

Nexstim

The defining inflection point expected within three weeks

Nexstim has reported encouraging H118 results. The main operational highlight is the first US shipment of an NBT system for use in Major Depression, with further deliveries since the period end. However, the key news is confirmation that the top-line results of the E-FIT stroke trial are expected within three weeks. A positive outcome should lead to the FDA approving Nexstim's proprietary rTMS platform for the rehabilitation of stroke patients. A comprehensive commercialisation plan has been prepared and a sizeable equity raise to implement this, and fund further clinical development, is planned for later in H218. We value Nexstim at €120m, equivalent to €0.97 per share (fully diluted).

Year-end: December 31	2017	2018E	2019E	2020E
Sales (€m)	2.6	2.9	4.0	6.2
PBT (€m)	(7.4)	(8.5)	(8.1)	(6.9)
Net Income (€m)	(7.3)	(8.4)	(8.1)	(6.8)
EPS (€)	(0.09)	(0.09)	(0.08)	(0.07)
Cash* (€m)	8.5	4.6	11.0	3.2
EBITDA (€m)	(5.3)	(7.8)	(7.1)	(5.9)

Source: Trinity Delta. Note: *Our cash forecast assumes that Nexstim raises €15m in 2019

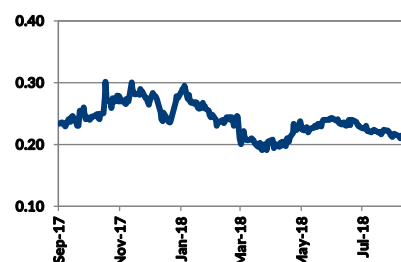
- Approaching a key inflection point** The efficacy and safety of Nexstim's proprietary rTMS technology platform has been validated by its FDA approval in pre-surgery brain mapping and, importantly, its therapeutic use in Major Depressive Disease (MDD). Commercialisation is progressing well and the system's ability to navigate precisely, reliably, and reproducibly is achieving clear differentiation from other technologies. The short interval between the US MDD launch in May and first shipment bodes well for market adoption. However, it is FDA approval for stroke that represents a key inflection point and should transform Nexstim's outlook.
- The stroke indication is the critical factor** Top-line results of the E-FIT study are expected to be known within three weeks (ie before end-August). The FDA has indicated that positive outcomes in this 60-patient stroke trial, when coupled with the existing results from the active arm of the NICHE study, would be sufficient to consider approval. The data would be used to file a *de novo* 510(k) submission and so position NBT uniquely in this clinically important, and sizeable, indication. Commercialisation plans have been drawn up, in addition to further development studies to support pricing authorisations and aid market uptake.
- A well-defined funding need has been flagged** With significant progress achieved over the past few years, the emphasis is set to shift from development to commercialisation. Comprehensive marketing and distribution initiatives have been prepared and now require funding, with a sizeable equity raise expected later this year. Although management has not quantified the amount, we estimate €15m is needed to achieve near-term goals (including further clinical studies to support use of NBT in the current indications and broaden its use into other ones).
- Current price fails to reflect prospects** We believe the shares still reflect the company's chequered past and have yet to factor in the improved outlook and future prospects. Using an rNPV model, we maintain our valuation of Nexstim at €120m, equivalent to €1.23 per share currently and €0.97 per share fully diluted.

Update

17 August 2018

Price	€0.22
Market Cap	€21.3m
Enterprise Value	€18.5m
Shares in issue	97.5m
12 month range	€0.18-0.40
Free float	85.8%
Primary exchange	Helsinki
Other exchanges	Stockholm
Sector	Healthcare
Company Codes	NXTMH/NXTMS

Corporate client Yes



Company description

Nexstim has developed a proprietary navigated rTMS platform that is used in planning brain surgery (NBS) and has therapeutic uses (NBT) in stroke, depression, and chronic pain. FDA approval for depression was given in 2017; the stroke indication is awaiting the results of the follow-up E-FIT Phase III study.

Analysts

Mick Cooper PhD

mcooper@trinitydelta.org
+44 (0) 20 3637 5042

Lala Gregorek

lgregorek@trinitydelta.org
+44 (0) 20 3637 5043

Exhibit 1: Summary of financials

Year-end: December 31	€'000s	2015	2016	2017	2018E	2019E	2020E
INCOME STATEMENT							
Revenues		2,528	2,483	2,645	2,945	4,025	6,195
Cost of goods sold		(821)	(689)	(552)	(702)	(885)	(1,230)
Gross Profit		1,707	1,794	2,093	2,243	3,140	4,965
Wages and salaries		(3,292)	(3,602)	(2,903)	(3,611)	(3,957)	(4,234)
Social security expenses		(677)	(651)	(431)	(614)	(673)	(720)
Other expenses		(7,843)	(3,908)	(4,118)	(5,971)	(5,757)	(6,045)
Depreciation & amortisation		(386)	(372)	(341)	(326)	(389)	(429)
Underlying operating profit		(10,492)	(6,739)	(5,701)	(8,279)	(7,636)	(6,463)
Other revenue/expenses		122	43	109	109	109	109
EBITDA		(9,984)	(6,324)	(5,251)	(7,845)	(7,138)	(5,925)
Operating Profit		(10,370)	(6,696)	(5,592)	(8,170)	(7,527)	(6,354)
Financial income		544	(34)	(1,733)	(236)	(516)	(432)
Profit Before Taxes		(9,826)	(6,730)	(7,325)	(8,407)	(8,043)	(6,786)
Adj. PBT		(9,948)	(6,774)	(7,434)	(8,516)	(8,152)	(6,895)
Current tax income		(1)	(2)	(3)	(6)	(8)	(12)
Net Income		(9,827)	(6,733)	(7,328)	(8,413)	(8,051)	(6,798)
EPS (€)		(1.37)	(0.56)	(0.09)	(0.09)	(0.08)	(0.07)
Adj. EPS (€)		(1.39)	(0.57)	(0.09)	(0.09)	(0.08)	(0.07)
DPS (€)		0.0	0.0	0.0	0.0	0.0	0.0
Average no. of shares (m)		7.2	12.0	79.5	96.4	97.5	97.5
<i>Gross margin</i>		68%	72%	79%	76%	78%	80%
<i>EBITDA margin</i>		N/A	N/A	N/A	N/A	N/A	N/A
<i>Underlying operating margin</i>		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Current assets		8,233	9,506	10,326	6,694	13,507	6,384
Cash and cash equivalents		6,875	8,156	8,474	4,600	10,965	3,232
Accounts receivable		937	1,057	1,465	1,614	1,985	2,546
Inventories		421	292	387	481	558	607
Other current assets		0	0	0	0	0	0
Non-current assets		974	911	718	788	1,054	1,469
Property, plant & equipment		333	249	167	221	465	843
Intangible assets		631	652	541	557	579	616
Current liabilities		(2,417)	(2,137)	(1,786)	(1,787)	(16,917)	(17,007)
Short-term debt		0	0	0	0	(15,000)	(15,000)
Accounts payable		(1,084)	(397)	(961)	(962)	(1,091)	(1,179)
Other current liabilities		(1,332)	(1,740)	(824)	(826)	(826)	(827)
Non-current liabilities		(3,245)	(3,802)	(3,737)	(7,737)	(7,737)	(7,737)
Long-term debt		(3,197)	(3,778)	(3,724)	(7,724)	(7,724)	(7,724)
Other non-current liabilities		(47)	(24)	(13)	(13)	(13)	(13)
Equity		3,545	4,478	5,521	(2,042)	(10,093)	(16,891)
Share capital		23,662	31,773	38,599	39,559	39,559	39,559
Other		(20,117)	(27,294)	(33,078)	(41,601)	(49,652)	(56,451)
CASH FLOW STATEMENTS							
Operating cash flow		(9,609)	(7,225)	(5,403)	(8,328)	(7,980)	(6,890)
Profit before tax		(9,827)	(6,733)	(7,328)	(8,413)	(8,051)	(6,798)
Non-cash adjustments		432	(106)	3,618	562	905	861
Change in working capital		330	(411)	(1,555)	(236)	(311)	(509)
Interest paid		(544)	25	(138)	(236)	(516)	(432)
Taxes paid		0	0	0	(5)	(7)	(11)
Investing cash flow		(380)	(310)	(148)	(396)	(654)	(843)
CAPEX		(380)	(310)	(148)	(396)	(654)	(843)
Other investing cash flows		0	0	0	0	0	0
Financing cash flow		5,380	8,817	5,868	4,850	15,000	0
Proceeds from equity		5,280	7,700	6,765	960	0	0
Increase in loans		100	1,117	(897)	4,000	15,000	0
Other financing cash flow		0	0	0	(110)	0	0
Net increase in cash		(4,609)	1,282	318	(3,874)	6,365	(7,733)
Exchange rate effects		0	0	0	0	0	0
Cash at start of year		11,484	6,875	8,156	8,474	4,600	10,965
Cash at end of year		6,875	8,156	8,474	4,600	10,965	3,232
Net cash at end of year		3,677	4,378	4,750	(3,124)	(11,759)	(19,492)

Source: Nexstim, Trinity Delta Note: The accounts are produced according to Finnish GAAP. The short-term debt in FY19 is indicative of the company's funding requirement. Our sales forecasts do not include any contribution from indications that are yet to be approved.

Mick Cooper PhD CFA

mcooper@trinitydelta.org

+44 20 3637 5042

Lala Gregorek

lgregorek@trinitydelta.org

+44 20 3637 5043

Franc Gregori

fgregori@trinitydelta.org

+44 20 3637 5041

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