

## Bergen Group

BUY

### Key share data

Sector	Energy
Reuters	BERGEN.OL
Bloomberg	BERGEN NO

Market Cap (NOKm)	171
Net debt (NOKm)	-27
EV (NOKm)	144
Net debt / equity	-13%

Issued shares, m	93.958
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### Share price



### Performance

	1m	3m	12m
BERGEN	13%	-55%	16%
OSEBX	5%	7%	25%

### Upcoming events

3Q17 results	November 3, 2017
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Norne Securities has provided investment banking services for Bergen Group or/and has been lead manager or co-lead manager in connection with financial instruments issued by Bergen Group over the previous 12 months

Norne Securities is a market maker in the shares of Bergen Group

### Analyst

Irmantas Vaskela

+47 21 95 37 48

[irmantas.vaskela@norne.no](mailto:irmantas.vaskela@norne.no)

## Regional maritime and energy service provider with ambitious growth strategy

Bergen Group is a supplier of services, solutions and products to the maritime and offshore industry which has left behind years of distress by disposing of loss-making activities and undergoing a refinancing. The company has an ambitious M&A-led growth strategy, and the balance sheet is strong. New acquisitions of companies and cooperation agreements are the main triggers going forward. The upside in the stock seems larger than the downside now and we initiate coverage of Bergen Group with a Buy recommendation and a target price of NOK 2.60/sh.

### Maritime service and ship-technical maintenance provider

Bergen Group is a Norwegian supplier of services, solutions and products mainly to the maritime and offshore industry. The company focuses on maritime service, ship-technical maintenance and prefab deliveries towards both onshore and offshore industry, as well as rope access and work at height in both onshore and offshore projects.

### Cleaned-up and refinanced

The company found itself in a crisis a few year ago, caused by extensive losses in the shipbuilding division and large rig maintenance projects. In summer 2015, new management came onboard and started the restructuring. The loss-making activities, including shipbuilding and rig service, were sold and a refinancing was made, setting the company for a new start.

### Ambitious growth strategy

The focus of Bergen Group has now shifted towards growth through M&A. Companies with complementary activities and potential for synergy effects are being targeted, which would lead to increased market position and access to new market areas. Acquisition of AAK Energy Services in May 2017 was a step in this direction. Cooperation agreements are also targeted.

### Upside larger than downside

Under conservative estimates with organic-only development, our DCF calculation yields a value of NOK 2.8/sh. Bergen Group is struggling with weak Energy & Industry results, order backlog has declined and the failure to win the extension of the major navy frigate contract may hurt revenues in 2018. However, the stock has already priced in the loss of the frigate contract extension, the company has good potential through its ambitious M&A-led growth strategy combined with cooperation agreements, the balance sheet is strong and the pricing is not very demanding based on conservative estimates. New acquisitions of companies and cooperation agreements are the main triggers going forward, and the upside in the stock seems larger than the downside now. Thus, we initiate coverage of Bergen Group with a Buy recommendation and a target price of NOK 2.60/sh.



## Company Profile

Bergen Group is a Norwegian supplier of services, solutions and products mainly to the maritime and offshore industry. After quitting shipbuilding and rig service activities a few years ago, the company now focuses on maritime service, ship-technical maintenance and prefab deliveries towards both onshore and offshore industry. Bergen Group organizes and conducts inspection, service, repair, maintenance, upgrades and modifications for various types of vessels and equipment, including high-speed diesel engines, also specializes in rope access and work at height in both onshore and offshore projects. The primary market is Western Norway.

Bergen Group has facilities that can offer a variety of tasks related to machining, steel metal work, piping and welding. The facilities also include dry dock, slipway, and an engine workshop with specialist competence in high-speed diesel engines. The facilities are also equipped with an advanced test center for condition monitoring and testing of high-speed diesel engines.

The Group's operational activities are carried out by the wholly owned subsidiaries Bergen Group Services AS and Bergen Group AAK AS.



Bergen Group focuses on four market segments: Maritime, Defense, Energy & Industry and Access Technology. These market areas are partly independent of each other, but can utilize the same competence and capacity within the company.

- **Maritime:** various maritime services, including ship technical maintenance/upgrades with special competence within hulls, welding, structure, pipes and machinery. This also includes repair and maintenance of high-speed diesel engines. Bergen Group is an authorized service dealer for MTU, Volvo Penta and Marine Jet Power. This segment generated around 20-25% of total company's revenues lately on a pro-forma basis.
- **Defense:** ship technical maintenance and upgrades on various vessels in the Norwegian Navy, such as frigates and mine sweepers, through various frame agreements. Generated ca. 40-45% of revenues lately on a pro-forma basis.
- **Energy & Industry:** main focus on various deliveries to both the offshore and the onshore markets, including advanced welding-technical prefabrication within steel structures, plates, piping systems and machining components, as well as installation and maintenance. This segment generated less than 10% of total revenues lately on a pro-forma basis.
- **Access Technology:** expertise within rope access and work at height from both onshore projects and various offshore activities such as decommissioning. Rope access technique allows access to all points on any structure, thus eliminating requirements for scaffolding. Provides inspections and NDT work, mechanical and electric work, surface preparations and painting, insulation, heavy lifting and rigging operations. Around 20-25% of total revenues lately on a pro-forma basis.

The operational activities take place at the company's facilities at Laksevåg (in Bergen) and Straume (on Sotra outside Bergen). Bergen Group Services also has extensive operational activities at customer locations in Hordaland county, as well as travel teams covering the Norwegian coast, offshore installations in the North Sea and international assignments.



*Bergen Group facilities at Straume (left) and Laksevåg (right)*

Bergen Group is executing its services on various vessels at the same time. The slip way and the dry dock are normally used for one vessel at a time, but the Company's two quays have additional capacity for operating maritime service on another 2-6 vessels in parallel. In addition, the company carries out substantial operational activity on external sites.

The company's operational activity is based on various types of assignments and contracts, which can be categorized into the following main groups:

- **Short-term contracts:** Contracts normally awarded in the open spot-market, with a lead-time of 1-10 weeks from the award of contract until the execution period. The execution period lasts for 2-30 days, and income is due when the assignments are completed.
- **Long-term contracts:** More extensive contracts being awarded in the open market, normally with a lead-time of 1-6 months from the award of contract until the execution period. The execution period lasts for 1-12 months. Normally, milestone payments from the customers are used on such assignments.
- **Frame-agreements and service-agreements:** Various frame agreements awarded for a time length of 1-10 years, and service agreements with no specific exit-time. These agreements generate various smaller and larger assignments, and are to a less extent exposed to competition within the period of the frame agreement or service agreement.

Bergen Group has more than 200 employees. In 2016 the group companies had a total turnover of approx. NOK 300m. Bergen Group ASA is listed at Oslo Stock Exchange with a ticker BERGEN and has a market capitalization of around NOK 170m.

## History

**Origin.** The foundation of Bergen Group is based on many different companies, some of them going back to the mid-1850s. The birth of Bergen Group as an industrial cluster can be dated back to 2002 when former DOF Industrier purchased BMV and Hanøytangen, as well as the estate in liquidation of Mjelllem & Karlsen shipyard. As a result of these acquisitions, Bergen Yards Holding was founded in the fall in 2002. 19 offshore maritime related companies were acquired during the next five years, and in May 2007 the group changed name to Bergen Group.

At that time, Bergen Group went from being a traditional ship building yard to include all segments of high technical developments within the offshore and shipbuilding industry. Its many subsidiaries were organized in four divisions focusing on different market segments: Shipbuilding, Offshore, Maritime Service and Technology.

**Listing.** Since June 2008, Bergen Group ASA has been listed on Oslo Stock Exchange.

**Crisis.** The company experienced challenging financial situation approximately since 2011, mainly caused by extensive losses in the shipbuilding division and large rig maintenance projects. A major part of the Offshore division was sold in 2013, together with some other subsidiaries in the former Maritime and Technology division. The shipbuilding division was sold in 2014 and the remaining part of the offshore division (rig service activities) was sold in spring 2015, along with a termination or sale of several other loss-making subsidiaries in 2015.

**Refinancing.** In December 2016, Bergen Group completed a comprehensive refinancing including a share issue of 22.8 mill. new shares at a subscription price of NOK 1.20 per share, acquired mainly by the three main shareholders Brian Chang Holdings Limited, AS Flyfisk and Køhlergruppen AS (the management also participated with NOK 7.5m), also a substantial reduction of debt obligations and new loan facility.

**Acquisition of AAK.** In May 2017, Bergen Group acquired AAK Energy Services AS, a company specializing in advanced access technology related to maintenance and modification work.

**Private placement.** Another private placement was made in June 2017: 8.5 mill. new shares were issued at a price of NOK 2.70 per share, with the stated aim of facilitating the company's growth strategy and enabling further investments.

## Market

### Maritime Market

The overall activity and trends in the maritime industry is the key driver of activity within Bergen Group.

The total value creation from the maritime industry in Norway is around NOK 200 billion, making the maritime industry one of Norway's largest and most important industries. Service constitutes approximately 20% of the overall maritime industry.

Bergen Group has perfect strategic location being based centrally in Bergen harbor area. The Bergen region has historically been the natural shipping center in Norway, and has throughout its history been a leading city within international trade and seafaring. Nearly 40% of the Norwegian merchant fleet is registered with Bergen as home port. In 2015 the maritime industry in Bergen had a value creation of nearly NOK 32bn. It must also be mentioned that the main naval base for the Norwegian Defense, Haakonsværn, is also located in Bergen.

Bergen Group's competitors within maritime service and ship technical maintenance on civil vessels are in principle other maritime service companies/shipyards located in western parts of Norway: Frydenbø Industries, Bertel O Steen, Fjellstrand Verft etc. In regards to the defense segment, due to the complexity and size of projects, the competitors would need to have a well-documented experience and proven capacity in carrying out extensive maritime related maintenance projects. Typical competitors within this segment are Westcon, CCB, Semco Maritime and Oneco.

Description of key segments for Bergen Group's maritime activity:

### Passenger and ferry vessels



The Norwegian ferry market is characterized by long-term contracts between the ferry companies and public authorities, based on tender announcements. After a comprehensive consolidation phase the ferry- and passenger boat market mainly consist of four companies: Fjord1 AS, Torghatten ASA, Norled AS and Boreal Sjø AS. The fleet size has been relatively constant during last five years (around 900 passenger ships and around 220 car ferries) while the fleet age averages 30 years.

The Norwegian ferry and passenger boat market is mainly affected by the following factors:

- General political environment. For example, increased political focus on road and bridges can reduce the number of ferry routes in Norway, thereby affecting the number of ferries negatively. However, the Norwegian governments have expressed the ambition of stimulating growth in water-borne transport.
- Economic and population growth. Economic and population growth forecasts for Norway suggest increasing transportation going forward. If the transportation is to be performed through water-borne transportation methods, it could result in more new ferries.

### Search and rescue vessels



Redningsselskapet (the Norwegian Society for Sea Rescue) is a nationwide humanitarian association whose purpose is to save lives, salvage assets and protect the coastal environment of Norwegian waters, as well as undertaking outreach and accident prevention initiatives to improve the safety of those at sea in Norway and abroad. Redningsselskapet has over 55 rescue vessels situated along the Norwegian coastline.



The Norwegian Coast Guard is organized within the Navy to ensure fisheries inspection, customs enforcement, border control, law enforcement, shipping inspection, environmental protection, and search and rescue. The Coast Guard operates 15 vessels. It is divided into two squadrons, respectively based in Sortland (Northern Norway) and Haakonsværn outside Bergen.



The Norwegian Coastal Administration is responsible for safe and efficient navigation in the fairways along the coast and into ports, which involves the state pilotage service. The job of a pilot is to provide a vessel's crew with local knowledge of the fairways, to help ensure safe and efficient maritime transport. The pilot vessel service is responsible for bringing the pilot to and from assignments. The Norwegian Coastal Administration has 25 pilot boats.

The key industry driver within this segment is activity along the Norwegian coastline together with governmental fund allocation to the sector.

## Fishery and aquaculture vessels



There are around 6,000 fishing vessels in Norway, while the number of fish carrier/well boats related to aquaculture is around 100. Aquaculture vessels are mainly used in connection with salmon production, and consist of well boats, feed barge and other service/work vessels.

Growth and demand within service for fishing and aquaculture vessels is affected by the following key factors:

- **Seafood consumption:** The global population is expected to grow by 2 billion, to more than 9 billion in 2050. If one assumes that consumption per capita will stay constant, this implies a corresponding increase in demand for protein. Knowing that resources for increased land-based protein production will be scarce, eyes should increasingly turn towards expansion of protein production in sea.
- **Technology development:** Harvesting of aquatic resources and production is done either in the wild (capture fisheries) or in controlled environments (aquaculture). Due to new technology newbuild fishing vessels have increased in size. As they can exploit economy of scale they have become more efficient, and therefore the trend is that the total number of fishing vessels has declined. For aquaculture vessels, the technology has increased the demand for newbuilds and conversion of other ship types. For example increased post-smolt production has increased the demand for transportation capacity significantly while offshore production with longer distance demands larger vessels.

## Defence



Most of the Norwegian Navy vessels are homeported at Haakonsværn naval base in Bergen. The fleet consists of:

- Frigates
- Mine-clearance/mine sweeper vessels
- Various support vessels
- Missile Patrol Boats /Missile Torpedo Boats
- Submarines

The activity level for the defence segment within Bergen Group is in large driven by the size of the defense funds being allocated to the Navy for maintenance and upgrading of the fleet. In a situation of increasingly unpredictable neighbor Russia as well as NATO's recommendation for its members to head towards 2% GDP spending on defence, Norway is set to increase its defence spending in the coming years. Norway spent 1.6% from GDP on defence in 2016. Under the current plans, military spending by Norway would increase by NOK 165bn over the next 20 years, including the Navy needs.

## Offshore supply vessels

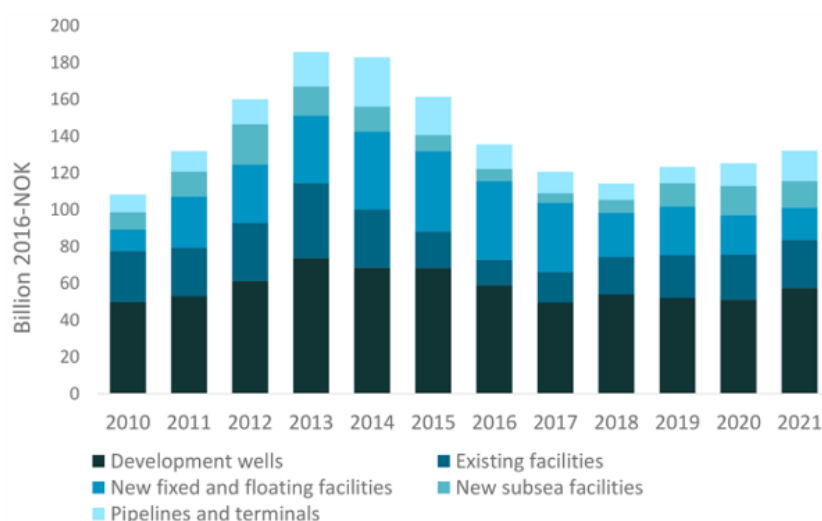


Offshore supply vessels (OSV) provide support services to offshore drilling (rigs), pipe laying and oil producing assets (production platforms and FPSOs) utilized in E&P. There are three main categories of OSVs, namely Anchor Handling Tug Supply (AHTS), Platform Supply Vessel (PSV), and Construction Support Vessel (CSV). Current fleet of OSVs consists of around 3,500 vessels.

Demand within the technology, products, construction and service to the offshore supply vessel industry is primarily affected by the underlying oil and gas markets. Oil and gas prices are the key driver for exploration and production (E&P) spending, which in turn is the key driver of demand in the oil and gas service industry.

As the oil price has rebounded from the lows reached in early 2016, there are signs that global E&P spending will start recovering gradually following two years of double-digit declines. However, the Norwegian Petroleum Directorate forecasts investments in the Norwegian continental shelf to decline somewhat further in 2017 compared to 2016 with a recovery starting only in 2019.

### NCS investments (excl. exploration)



Source: Norwegian Petroleum Directorate

## Energy and Industry Market

### Offshore oil market

The substantial decline in the oil price in 2014 and 2015 had a severe negative impact on E&P spending. As a result, The Norwegian continental shelf has during 2014-2016 seen reduced spending and delayed maintenance work. As the oil price has rebounded from the lows reached in early 2016, there are signs that global E&P spending will start recovering gradually. In the Norwegian continental shelf, the Norwegian Petroleum Directorate forecasts investments to decline somewhat further in 2017 compared to 2016 with a recovery starting in 2019. The latest report from Douglas-Westwood shows a positive outlook for the Maintenance, Modifications and Operations (MMO) market: over the 2017 to 2021 period they expect a 4.1% CAGR growth in global offshore MMO expenditure, driven by degradation of existing infrastructure and the need for adherence to industry standards.

One of the targeted areas by Bergen Group is the growing decommissioning market. According to Oil & Gas UK, annual expenditure on the offshore oil and gas decommissioning in the UK is expected to reach around GBP 2bn in 2017 and average GBP 1.8bn per annum until 2025, up from GBP 1.1bn in 2015. The growth reflects the relative maturity of the region, with many fields reaching the end of their life.

On the Norwegian continental shelf, the decommissioning spending is expected to remain at GBP 1bn per year until 2020, based on the Norwegian Petroleum Directorate.

## Onshore market

The onshore-based market is to some extent influenced by the offshore oil- and gas-related activity. However, the onshore market is providing interesting possibilities in relation to a higher focus on both maintenance and newbuilding activity in regards to infrastructure constructions, buildings etc.

In regards to the prefab-market, the level of competitiveness has increased as a consequence of the decline in offshore-related activities. Several companies, which previously only focused on the offshore industry, are now to some extent also targeting the onshore/prefab-market. Bergen Group is aiming for the “high level” of the prefab-market, characterized by productions that require advanced and well-documented welding procedures. Typical competitors are Sotra Contracting AS, Fabtech AS and Radøygruppen.

## Renewable market

There are currently a dozen of large offshore wind farms under construction in Europe. The outlook for the development within the wind power market is positive for the years ahead due to the increasing focus on renewable energy sources.

## Switching to a growth mode



Following years of distress and disposals of subsidiaries, the focus of Bergen Group has now again shifted towards growth. It is difficult to expect a significant growth organically, the company rather aims mainly for M&A-based growth through companies that would have complementary activities and potential for synergy effects, lead to increased market position and access to new market areas. Primary focus should remain towards existing business areas, but the aim is to also enter new related markets. The most realistic acquisition targets are privately-held distressed Norwegian companies with similar and complementary competencies.



A step in this direction was the acquisition of AAK Energy Services AS (AAK) in May 2017. AAK Energy Services, headquartered in Bergen, specializes in rope access and work at height and with complex access related to maintenance and modification from both onshore projects and various offshore activities such as decommissioning, including assignments on oil and gas installations both on- and offshore, wind farms, road bridges and other infrastructure. Main markets include Norway, Denmark and the UK. The company has around 60 employees and generated a turnover of NOK 62m in 2016.

AAK was in distress generating negative EBITDA and bottom line for the last three years (2016 EBITDA NOK -7m and net profit NOK -8m) and having a negative book value of equity of NOK -0.8m at the end of 2016, therefore the acquisition price was only NOK 2.5m. However, AAK was profitable in May/June and has been fully administrative-integrated.



The acquisition of AAK provides Bergen Group with complementary competencies, thus enabling to compete in new market areas and in larger projects. The strategic rationale for the acquisition can be put as follows:

- Strengthens position towards delivering demanding assignments within established market areas (maritime service and ship maintenance).
- Opens new market areas, including renewable energy (onshore and offshore wind turbines) which has high potential for growth, and new customers.
- Allows administrative and operational synergies in the areas of management, accounting and purchase. Enables “inhouse” deliveries from other parts of Bergen Group.

Another way of growing is cooperation agreements. On this Monday, Bergen Group and three other Norwegian companies in the Bergen area – Karsten Moholt AS, Servi Group AS and Electronicon AS – established a cooperation within service and maintenance towards the Norwegian Armed Forces. These companies complement each other, allowing to compete for larger and more complex assignments.

We may expect more acquisitions and cooperation agreements going forward.

## Balance sheet considerably improved

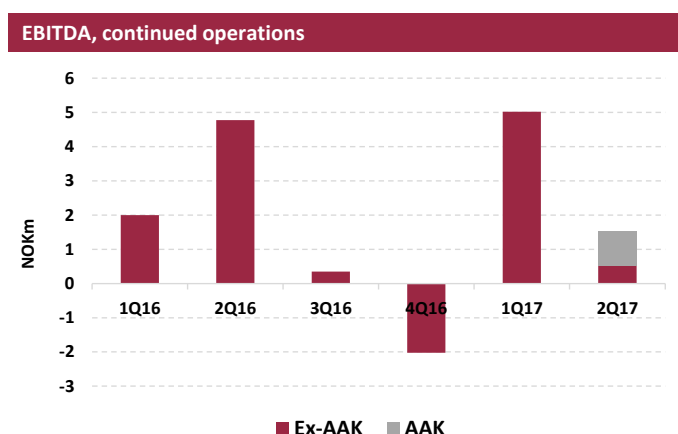
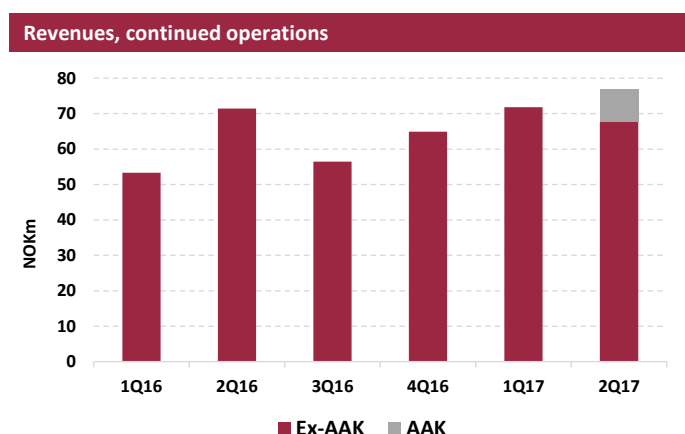
Bergen Group’s balance sheet has been considerably improved since December 2016 after two equity issues and a restructuring of debt. Equity ratio was comfortable at 71% as of the end of 2Q17, and cash amounted to NOK 44m. Interest bearing debt was NOK 16.6m at the end of 2Q, consisting of a convertible loan of EUR 1.8m to Eastern European Investment Management SP.Z.o.o. (EEIM) with the following terms:

- Conversion price of NOK 1.00 per share, based on an exchange rate of EUR 1/NOK 9
- Maturity on March 28<sup>th</sup>, 2020
- Interest rate of 6% per annum

Thus, the company has a net cash position. The cash position should be further strengthened by the expected proceeds of around NOK 13m from the bankruptcy estate of Bergen Group Hanøytangen, former subsidiary of Bergen Group.

## Recent results: weakness in Energy & Industry

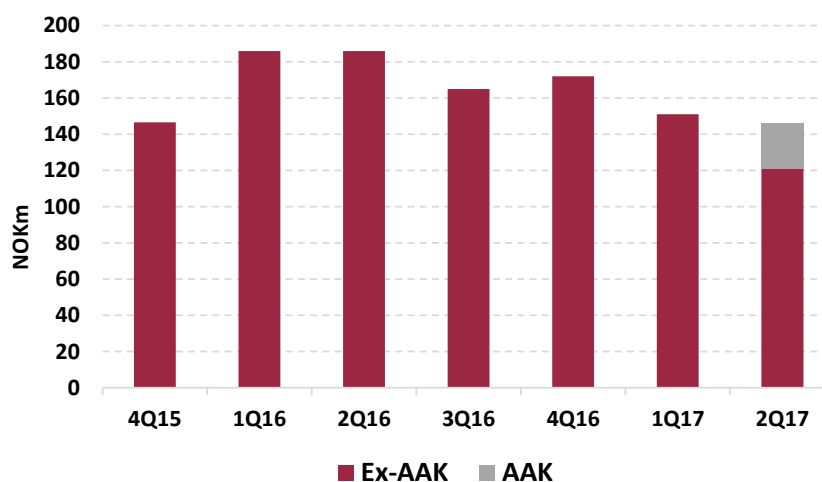
Bergen Group’s 2Q17 results were weakish. Revenues of NOK 77m were 8% higher YoY, but this included NOK 9m contribution from the newly acquired AAK for May and June. Excluding AAK, revenues declined by 5% YoY. EBITDA in 2Q17 declined both on YoY and QoQ basis: NOK 1.5m in 2Q17 compared to NOK 4.8m in 2Q16 and NOK 5.0m in 1Q17. Moreover, EBITDA for 2Q17 includes NOK 1.0m contribution from AAK, whereas historical results have not been restated.



The weak EBITDA for 2Q cannot be explained by the expiry of the Navy frigate contract as it expired only on June 30<sup>th</sup>. The main reason of the weakness is poor margins in the Energy & Industry segment. This market is characterized by relatively short-term assignments and fierce competition with subsequent price pressure. Weakness in the oil and gas market may be seen as a root cause of such a situation.

Order book also reduced to NOK 146m at the end of 2Q, or NOK 121m excluding AAK, compared to NOK 151m at the end of 1Q. This is mainly due to the expiration of the frigate agreement, although the downward trend is visible in the last two quarters.

### Order backlog, continued operations



## Outlook and estimates

Forecasting revenues for Bergen Group is not an easy task as visibility is quite low. Announced contracts with announced values constitute only some 20-40% of actual revenues according to our calculations, the rest is generated through spot market agreements and additional orders on the basis of the announced contracts. Order backlog is a better gauge as during the last two years it equaled 60-100% of 12-month forward earnings.

Disappointingly, Bergen Group failed to win an extension of a very large contract for the ship technical maintenance of the Navy's frigates in June 2017. The original contract ran from July 2016 till July 2017 with an estimated revenue value of NOK 70m. The loss of the extension of such a significant contract sent the stock price down substantially. The negative impact to revenues from the frigate contract expiration in 2H17 vs. 1H17 should be limited by the fact that there still are ordered, but not completed work packages on the contract, which will mainly be completed in 2H17. Nevertheless, it may be challenging to fully substitute this large contract with other activity going forward and thus a negative impact on revenues is possible, particularly in 2018.

We may expect more weak quarterly results going forward as Energy & Industry market area remains challenging, navy frigate contract has in general ended, there may be incurred advisory costs related to a search and evaluation of M&A candidates, and the management has been strengthened to support the growth strategy. On the positive side, it looks like the company's facilities at Laksevåg in Bergen, related to maritime services, are booked well into next year, and additional docking capacity and service hall areas leased at Laksevåg from August 1<sup>st</sup> enable increased activity in ship maintenance and maritime service.

In the longer term, Bergen Group expects synergies from the acquisition of AAK in the form of more contracts, while a recovery in oil and gas prices would underpin organic growth as Bergen has energy-related activities. The company also aims for more acquisitions and cooperation agreements, which would help reach NOK 1bn revenues in 2020 with 10% EBITDA margin, a leap from NOK 246m revenues and NOK 5m EBITDA in 2016.

Our estimates are based on organic development only, with no new acquisitions included, as it is difficult to envisage acquisition prices in such transactions. The assumptions that we apply in our estimates are conservative and may be summarised as follows:

- Revenue decline of up to 10% YoY in 2H17-1H18 (excluding AAK) to account for the conclusion of the navy frigate contract.
- Combined revenue growth of 10% YoY (including AAK) from mid-2018 up till and including 2020 on synergy effects from the acquisition of AAK and a recovery in energy industry (underpinned by a recovery in the oil price).
- Flat number of employees.
- Gross margin of around 60%, close to historically demonstrated level.
- EBITDA margin gradually improving from 2% in 2016 and 2017 to 8% in 2020.

With these assumptions and limited Capex needs going forward, we forecast positive free cash flow generation.

Note that Bergen Group also has a hidden value: NOK 48m in unrecognized deferred tax assets (as per 31.12.2016). It may be recognized if Bergen Group makes acquisition of a company that increases profits.

Profit & Loss (NOKm)	1Q17	2Q17	3Q17E	4Q17E	2016	2017E	2018E	2019E	2020E
<b>Operating revenues</b>	<b>71.8</b>	<b>77.0</b>	<b>79.7</b>	<b>74.1</b>	<b>246</b>	<b>303</b>	<b>323</b>	<b>355</b>	<b>390</b>
Payroll expenses	-27.7	-32.6	-33.2	-36.0	-91	-129	-149	-156	-164
Cost of sales	-29.6	-31.4	-32.1	-30.2	-116	-123	-120	-135	-153
Other operating expenses	-9.5	-11.4	-11.5	-11.6	-34	-44	-42	-42	-42
<b>EBITDA</b>	<b>5.0</b>	<b>1.5</b>	<b>3.0</b>	<b>-3.7</b>	<b>5</b>	<b>6</b>	<b>12</b>	<b>21</b>	<b>31</b>
Depreciation & Amortisation	-1.4	-1.4	-1.4	-1.4	-6	-6	-4	-3	-2
<b>EBIT (adj)</b>	<b>3.6</b>	<b>0.1</b>	<b>1.6</b>	<b>-5.1</b>	<b>-1</b>	<b>0</b>	<b>9</b>	<b>19</b>	<b>29</b>
Non-recurring items	0.0	-3.0	0.0	0.0	0	-3	0	0	0
<b>EBIT</b>	<b>3.6</b>	<b>-2.9</b>	<b>1.6</b>	<b>-5.1</b>	<b>-1</b>	<b>-3</b>	<b>9</b>	<b>19</b>	<b>29</b>
Net financial items	-0.5	-1.0	-0.5	-0.5	-6	-2	-2	-2	-1
<b>Pre-tax profit</b>	<b>3.1</b>	<b>-3.9</b>	<b>1.1</b>	<b>-5.5</b>	<b>-6</b>	<b>-5</b>	<b>7</b>	<b>17</b>	<b>28</b>
Taxes	0.0	0.0	-0.3	1.3	0	1	-2	-4	-7
Minority interest	0.0	0.0	0.0	0.0	0	0	0	0	0
Discontinued operations	0.0	0.0	0.0	0.0	72	0	0	0	0
<b>Net profit</b>	<b>3.1</b>	<b>-3.9</b>	<b>0.9</b>	<b>-4.2</b>	<b>66</b>	<b>-4</b>	<b>5</b>	<b>13</b>	<b>21</b>
<b>EPS (NOK)</b>	<b>0.04</b>	<b>-0.04</b>	<b>0.01</b>	<b>-0.04</b>	<b>0.81</b>	<b>-0.04</b>	<b>0.06</b>	<b>0.14</b>	<b>0.23</b>

## Valuation

Under our estimates, Bergen Group trades at P/E of 32 for 2018, 13 for 2019 and 8 for 2020. P/B excluding goodwill is 1.65.

It is very difficult to find comparable stock exchange-listed peers for Bergen Group in order to compare their pricing multiples. We have selected four companies that may be to some extent comparable to Bergen Group based on the type of activities (services and equipment to the maritime and offshore industries) and geography (mainly Nordic region): Havyard Group, TTS Group, Vard Holdings and Wärtsilä. Unfortunately, we could not obtain consensus estimates for the first two companies, possibly due to their relatively small size, while in Vard Holdings, the pricing multiples are little relevant due to weak or negative forecasted results. Adding differences in business areas and sizes, the comparison becomes irrelevant.

Peer comparator	Source	Market	EV	EV/EBITDA**			EV/EBIT**			P/E			P/B	Company Profile
				2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E		
NOKm		Cap.												
<b>Bergen Group</b>	<b>Norne</b>	<b>171</b>	<b>144</b>	<b>24.6</b>	<b>11.6</b>	<b>6.8</b>	<b>503.4</b>	<b>16.2</b>	<b>7.7</b>	<b>neg</b>	<b>32.1</b>	<b>13.3</b>	<b>0.83</b>	Services and products to maritime and offshore industry; based in Norway
Havyard Group	Consensus*	415	324	na	na	na	na	na	na	na	na	na	0.98	Design, construction and equipment of vessels for offshore support, windfarm support and fishing; based in Norway
TTS Group	Consensus*	334	690	na	na	na	na	na	na	na	na	na	0.77	Cargo handling solutions and access systems for marine and offshore industries; headquartered in Norway
Vard Holdings	Consensus*	1,636	7,454	67.9	51.9	na	neg	230.6	na	na	na	na	0.75	Shipbuilding of offshore and specialized vessels; vessel designs and equipment; headquartered in Norway
Wärtsilä	Consensus*	106,052	99,140	16.0	13.7	12.7	19.0	16.1	14.7	24.7	20.7	18.8	5.38	Technologies and complete lifecycle solutions for marine and energy markets; headquartered in Finland

\* From Thomson Reuters

\*\* Last reported net debt applied in EV

Turning to absolute valuation, we use DCF approach where key assumptions, apart from the already discussed estimates for 2017-2020, are as follows:

- WACC (weighted average cost of capital) of 10.3%
- Long-term growth of 2.5%
- Assumed conversion of a convertible loan of EUR 1.8m into shares (conversion price NOK 1.0/sh., at an exchange rate of 1 EUR for 9 NOK)

The DCF calculation yields a value of NOK 2.8 per share.

## DCF model

NOKm	3Q-4Q 2017e	2018e	2019e	2020e
Revenues	153.8	323.1	355.0	390.0
EBIT	-3.5	8.9	18.7	28.8
<i>Tax on EBIT*</i>	0.0	0.0	0.0	-6.9
NOPLAT	-3.5	8.9	18.7	21.9
<i>Depreciation &amp; amortization (+)</i>	2.8	3.5	2.6	2.2
<i>Investments (-)</i>	0.0	-1.0	-2.0	-2.0
<i>Change in working capital (- or +)</i>	16.4	-2.3	0.8	0.3
<b>Free Cash Flow to the Firm</b>	<b>15.7</b>	<b>9.1</b>	<b>20.0</b>	<b>22.4</b>
NPV of FCFF	15.0	7.9	15.7	15.8

WACC calculation		Assumptions		Valuation	
Debt ratio	10%	L.t. growth	2.5%	Net debt (-) / cash (+)	27.4
Cost of debt (after tax)	6.1%	Tax rate	24%	Net debt (-) / cash (+) after conv.**	44.0
				Minority interest (-)	0.0
Risk free rate	3.0%	Shares outstanding	94.0	Def. tax asset left after 2019, 50%	7.4
Beta	1.30	Shares converted**	16.2		
Market risk premium	6.0%	Shares after conv.**	110.2	NPV cash flow	
Cost of equity	10.8%			Explicit period	54.3
<b>WACC</b>	<b>10.3%</b>			Terminal value	207.5
				Total NPV cash flow	261.8
				Equity value	313.2
				<b>Value per share, NOK</b>	<b>2.84</b>

\* Deferred tax asset taken into consideration

\*\* Assumed conversion of a convertible loan of EUR 1.8m into shares, conversion price NOK 1.0/sh., at 1 EUR for 9 NOK

### Sensitivity of DCF, NOK/sh.

		L.t. growth				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	8.0%	3.40	3.62	3.87	4.18	4.55
	10.0%	2.70	2.82	2.95	3.10	3.28
	10.3%	2.61	2.72	2.84	2.98	3.14
	12.0%	2.26	2.34	2.42	2.51	2.61
	15.0%	1.85	1.90	1.94	1.99	2.04

## Recommendation

Bergen Group is struggling with weak Energy & Industry results, order backlog has declined and the failure to win the extension of the major navy frigate maintenance contract may hurt revenues in 2018. However, the stock has already priced in the loss of the frigate contract extension, the company has good potential through its ambitious M&A-led growth strategy combined with cooperation agreements, the balance sheet is strong and the pricing is not very demanding based on conservative estimates. New acquisitions of companies and cooperation agreements are the main triggers going forward, and the upside in the stock seems larger than the downside now. Thus, we initiate coverage of Bergen Group with a Buy recommendation and a target price of NOK 2.60 per share, based on 10% discount to the DCF value.

Main triggers for the stock going forward:

- Acquisitions of companies.
- New cooperation agreements.
- Contract announcements.
- Improving quarterly results, helped by synergies with AAK and measures to improve the Energy & Industry segment performance.
- Initiations of research coverages by investment banks: Norne is currently the only investment bank covering Bergen Group; if the company grows through M&A and demonstrates improvement in results, there should be more interest to cover the company's stock.

<b>Profit &amp; Loss (NOKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
<b>Operating revenues</b>	<b>1,108</b>	<b>259</b>	<b>210</b>	<b>246</b>	<b>303</b>	<b>323</b>	<b>355</b>	<b>390</b>
Payroll expenses	-387	-100	-124	-91	-129	-149	-156	-164
Cost of sales	-626	-123	-64	-116	-123	-120	-135	-153
Other operating expenses	-145	-30	-55	-34	-44	-42	-42	-42
<b>EBITDA</b>	<b>-51</b>	<b>6</b>	<b>-33</b>	<b>5</b>	<b>6</b>	<b>12</b>	<b>21</b>	<b>31</b>
Depreciation & Amortisation	-11	12	-7	-6	-6	-4	-3	-2
<b>EBIT (adj)</b>	<b>-62</b>	<b>18</b>	<b>-40</b>	<b>-1</b>	<b>0</b>	<b>9</b>	<b>19</b>	<b>29</b>
Non-recurring items	-93	-20	-	-	-3	-	-	-
<b>EBIT</b>	<b>-155</b>	<b>-2</b>	<b>-40</b>	<b>-1</b>	<b>-3</b>	<b>9</b>	<b>19</b>	<b>29</b>
Net financial items	-20	-50	-19	-6	-2	-2	-2	-1
<b>Pre-tax profit</b>	<b>-175</b>	<b>-53</b>	<b>-59</b>	<b>-6</b>	<b>-5</b>	<b>7</b>	<b>17</b>	<b>28</b>
Taxes	-118	15	-11	-	1	-2	-4	-7
Minority interest	0	-	-	-	-	-	-	-
Discontinued operations	89	-343	-32	72	-	-	-	-
<b>Net profit</b>	<b>-203</b>	<b>-381</b>	<b>-102</b>	<b>66</b>	<b>-4</b>	<b>5</b>	<b>13</b>	<b>21</b>
<b>EPS (NOK)</b>	<b>-3.36</b>	<b>-6.28</b>	<b>-1.68</b>	<b>0.81</b>	<b>-0.04</b>	<b>0.06</b>	<b>0.14</b>	<b>0.23</b>
<b>Margins</b>								
Operating margin	-5.6%	6.9%	-18.9%	-0.3%	0.1%	2.7%	5.3%	7.4%
ROE	-30.6%	-101.6%	-76.9%	52.8%	-2.2%	2.6%	6.0%	9.2%
ROCE	-7.8%	4.2%	-25.3%	-0.5%	0.1%	3.9%	8.3%	12.3%
Tax rate	-67.6%	28.0%	-18.8%	0.0%	20.3%	24.0%	24.0%	24.0%
<b>Growth rates (YoY)</b>								
Operating revenues	-44%	-77%	-19%	17%	23%	7%	10%	10%
EBIT (adj)	nm	nm	nm	nm	nm	>1,000%	111%	54%
EPS	nm	nm	nm	nm	nm	nm	141%	65%

<b>Cash flow (NOKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Operating profit	-155	-2	-40	-1	-3	9	19	29
Depreciation and amortisation	11	-12	7	6	6	4	3	2
Net financial items	-10	-50	-19	-6	-2	-1	-1	-0
Other non-cash adjustments	293	-210	-55	72	3	-	-	-
Paid taxes	-	-31	-13	-	-0	-0	0	0
Change in working capital	-879	113	-38	-43	10	-2	1	0
<b>Operating cash flow (OCF)</b>	<b>-740</b>	<b>-193</b>	<b>-158</b>	<b>28</b>	<b>14</b>	<b>9</b>	<b>21</b>	<b>31</b>
Capital expenditures	-25	-37	-5	-0	-2	-1	-2	-2
Other investments & asset transactions	791	128	191	-	-	-	-	-
<b>Free Cash Flow (FCF)</b>	<b>25</b>	<b>-102</b>	<b>29</b>	<b>28</b>	<b>11</b>	<b>8</b>	<b>19</b>	<b>29</b>
Net loan proceeds	-321	30	-96	-49	-20	-	-	-17
Dividend paid	-	-	-	-	-	-	-	-
Share issues	-	-	-	22	29	-	-	-
Other	-	-	-	-	-0	-1	-1	-1
<b>Change in cash</b>	<b>-295</b>	<b>-72</b>	<b>-68</b>	<b>1</b>	<b>20</b>	<b>7</b>	<b>18</b>	<b>12</b>

<b>Balance sheet (NOKm)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Goodwill	-	102	102	102	102	102	102	102
Deferred tax asset	47	30	19	19	22	20	16	9
Intangible assets	140	11	7	2	3	2	1	1
Property, plant & equipment	336	198	6	5	4	3	3	2
Other long term assets	-	52	-	-	1	1	1	1
Financial assets	7	10	-	-	0	0	0	0
<b>Non-current assets</b>	<b>530</b>	<b>404</b>	<b>134</b>	<b>129</b>	<b>132</b>	<b>128</b>	<b>123</b>	<b>116</b>
Inventories	21	35	4	3	3	3	4	4
Accounts receivable	205	162	20	37	40	42	46	51
Other current assets	1,411	237	334	86	58	55	55	55
Cash and cash equivalents	174	102	35	36	59	66	84	96
<b>Current assets</b>	<b>1,812</b>	<b>536</b>	<b>392</b>	<b>163</b>	<b>159</b>	<b>166</b>	<b>189</b>	<b>206</b>
<b>Total assets</b>	<b>2,342</b>	<b>940</b>	<b>526</b>	<b>291</b>	<b>291</b>	<b>294</b>	<b>312</b>	<b>322</b>
Shareholders' equity	565	184	81	168	202	208	221	242
Non-controlling interests	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>565</b>	<b>184</b>	<b>81</b>	<b>168</b>	<b>202</b>	<b>208</b>	<b>221</b>	<b>242</b>
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	52	41	0	16	17	17	-	-
Other long-term liabilities	7	3	4	4	3	3	3	3
<b>Non-current liabilities</b>	<b>59</b>	<b>44</b>	<b>4</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>3</b>	<b>3</b>
Current interest bearing debt	149	191	67	20	-	-	17	-
Accounts payable	-	362	26	37	33	32	37	43
Other current liabilities	1,570	158	348	47	36	34	34	34
<b>Current liabilities</b>	<b>1,718</b>	<b>711</b>	<b>442</b>	<b>104</b>	<b>69</b>	<b>66</b>	<b>89</b>	<b>77</b>
<b>Total liabilities</b>	<b>1,777</b>	<b>756</b>	<b>446</b>	<b>123</b>	<b>89</b>	<b>86</b>	<b>92</b>	<b>80</b>
<b>Total equity and liabilities</b>	<b>2,342</b>	<b>940</b>	<b>526</b>	<b>291</b>	<b>291</b>	<b>294</b>	<b>312</b>	<b>322</b>
Working capital	68	-87	-17	43	31	34	33	33
Net IB debt	27	130	33	-0	-42	-49	-68	-96
Capital employed	624	229	85	188	222	227	224	245
Net IB debt / equity	5%	71%	41%	0%	-21%	-24%	-31%	-40%
Equity / total assets	24%	20%	15%	58%	69%	71%	71%	75%



Share data	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Shares outstanding, year end (mill.)	60.6	60.6	60.6	79.0	94.0	94.0	94.0	94.0
Share price, year end (NOK)	3.48	1.92	1.03	1.93	1.82	1.82	1.82	1.82
Market cap (NOKm)	211	116	62	152	171	171	171	171
Enterprise value (NOKm)	238	246	95	152	129	122	103	75
EPS (NOK)	-3.36	-6.28	-1.68	0.81	-0.04	0.06	0.14	0.23
DPS (NOK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Valuation	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EV/Sales	0.2	1.0	0.5	0.6	0.4	0.4	0.3	0.2
EV/EBITDA	neg	42.6	neg	29.9	22.1	9.8	4.9	2.4
EV/EBIT (adj)	neg	13.8	neg	neg	451.7	13.7	5.5	2.6
P/E	neg	neg	neg	2.4	neg	32.1	13.3	8.1
P/B (excl. goodwill)	0.37	1.42	neg	2.32	1.71	1.62	1.45	1.23

Growth (YoY)	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Operating revenues	-44%	-77%	-19%	17%	23%	7%	10%	10%
EBITDA	nm	nm	nm	nm	14%	112%	71%	46%
EBIT (adj)	nm	nm	nm	nm	nm	>1,000%	111%	54%
Pre-tax profit	nm	nm	nm	nm	nm	nm	141%	65%
Net profit	nm	nm	nm	nm	nm	nm	141%	65%
EPS	nm	nm	nm	nm	nm	nm	141%	65%

Margins	2013	2014	2015	2016	2017E	2018E	2019E	2020E
EBITDA	-4.6%	2.2%	-15.5%	2.1%	1.9%	3.8%	6.0%	7.9%
EBIT (adj)	-5.6%	6.9%	-18.9%	-0.3%	0.1%	2.7%	5.3%	7.4%
Pre-tax profit	-15.8%	-20.3%	-27.9%	-2.6%	-1.7%	2.2%	4.8%	7.1%
Net profit	-18.4%	-147.0%	-48.6%	26.7%	-1.4%	1.6%	3.6%	5.4%

Profitability	2013	2014	2015	2016	2017E	2018E	2019E	2020E
ROE	-30.6%	-101.6%	-76.9%	52.8%	-2.2%	2.6%	6.0%	9.2%
ROCE (adj)	-7.8%	4.2%	-25.3%	-0.5%	0.1%	3.9%	8.3%	12.3%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## Appendix 1: Board and Management

### Board of directors

**Tor Lars Onarheim**, Chairman of the Board

Board member from June 2015. Further, elected as Chairman of the Board as from 1 July 2015. Onarheim is a lawyer admitted to the Supreme Court of Norway. Extensive experience from industrial operations and from the legal profession. Holds board positions in industrial activities relevant for Bergen Group. Norwegian citizen, resides in Bergen.

**Espen Selvikvåg Berge**, Board member

Board member from June 2015. Has a degree in economics and finance from the University of Exeter and the Norwegian University of Science and Technology (NTNU), as well as Certified Financial Analyst (CFA) from the CFA Institute. Over 10 years experience from capital markets and financial advisory services. Currently CFO of Køhlergruppen AS. Norwegian citizen, resides in the Stavanger-area.

**Tove Ormevik**, Board member

Board member since June 2014. Extensive experience from various leading positions within the offshore industry. Currently holds position of Offshore Installation Manager at Skarv FPSO. Previous experience includes positions as Platform Manager and as Sector Manager for Subsea Technology and Operations in Statoil, as well as Project Manager at Odfjell Drilling. Involved in NCE Subsea since 2006, the three last years as Chairman of the Board. Holds a Master of Science in Marine Technology from NTNU. Norwegian citizen, resides outside Bergen.

**Bente Stangeland**, Board member

Board member since September 2015, after being alternate board director since January 2015. Member of the Audit Committee of Bergen Group ASA since June 2015. In 2014 joined AS Flyfisk as the Managing Director where she is responsible for developing the overall investment strategy and monitoring existing investments. Prior to this she was over 10 years in chartering working for international oil and chemical ship owners in the United States and Norway. Holds a Bachelor of Business and Administration from Pacific Lutheran University, Washington as well as a Master of Science in Administrative Studies with a concentration in Financial Economics from Boston University, Massachusetts. Norwegian citizen residing in Bergen.

**Tracy Chang**, Board member

Board member since June 2017. Has a central position in Brian Chang Holding Ltd, one of the major share owners in Bergen Group ASA.

**Kristoffer Hope**, Board member, employee elected

Board member (employee representative) since August 2014. Since July 2009 holds a position as industrial mechanic at Bergen Group Services. Has education from Bergen Maritime College with studies in industrial mechanic and electro-engineering. Norwegian citizen, resides in Bergen.

**Jorunn Ingebrigtsen**, Board member, employee elected

Elected as deputy board member in August 2014 and became board member, employee elected in May 2015. Employee of Bergen Group since 2008, first in Bergen Group Vest Elektro, and from 2013 as an accountant employee in Bergen Group Services. Norwegian citizen, resides in Bergen.

## Management

### **Hans Petter Eikeland, CEO**

Hans Petter Eikeland (1959) was appointed CEO for Bergen Group as from 28 August 2015. Eikeland has an extensive experience from various leadership positions within offshore related business. He has been CEO in Ability Drilling ASA, Rig Manager and VP Operations in Odfjell Drilling and Rig Manager in Smedvig Drilling. As an investor and entrepreneur, he has extensive experience in restructuring the development of industrial companies, including as one of the founders of the listed company AGR, and as 50% owner of Safeguard Group which during just a few years multiplied the turnover before the company were purchased by the international group Assa Abloy. Eikeland resides in Bergen.

### **Nils Ingemund Hoff, CFO**

Nils Ingemund Hoff (1962) was engaged as Chief Financial Officer (CFO) in Bergen Group ASA from 1 July 2015. He has broad experience from various leading positions from both finance and industry. He has been CFO of Tandberg Data (2008-2014), as well as CFO of Tandberg Storage (2006 - 2008) and in Data Invest (1998-2006). Hoff has his economic education from Agder District College, with specializing in shipping, finance & administration and auditing. Nils I. Hoff has in recent time been working as consultant, including a position as executive chairman of an industrial group operating within electrical installations in Oslo and board position in Overland Storage Inc, USA. Hoff resides in Bergen.

### **Øyvind Risnes, SVP Corporate Functions & Communications**

Øyvind Risnes (1964) was employed in Bergen Group as Vice President Communication in August 2009. As from January 2014 he has been Senior Vice President for Corporate Functions & Communications in Bergen Group. Risnes has an extensive experience from management positions in different regional newspaper and TV/broadcasting companies in Norway. He has also for many years held central communication positions within the international industry company EWOS. He has a bachelor degree in political science and information technology from University of Bergen. Risnes is a Norwegian citizen and resides just outside Bergen, Norway.

## Appendix 2: Shareholders

### Bergen Group top shareholders

Position	Investor	# of shares	% of total
1	BRIAN CHANG HOLDINGS LIMITED	28,918,110	30.78%
2	AS FLYFISK	22,397,940	23.84%
3	EIKELAND HOLDING AS	5,823,024	6.20%
4	BERGEN KOMMUNALE PENSJONSKASSE	1,500,000	1.60%
5	EAGLE AS	1,417,000	1.51%
6	<private>	1,370,926	1.46%
7	PROFOND AS	1,241,111	1.32%
8	SØR-VARANGER INVEST AS	916,774	0.98%
9	BERGEN EIENDOM INVEST A/S	851,851	0.91%
10	FJ HOLDING AS	833,000	0.89%
	<b>Sum 10 largest</b>	<b>65,269,736</b>	<b>69.49%</b>

Note: Eikeland Holding AS, Eagle AS and FJ Holding AS belong to the management

Source: Infront

## Recommendation, valuation, risk and sources

### Recommendation and target price

Recommendation history for Bergen Group during the previous 12 months:

Date	Recommendation	Target price (NOK)
15/09/2017	BUY	2.60

### Valuation

The target price is based on a DCF value with a discount.

### Risks

The main risks to our target price and recommendation on Bergen Group are the following:

- **Macroeconomic risk.** Changes in macroeconomic conditions within the industries the company is operating in could have a material adverse effect on the company's results. Particularly, the results of the company's operations within oil and gas could deteriorate due to a substantial or prolonged decrease in oil and gas prices which could cause a delay or depress maintenance and other activities.
- **Customer risk.** The company has a strong reliance on selected customers and the company relies on third parties to perform certain services. If any such customers should discontinue the cooperation or third parties fail to provide their services, this may have an adverse impact on the company.
- **Project risk.** In large and extensive projects, there is a risk that a customer may be unwilling or unable to settle its liabilities, or that costs offset or exceed income from contracts.
- **Accident risk.** If any business activity the company is involved in leads to accidents, a claim may be set forward towards the company.
- **Financial risk.** Any breach of the company's loan agreements (including covenants) may cause the lenders to take action against the company to enforce the loan agreements which may have an adverse effect on the company's financial condition and the share value.
- **Risk arising from the disputes.** There is an ongoing tax dispute regarding Bergen Intech AS. The tax authorities demand an additional payment of taxes and VAT of NOK 4.4m related to errors in reporting for 2010 and 2011.

### Sources

The sources used in the preparation of this report were: Bergen Group, Norwegian Petroleum Directorate, Oil & Gas UK, Thomson Reuters, Infront, 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 (Verdipapirforetaketenes 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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Norne Securities AS is a market maker in the shares of Bergen Group.

This report has been presented to the issuer before dissemination for a check of factual information. Amendments of factual information have been made following this.

Share holdings of Norne employees in Bergen Group:

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, 2017:

	Buy	Hold	Sell
Total recommendations	60	27	15
% of total	59%	26%	15%
Corporate clients*	20	10	1
% of corporate clients*	65%	32%	3%

\* 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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