Trinity Delta

Nexstim

Update

Getting back on the front foot

21 May 2019

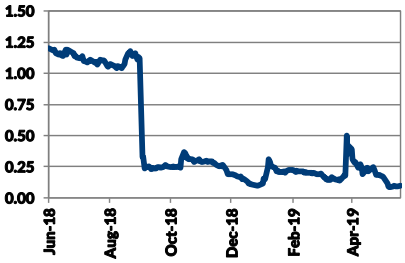
Nexstim has successfully secured funding to enable the commercialisation of its proprietary Navigated Brain Therapy (NBT) platform in MDD (major depressive disorder). The near-term challenges now shift to maximising the uptake of NBT in specialist centres in North America and Europe. Initial indications are encouraging, with notable support from major centres and key opinion leaders. Our valuation and financial models have been updated to reflect the capital raise. We value Nexstim at €18.8m or €0.53 per share (€0.40 diluted), against €35.5m, or €1.00/share (€0.73/share diluted) were the remaining financial risks removed.

Year-end: December 31	2017	2018	2019E	2020E
Sales (€m)	2.6	2.7	4.0	6.1
PBT (€m)	(7.3)	(6.2)	(7.0)	(6.4)
Net Income (€m)	(7.3)	(6.2)	(7.0)	(6.4)
EPS (€)	(2.77)	(1.93)	(0.20)	(0.13)
Cash* (€m)	8.5	7.2	4.0	15.7
EBITDA (€m)	(5.3)	(5.9)	(6.0)	(5.1)

Source: Trinity Delta. Note: *Our cash forecast assumes that all the warrants issued with the rights issue are exercised at €0.115 raising €1.8m in Q419 and Nexstim raises an additional €10m in FY20.

- **Fund raise removes the major uncertainty** The recent rights issue has raised €3.1m (net), with 31.2m new shares issued. Warrants for one share for each two shares subscribed for were also issued, exchangeable between 22 October and 4 November 2019 at the greater of a 25% discount to prevailing price or €0.115. The cash position is now estimated to be c. €7.2m. We calculate the company will be able to operate into Q120, or into Q220 if all the warrants are exercised in Q419.
- **Putting the elements in place** Although NBS (pre-surgical mapping) continues to generate sales, it is NBT's use in Major Depressive Disorder (MDD) that is set to be the revenue driver. Transcranial magnetic stimulation is increasingly recognised as a therapy for c. 6m MDD patients, and NBT is the only system that can deliver accurate and reproducible treatment. The data on patient outcomes and economic benefits are compelling and the task is to raise clinical awareness of the platform's value. An impressive Scientific Advisory Board has been assembled and well-targeted marketing and distribution plans are being executed.
- **Financial concerns remain an overhang** We believe that evidence of gaining traction in the key US market will be the major determinant of Nexstim's success. But, understandably, the likely need for additional funding ahead of forecast break-even remains an issue. We expect that demonstrable effective commercialisation of NBT in MDD will be employed to support a further rights issue, albeit at more favourable terms. The possible divestment of the NBS pre-surgical mapping unit remains on the cards, but we have not factored this into our expectations.
- **Valuation updated for fund raise** We have updated our DCF model for the outcome of the rights issue and the reduced financial risks now present. We value Nexstim at €18.8m or €0.53/share currently or €0.40/share diluted (in the money options only). This compares to €10.5m or €3.23/share diluted previously.

Price	€0.09
Market Cap	€3.3m
Enterprise Value	€4.3m
Shares in issue	35.4m
12 month range	€0.07-1.23
Free float	100%
Primary exchange	Helsinki
Other exchanges	Stockholm
Sector	Healthcare
Company Codes	NXTMH/NXTMS
Corporate client	Yes



Company description

Nexstim is a targeted neuro-modulation company that has developed a proprietary navigated rTMS platform for use in diagnostics (NBS) and therapeutics (NBT). NBS is used in planning brain surgery while NBT is focused on depression and chronic pain. FDA approval for depression was given in 2017, and the focus is on its commercial roll out in the US, Europe and Asia.

Analysts

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

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

Nexstim: now focussed on commercialisation

Fund raise allows management to concentrate on marketing its navigated TMS platform

Nexstim's management has successfully raised €3.1m (net) through a discounted rights issue. These funds allow the commercial strategy to be progressed to the stage where clear market traction can be demonstrated, at which point we would expect additional funds or a strategic partner to be sought. Despite the funding difficulties, significant progress has been made over the past six months in establishing the necessary infrastructure to exploit the market potential of its highly accurate TMS (Transcranial Magnetic Stimulation) system as a treatment for major depressive disease (MDD).

We have detailed Nexstim's proprietary rTMS technology and its clinical applications in previous notes (notably Initiation July 2018), with further notes examining its use in depression and its commercial prospects (Update October 2018, Update March 2019). In summary, Nexstim's platform is differentiated by its ability to navigate precisely, reliably, and reproducibly. Its value in pre-surgical brain mapping (NBS) is acknowledged, but it is its potential in therapeutic applications (NBT) that has most commercial appeal. It has CE Marks for clinical use in stroke, depression, and chronic pain; as well as FDA approval in pre-surgery brain mapping and major depression. The applications are shown in Exhibit 1.

Exhibit 1: Unique navigated TMS system for diagnostic and therapeutic applications

Use	Application	Europe	US	Commercial status
Diagnostic (NBS)	Pre-surgical mapping	CE Marked	FDA approved	Installed base of over 160 systems
Therapeutics (NBT)	Depression	CE Marked	FDA approved	Multiple systems installed in the EU and US
	Chronic neuropathic pain	CE Marked	Phase II clinical trials evaluated	Multiple systems installed in the EU

Source: Nexstim, Trinity Delta

MMD indication gaining traction in key US market

Following approval by the FDA, the NBT depression therapy system was launched in the US in May 2018. Since then six systems have been ordered and installed, with utilisations rising as treatment protocols become embedded. The US market is receptive to leasing of capital equipment and all the current NBT systems there have been placed on a pay-per-use model, which means that the majority of these revenues will be recognised as net sales through the rest of 2019 and beyond. The targeted revenue for each system, when fully employed, is $100k per annum.

In Europe the market is less developed and more varied, with a mix of private and public operators (with regional differences in the preference of leasing or capital acquisition). Currently seven systems have been installed, with the expected annual revenues lower than the US model as utilisations tend not be as well optimised. The seven includes two systems that were recently sold in Sweden, a region that has not previously employed TMS for the treatment of MDD.

Commercialisation will be direct in major markets and distributors in the others

The US is being addressed through a focussed direct sales team, with ten people currently addressing four key geographic areas (North East states, South East states, Texas, and California) where TMS is already established and high-volume psychiatric practices appear primed. In Europe and Asia, a mixed direct and distributor model is being deployed, with the recent Ampere Medical distribution deal for Hong Kong demonstrating progress in developing new markets.

Impressive Scientific Advisory Board in place

Supportive Scientific Advisory Board will aid development and commercialisation strategy

A Scientific Advisory Board, composed of key opinion leaders in the field of TMS, has been established. The current members are:

- Professor Turo Nurmikko, MD, PhD, is Professor of Pain Relief at the Walton Centre NHS Foundation Trust. He is known for his extensive research on pain relief, especially in the field of chronic neuropathic pain. He has authored over 100 scientific publications and served on editorial boards of several pain
- Professor Paul Fitzgerald MD, PhD, is Professor of Psychiatry and Director of the Epworth Centre for Innovation in Mental Health in Melbourne, Australia. He is also Director of Therapeutic Brain Stimulation at the Monash Alfred Psychiatry Research Centre (MAPrc).
- Dr Pascual-Leone is Professor of Neurology and an Associate Dean for clinical and translational research at Harvard Medical School. A world leader in TMS in cognitive neuroscience and for therapeutic applications. He uses TMS therapy to treat patients with MDD at the Berenson-Allen Center for Noninvasive Brain Stimulation, a Harvard-affiliated center within Beth Israel Deaconess Medical Center, Boston, MA.
- Linda Carpenter is a professor of Psychiatry and Human Behavior at the Alpert Medical School of Brown University, United States. She has extensive experience in the field of TMS and is the founding Director of the Butler Hospital TMS Clinic and Neuromodulation Research Facility and has been a Director of the Clinical TMS Society since 2016.

These renowned experts will provide specialist support, advice and guidance to Nexstim as it develops its clinical applications.

Valuation and Financials

Risk adjusted DCF-model is best valuation tool for Nexstim

We employ a risk-adjusted DCF model to value Nexstim, forecasting cash flows for the three known likely revenue streams and then applying a development risk probability as appropriate (detailed in Exhibit 2). However, realistically, the single major consideration lies in ensuring sufficient financing is in place to properly execute the commercial plans for the MDD indication. To reflect this, we have applied a further adjustment as a financial risk (see table), which we will continue to update as the funding visibility improves. To take into account the recent capital raise, our risk-adjustment is now 50%, versus 35% previously (NB. 100% is equivalent to no significant financial risk). Obviously, assuming the appropriate funding is available, the second valuation figure should converge with the first valuation over time. Despite our conservative stance, our valuation suggests that Nexstim is undervalued at current levels.

Full risk adjusted DCF-based valuation of €18.8m or €0.53/share, or €0.40/share diluted

NBT MDD is the largest element, with the "commercial" valuation being €21.8m, but reducing to €10.9m when we overlay our "financial risk" adjustment. The NBS diagnostic unit is valued at €6.2m and reduces to €3.1m after risk adjustment. Similarly, the NBT Pain indication is valued at €5.4m and €2.7m respectively. Obviously, the net cash position remains at €2.0m under both scenarios. This results in our valuation for the company being €18.8m, which is equivalent to

€0.53/share, or €0.40/share diluted (based on in-the-money options and warrants). This compares to €35.5m or €1.00/share and €0.73/share diluted were the financial risk removed.

Exhibit 2: Updated DCF-based valuation of Nexstim

	Total NPV (€m)	Success probability	rNPV (€m) excluding financial risk	rNPV (€m) with financial risk	rNPV/ share (€)	Notes
NBS	6.2	100%	6.2	3.1	0.09	Peak sales: €4.1m. Launch year: N/A
NBT in MDD	21.8	100%	21.8	10.9	0.31	Peak sales: €22.4m. Launch year: FY18
NBT in Chronic Pain	21.7	25%	5.4	2.7	0.08	Peak sales: €25.8m. Launch year: FY23
Net cash	2.0		2.0	2.0	0.06	At FY18 with proceeds from April 2019 capital raise
Total (undiluted)	**51.8**		**35.5**	**18.8**	**0.53**	
Total (diluted)			**37.4**	**20.6**	**0.40**	Based on in-the-money options/warrants exercise
Discount rate					12.5%	
Tax rate					20%	From 2026
Financial risk adjustment					50%	
Terminal growth rate					2%	From 2035

Source: Trinity Delta; Note: Peak sales achieved after nine years in the US and 10 years in Europe. We assume the subscription prices for the 2018 options is the weighted average of existing options, which is €5.337.

Near-term future is secured, further funds required before break-even is reached

The rights issue has strengthened the balance sheet, raising €3.1m (net) with the cash position at May 2019 estimated at c. €7.2m, including the €3.756m loan from Kreos Capital. We believe this will be sufficient to maintain the marketing and selling efforts at the current levels through to Q120, and into Q220 if all the warrants from the rights issue are exercised at €0.115 in Q419. Assuming the uptake of NBT in depression does happen as planned, we would expect the improving commercial visibility would be used to support a further fund raise (at better rates) to progress to the next milestone before break-even is achieved (forecast within our model as FY22).

The next 12 months will define Nexstim's future, with the degree of success in executing the commercial plans being the critical determinant. We believe that it will be the level of sales performance over the coming quarters will dictate the attractiveness of Nexstim's investment case. The value of accurate navigation is well documented; however, the key question is whether clinicians are sufficiently aware of the NBT system and, if so, are they ready to adopt it. Yet, importantly, even a modest clinical adoption should result in increasing interest from other industry participants, potentially raising the prospect of material value accretion.

Exhibit 3: Summary of changes to estimates

	Sales (€m)			EBITDA (€m)			Adj. EPS (€)		
	Old	New	Change	Old	New	Change	Old	New	Change
2019E	4.0	4.0	0.0%	(6.0)	(6.0)	N/A	(2.06)	(0.20)	N/A
2020E	6.0	6.1	0.1%	(5.3)	(5.1)	N/A	(1.87)	(0.13)	N/A

Source: Trinity Delta

Exhibit 4: Summary of financials

Year-end: December 31	€'000s	2015	2016	2017	2018	2019E	2020E
INCOME STATEMENT							
Revenues		**2,528**	**2,483**	**2,645**	**2,672**	**4,031**	**6,051**
Cost of goods sold		(821)	(689)	(552)	(710)	(803)	(1,119)
Gross Profit		**1,707**	**1,794**	**2,093**	**1,962**	**3,228**	**4,932**
Wages and salaries		(3,292)	(3,602)	(2,903)	(3,353)	(4,204)	(4,511)
Social security expenses		(677)	(651)	(431)	(584)	(736)	(789)
Other expenses		(7,843)	(3,908)	(4,118)	(3,986)	(4,385)	(4,823)
Depreciation & amortisation		(386)	(372)	(341)	(424)	(425)	(724)
Underlying operating profit		**(10,492)**	**(6,739)**	**(5,701)**	**(6,386)**	**(6,521)**	**(5,916)**
Other revenue/expenses		122	43	109	70	70	70
EBITDA		**(9,984)**	**(6,324)**	**(5,251)**	**(5,892)**	**(6,027)**	**(5,122)**
Operating Profit		**(10,370)**	**(6,696)**	**(5,592)**	**(6,316)**	**(6,451)**	**(5,846)**
Financial income		544	(34)	(1,733)	163	(533)	(583)
Profit Before Taxes		**(9,826)**	**(6,730)**	**(7,325)**	**(6,153)**	**(6,984)**	**(6,429)**
Adj. PBT		**(9,948)**	**(6,774)**	**(7,434)**	**(6,223)**	**(7,054)**	**(6,499)**
Current tax income		(1)	(2)	(3)	(2)	(4)	(6)
Net Income		**(9,827)**	**(6,733)**	**(7,328)**	**(6,154)**	**(6,988)**	**(6,435)**
EPS (€)		**(41.20)**	**(16.90)**	**(2.77)**	**(1.93)**	**(0.20)**	**(0.13)**
Adj. EPS (€)		**(41.72)**	**(17.01)**	**(2.81)**	**(1.93)**	**(0.20)**	**(0.13)**
DPS (€)		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Average no. of shares (m)		0.2	0.4	2.6	3.2	36.7	51.5
Gross margin		*68%*	*72%*	*79%*	*73%*	*80%*	*82%*
EBITDA margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Underlying operating margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
BALANCE SHEET							
Current assets		**8,233**	**9,506**	**10,326**	**8,757**	**6,518**	**9,379**
Cash and cash equivalents		6,875	8,156	8,474	7,175	4,024	5,690
Accounts receivable		937	1,057	1,465	1,324	1,988	2,984
Inventories		421	292	387	259	506	705
Other current assets		0	0	0	0	0	0
Non-current assets		**974**	**911**	**718**	**905**	**1,498**	**2,286**
Property, plant & equipment		333	249	167	465	669	1,208
Intangible assets		631	652	541	430	820	1,068
Current liabilities		**(2,417)**	**(2,137)**	**(1,786)**	**(2,793)**	**(3,187)**	**(3,270)**
Short-term debt		0	0	0	(1,104)	(1,104)	(1,104)
Accounts payable		(1,084)	(397)	(961)	(597)	(990)	(1,073)
Other current liabilities		(1,332)	(1,740)	(824)	(1,092)	(1,093)	(1,094)
Non-current liabilities		**(3,245)**	**(3,802)**	**(3,737)**	**(7,163)**	**(7,163)**	**(7,163)**
Long-term debt		(3,197)	(3,778)	(3,724)	(7,163)	(7,163)	(7,163)
Other non-current liabilities		(47)	(24)	(13)	0	0	0
Equity		**3,545**	**4,478**	**5,521**	**(294)**	**(2,334)**	**1,231**
Share capital		23,662	31,773	38,599	39,561	44,509	54,509
Other		(20,117)	(27,294)	(33,078)	(39,855)	(46,843)	(53,278)
CASH FLOW STATEMENTS							
Operating cash flow		**(9,609)**	**(7,225)**	**(5,403)**	**(6,192)**	**(7,081)**	**(6,823)**
Profit before tax		(9,827)	(6,733)	(7,328)	(6,154)	(6,988)	(6,435)
Non-cash adjustments		432	(106)	3,618	(361)	957	1,307
Change in working capital		330	(411)	(1,555)	721	(515)	(1,106)
Interest paid		(544)	25	(138)	(398)	(533)	(583)
Taxes paid		0	0	0	0	(3)	(5)
Investing cash flow		**(380)**	**(310)**	**(148)**	**(611)**	**(1,018)**	**(1,512)**
CAPEX		(380)	(310)	(148)	(611)	(1,018)	(1,512)
Other investing cash flows		0	0	0	0	0	0
Financing cash flow		**5,380**	**8,817**	**5,868**	**5,505**	**4,948**	**10,000**
Proceeds from equity		5,280	7,700	6,765	962	4,948	10,000
Increase in loans		100	1,117	(897)	4,543	0	0
Other financing cash flow		0	0	0	0	0	0
Net increase in cash		**(4,609)**	**1,282**	**318**	**(1,298)**	**(3,151)**	**1,666**
Exchange rate effects		0	0	0	0	0	0
Cash at start of year		11,484	6,875	8,156	8,474	7,175	4,024
Cash at end of year		**6,875**	**8,156**	**8,474**	**7,176**	**4,024**	**5,690**
Net cash at end of year		**3,677**	**4,378**	**4,750**	**(1,092)**	**(4,243)**	**(2,578)**

Source: Nexstim, Trinity Delta Note: The accounts are produced according to Finnish GAAP. In FY19, we assume that all the warrants associated with the May 2019 capital raise are exercised in November at a strike price of €0.115 and the short-term debt in FY20 is indicative of our view of the company's funding requirement. Our sales forecasts do not include any contribution from indications that are yet to be approved. Historic EPS, DPS and Average no. of shares have been adjusted to reflect the 30:1 share consolidation in December 2018.

Mick Cooper PhD CFA mcooper@trinitydelta.org +44 (0) 20 3637 5042

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

Franc Gregori fgregori@trinitydelta.org +44 (0) 20 3637 5041

Disclaimer

Trinity Delta Research Limited ("TDRL"; firm reference number: 725161), which trades as Trinity Delta, is an appointed representative of Equity Development Limited ("ED"). The contents of this report, which has been prepared by and is the sole responsibility of TDRL, have been reviewed, but not independently verified, by ED which is authorised and regulated by the FCA, and whose reference number is 185325.

ED is acting for TDRL and not for any other person and will not be responsible for providing the protections provided to clients of TDRL nor for advising any other person in connection with the contents of this report and, except to the extent required by applicable law, including the rules of the FCA, owes no duty of care to any other such person. No reliance may be placed on ED for advice or recommendations with respect to the contents of this report and, to the extent it may do so under applicable law, ED makes no representation or warranty to the persons reading this report with regards to the information contained in it.

In the preparation of this report TDRL has used publically available sources and taken reasonable efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee or warranty as to the accuracy or completeness of the information or opinions contained herein, nor to provide updates should fresh information become available or opinions change.

Any person who is not a relevant person under section of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom should not act or rely on this document or any of its contents. Research on its client companies produced by TDRL is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent, as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. The report should be considered a marketing communication for purposes of the FCA rules. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. TDRL does not hold any positions in any of the companies mentioned in the report, although directors, employees or consultants of TDRL may hold positions in the companies mentioned. TDRL does impose restrictions on personal dealings. TDRL might also provide services to companies mentioned or solicit business from them.

This report is being provided to relevant persons to provide background information about the subject matter of the note. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever. The information that we provide is not intended to be, and should not in any manner whatsoever be, construed as personalised advice. Self-certification by investors can be completed free of charge at www.fisma.org. TDRL, its affiliates, officers, directors and employees, and ED will not be liable for any loss or damage arising from any use of this document, to the maximum extent that the law permits.

More information is available on our website: www.trinitydelta.org