-50.7	-53.1	-53.6	-59.0	-64.8	-71.9
<b>EBITDA</b>	<b>4.4</b>	<b>9.7</b>	<b>13.7</b>	<b>19.1</b>	<b>24.0</b>	<b>23.3</b>	<b>22.4</b>	<b>48.5</b>
Depreciation & Amortisation	-3.0	-3.5	-3.8	-4.3	-4.6	-4.6	-4.6	-4.6
<b>EBIT (adj)</b>	<b>1.4</b>	<b>6.2</b>	<b>9.8</b>	<b>14.9</b>	<b>19.4</b>	<b>18.7</b>	<b>17.8</b>	<b>44.0</b>
Non-recurring items	-0.7	-	-2.9	-7.9	-16.0	-17.0	-12.0	-8.2
EBIT	0.6	6.2	6.9	7.0	3.5	1.7	5.8	35.8
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>3.4</b>	<b>1.7</b>	<b>5.8</b>	<b>35.8</b>
Minority interests	-	-	-	-	-	-	-	-
Taxes	-0.2	-1.5	-1.6	-1.6	-0.8	-0.4	-1.3	-7.9
<b>Profit after tax</b>	<b>0.6</b>	<b>4.9</b>	<b>5.4</b>	<b>5.3</b>	<b>2.6</b>	<b>1.4</b>	<b>4.5</b>	<b>27.9</b>
<b>EPS rep. (SEK)</b>	<b>0.08</b>	<b>0.63</b>	<b>0.70</b>	<b>0.69</b>	<b>0.34</b>	<b>0.18</b>	<b>0.59</b>	<b>3.61</b>
<b>EPS adj. (SEK)</b>	<b>0.16</b>	<b>0.63</b>	<b>1.03</b>	<b>1.50</b>	<b>1.96</b>	<b>1.89</b>	<b>1.79</b>	<b>4.43</b>
<b>Margins</b>								
Operating margin	2%	10%	15%	21%	25%	23%	20%	37%
ROE	3%	11%	16%	22%	26%	24%	22%	43%
ROCE	3%	14%	20%	27%	33%	31%	28%	55%
Tax rate	28%	23%	23%	23%	24%	22%	22%	22%
<b>Growth rates (YoY)</b>								
Operating revenues	16%	-9%	5%	12%	8%	6%	6%	38%
EBIT (adj)	-76%	>100%	59%	52%	31%	-4%	-5%	>100%
EPS (adj)	-71%	>100%	62%	46%	30%	-4%	-5%	>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	3.4	1.7	5.8	35.8
Depreciation and amortisation	3.8	3.5	3.9	4.3	4.6	4.6	4.6	4.6
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	-3.5	-0.4	-1.3	-7.9
Other	-	-	-	-	-	-	-	-
Change in working capital	5.3	-1.8	0.2	-0.9	2.9	-1.3	-1.2	-11.7
<b>Operating cash flow (OCF)</b>	<b>8.5</b>	<b>7.7</b>	<b>10.3</b>	<b>9.2</b>	<b>7.3</b>	<b>4.6</b>	<b>7.9</b>	<b>20.7</b>
Capital expenditures	-2.4	-3.2	-8.5	-5.4	-3.4	-11.2	-9.7	-6.2
Other cash flow from investments	-1.0	-	0.2	0.7	-0.1	-	-	-
<b>Free Cash Flow (FCF)</b>	<b>5.0</b>	<b>4.4</b>	<b>2.0</b>	<b>4.5</b>	<b>3.8</b>	<b>-6.6</b>	<b>-1.8</b>	<b>14.6</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>3.8</b>	<b>-6.6</b>	<b>-1.8</b>	<b>14.6</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	16.7	23.3	28.4	30.0
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>17.0</b>	<b>23.6</b>	<b>28.7</b>	<b>30.4</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	18.5	19.8	20.9	32.4
Other current assets	-	-	-	-	-	-	-	-
Cash and cash equivalents	24.7	29.2	31.1	35.6	39.4	32.8	31.1	45.6
<b>Current Assets</b>	<b>40.5</b>	<b>43.3</b>	<b>45.1</b>	<b>54.2</b>	<b>58.4</b>	<b>53.1</b>	<b>52.5</b>	<b>78.8</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>76.7</b>	<b>81.3</b>	<b>109.2</b>
Shareholders equity	41.0	45.5	50.8	57.0	59.5	60.9	65.4	93.3
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>41.0</b>	<b>45.5</b>	<b>50.8</b>	<b>57.0</b>	<b>59.5</b>	<b>60.9</b>	<b>65.4</b>	<b>93.3</b>
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
<b>Non-current liabilities</b>	<b>0.1</b>	<b>0.4</b>	<b>0.8</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
Current interest bearing debt	-	-	-	-	-	-	-	-
Trade payables	-	-	-	-	-	-	-	-
Other current liabilities	13.6	11.4	11.8	14.3	14.7	14.7	14.7	14.7
<b>Current liabilities</b>	<b>13.6</b>	<b>11.4</b>	<b>11.8</b>	<b>14.3</b>	<b>14.7</b>	<b>14.7</b>	<b>14.7</b>	<b>14.7</b>
<b>Total liabilities</b>	<b>13.7</b>	<b>11.8</b>	<b>12.6</b>	<b>15.5</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</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>76.7</b>	<b>81.3</b>	<b>109.2</b>
Working capital	15.8	14.2	14.0	18.5	18.9	20.3	21.4	33.2
Net IB debt	-24.7	-29.2	-31.1	-35.6	-39.4	-32.8	-31.1	-45.6
Capital employed	41.2	45.9	51.5	58.2	60.6	62.0	66.5	94.4
Net IB debt / equity	-60%	-64%	-61%	-62%	-66%	-54%	-47%	-49%
Equity / total assets	75%	79%	80%	79%	79%	79%	81%	85%

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	49.50	49.90	49.90	49.90
Market cap (NOKm)	93	108	169	204	383	386	386	386
Enterprise value (NOKm)	72	81	140	169	346	355	357	343
EPS rep. (SEK)	0.08	0.63	0.70	0.69	0.34	0.18	0.59	3.61
EPS adj. (SEK)	0.16	0.63	1.03	1.50	1.96	1.89	1.79	4.43
DPS. (SEK)	-	-	-	-	-	-	-	-

Valuation	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EV/Sales	1.3	1.4	2.3	2.3	4.8	4.6	4.4	3.0
EV/EBITDA	19.2	9.0	11.1	8.8	15.5	16.2	17.0	7.5
EV/EBIT (adj)	62.0	14.2	15.4	11.3	19.2	20.2	21.3	8.3
P/E (adj)	89.3	23.8	23.0	17.6	27.2	28.1	29.6	12.0
P/B (excl. goodwill)	2.7	2.6	3.6	3.6	6.9	6.7	6.3	4.4

Growth (YoY)	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Revenues	16%	-9%	5%	12%	8%	6%	6%	38%
EBITDA	-51%	121%	41%	40%	26%	-3%	-4%	117%
EBIT (adj)	-76%	353%	59%	52%	31%	-4%	-5%	147%
Pre-tax profit (rep)	-83%	639%	11%	-1%	-50%	-50%	234%	515%
Net profit (rep)	-83%	691%	11%	-2%	-51%	-48%	234%	515%
EPS (rep)	-83%	691%	11%	-2%	-51%	-48%	234%	515%
EPS (adj)	-71%	301%	62%	46%	30%	-4%	-5%	147%

Margins	2012	2013	2014	2015	2016E	2017E	2018E	2019E
EBITDA	6.5 %	15.8 %	21.2 %	26.5 %	30.9 %	28.3 %	25.7 %	40.3 %
EBIT (adj)	2.0 %	10.1 %	15.2 %	20.6 %	25.0 %	22.8 %	20.4 %	36.5 %
Pre-tax profit	1.3 %	10.4 %	10.9 %	9.6 %	4.4 %	2.1 %	6.7 %	29.7 %
Net profit	0.9 %	8.0 %	8.4 %	7.4 %	3.4 %	1.7 %	5.2 %	23.2 %

Profitability	2012	2013	2014	2015	2016E	2017E	2018E	2019E
ROE	3.0 %	11.3 %	16.5 %	21.5 %	26.0 %	24.3 %	22.0 %	43.2 %
ROCE	3.3 %	14.2 %	20.1 %	27.1 %	32.7 %	30.5 %	27.7 %	54.6 %
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)
17/02/2017	Hold	54.00
04/11/2016	Hold	50.00
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

### Valuation

To arrive at our share price target we have used a DCF valuation with a 25% discount and rounded the result.

### 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 December 31, 2016:

	Buy	Hold	Sell
Total recommendations	75	31	4
% of total	68%	28%	4%
Corporate clients*	16	15	2
% of corporate clients*	48%	45%	6%

\* 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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