

Nexstim

Update

Promising progress with NBT

20 August 2019

Nexstim's revenues grew by 13% to €1.2m on the back of sales of NBT systems increasing by 170% to €0.6m. The company has only been focused on this marketing NBT in major depressive disorder (MDD) since September 2019. Nexstim increased its installed base of NBT systems by eight to 18 during H119, and appears to be gaining momentum with repeat orders, and progress should be boosted by the White Paper from Island Psychiatry. Sales from NBS systems for pre-surgical mapping were slightly disappointing as sales were pushed back into H219, but careful cost control means that cash burn was as expected. The company had cash of €6.4m on 30 June, and continues to look to strengthen its balance sheet. We value Nexstim at €0.41/share diluted.

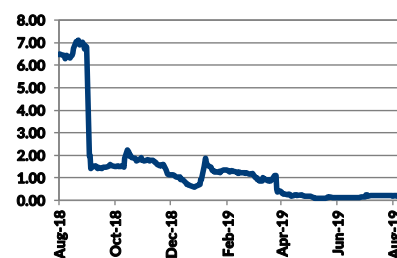
Year-end: December 31	2017	2018	2019E	2020E
Sales (€m)	2.6	2.7	3.4	5.4
PBT (€m)	(7.3)	(6.2)	(7.0)	(6.4)
Net Income (€m)	(7.3)	(6.2)	(7.1)	(6.4)
EPS (€)	(2.77)	(1.93)	(0.36)	(0.13)
Cash* (€m)	8.5	7.2	4.1	5.8
EBITDA (€m)	(5.3)	(5.9)	(6.1)	(5.3)

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.

- NBT launch making good headway** Nexstim installed four NBT systems in the US and a further four in Europe during H119, helping to increase NBT sales by 170% (vs H118) to €0.6m. Momentum has continued into H219 with extra installations at Island Psychiatry in New York and Neuro Wellness TMS Centers of America in Florida. The growth should benefit from white papers detailing clinical outcomes with NBT. The first paper suggests that MDD remission rates can increase by over 20% to c 50% with NBT (vs other transcranial magnetic stimulation (TMS) systems), as NBT uniquely stimulates the key part of the brain accurately and reproducibly.
- Delayed sales affected NBS in H119** Sales of NBS systems fell by €0.3m to €0.6m as potential sales were delayed into H219. Essentially, two fewer systems were installed compared to H118, but reassuringly, management believes that this is largely a matter of timing and that those sales should be achieved in H219.
- Various funding paths being pursued** Nexstim raised €3.5m in April 2019, and finished the period with €6.4m, which should be sufficient for the company to operate to the end of Q120. The company could raise c €2m from the warrants issued with the April capital raise in October/November; but recognises that additional capital will still be needed. It has started discussions with major shareholders and continues to explore divestment options for the NBS business.
- Valuation updated to €0.41/share** We have updated our model to reflect the H118 results. We now value Nexstim at €19.0m or €0.41/share diluted (in the money options or warrants only), compared to €18.8m or €0.40/share diluted previously, as the better than expected sales of NBT more than offset the weaker NBS sales. A new opportunity could materially increase our valuation as Nexstim is in strategic discussions with a major US institution for the treatment of very seriously depressed patients; further details could be disclosed in the coming months.

Price	€0.19
Market Cap	€6.7m
Enterprise Value	€8.3m
Shares in issue	35.4m
12 month range	€0.09-7.13
Free float	86.5%
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.

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Nexstim: White Paper highlights potential of NBT

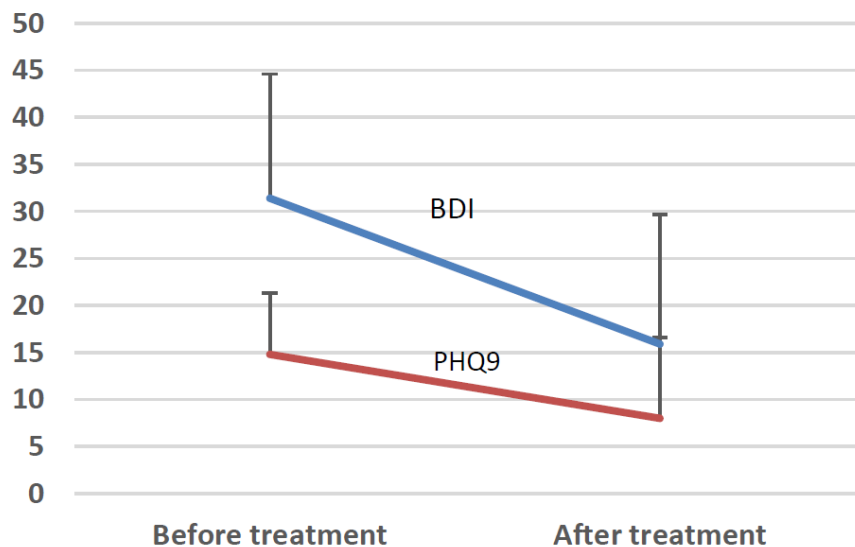
Island Psychiatry, which has three practices in New York, was the first organisation to purchase an NBT system in the US. The clinical results achieved by the first 10 patients to be treated with the devices suggest significantly better results can be achieved using NBT instead of one of the other transcranial magnetic stimulation (TMS) platforms.

First White Paper suggests significantly better clinical outcomes can be achieved with NBT than other TMS systems...

Seven of the ten patients (70%) obtained a clinical response and five (50%) were in remission at the end of their treatment programmes, which on average included 37 therapy sessions. A clinical response was defined as a reduction of at least 50% in BDI (Beck's Depression Inventory) or PHQ-9 Health Questionnaire, patient-reported measures of depression. The number of patients included in the White Paper is limited, but these initial clinical data compare favourably to those seen with other TMS systems. Historically, 41.5%-56.4% of MDD patients treated with TMS achieve a clinical response and 26.5%-28.7% enter remission.

A significant improvement in two measures of clinical depression was also observed, which is notable as there were only 10 patients in the sample group. The mean clinical improvement as measured using the BDI was 49.6% ($p < 0.01$) and using PHQ9 was 46% ($p < 0.02$), as shown in Exhibit 1.

Exhibit 1: Mean BDI and PHQ9 scores before and after treatment with NBT



Source: Island Psychiatry

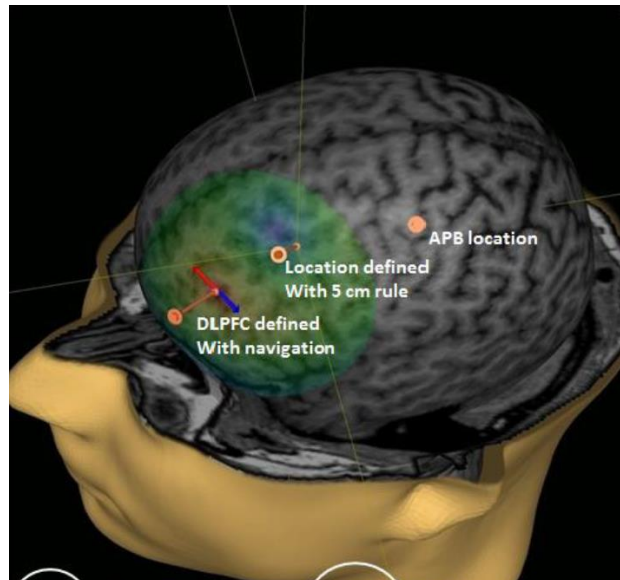
The paper also reports the therapy was well tolerated by the patients. One patient did experience transient ocular migraine after two treatment sessions, but still completed all of his 36 sessions. The limited adverse events associated with NBT therapy is also indicated by the fact that the patients had 37 treatment sessions on average.

... as NBT can accurately and reproducibly stimulate the key brain structure, unlike other systems

The key difference between NBT and other TMS platforms is that Nexstim's system accurately and reproducibly stimulates the dorsolateral prefrontal cortex (DLPFC). NBT uses Nexstim's SmartFocus, which can accurately map the different areas of the brain, so that the DLPFC is always stimulated. In comparison, the other TMS systems cannot directly identify the DLPFC and depend on the "5cm

rule”, in which the cortex of the brain is stimulated to identify the area that triggers a movement of the thumb (APB location) and then the TMS coils are moved 5cm along the scalp anteriorly (towards the face) to target the DLPFC. Unfortunately, the distance between the two brain areas varies between patients (Exhibit 2), so that there might be sub-optimal stimulation of the DLPFC, which could result in less efficacious treatment of patients, with other TMS systems.

Exhibit 2: A patient described in the White Paper, in whom the “5cm rule” did not accurately locate the position of the DLPFC



Source: Island Psychiatry

More data needed, but similar clinical data could accelerate adoption of NBT

The data in this first White Paper suggests that significantly better clinical outcomes can be achieved for MDD patients if Nexstim’s NBT system is used rather than a TMS system produced by one of its competitors (e.g. Neuronetics or BrainsWay). However, it should be remembered that the data in this paper is only from ten patients and it will be interesting to see if the similar results are achieved in larger patient groups and by different clinics. That said, data such as that reported in this White Paper should differentiate NBT from other TMS systems and increase adoption of Nexstim’s systems.

Financials and valuation

Updated valuation of Nexstim is €19.0m or €0.41/share diluted

Our updated model takes into account the strong sales performance of NBT and the weaker than expected NBS sales. From a valuation perspective, the good progress being made with the launch of NBT more than offsets the disappointing NBS sales. Hence, we are increasing our valuation of Nexstim slightly to €19.0m or €0.54/share or €0.41/share diluted (in the money options or warrants only, Exhibit 3) having previously valued it at €18.8m or €0.53/share or €0.40/share diluted. To be conservative, we are forecasting that the delayed sales in H119 will have a knock-on effect on other periods and have not factored in the potential impact of the White Paper from Island Psychiatry. Similarly, we continue to include a financial risk adjustment and note that our valuation would be €39.7m or €0.81/share diluted if it was removed.

Exhibit 3: 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	5.0	100%	5.0	2.5	0.07	Peak sales: €4.1m. Launch year: N/A
NBT in MDD	29.8	100%	29.8	14.9	0.42	Peak sales: €22.4m. Launch year: FY18
NBT in Chronic Pain	25.9	25%	6.5	3.2	0.09	Peak sales: €25.8m. Launch year: FY23
Net cash	(1.6)		(1.6)	(1.6)	(0.05)	At H119
Total (undiluted)	59.1		39.7	19.0	0.54	
Total (diluted)			41.6	20.9	0.41	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.

We have similarly revised our estimates, as shown in Exhibit 4. As indicated above, we are conservatively forecasting that the delayed NBS sales in H119 will have an impact on H219 and subsequent periods, and that we have increased slightly our forecasts for NBT sales solely due to the sales growth in H119. At this stage, we are not forecasting any potential acceleration in growth following the publication of the White Paper by Island Psychiatry. We estimate that the loss at the EBITDA level will only be slightly greater than before, because of the cost control measures (primarily in administrative costs) that have been implemented during H119 by management.

Exhibit 4: Summary of changes to estimates

	Sales (€m)			EBITDA (€m)			Adj. EPS (€)		
	Old	New	Change	Old	New	Change	Old	New	Change
2019E	4.0	3.4	(15.4%)	(6.0)	(6.1)	N/A	(0.20)	(0.36)	N/A
2020E	6.1	5.4	(10.7%)	(5.1)	(5.3)	N/A	(0.13)	(0.13)	N/A

Source: Trinity Delta Note: The change in Adj EPS estimate for FY19 primarily reflects an over estimation of the weighted average number of shares in H119 in our previous estimate.

Exhibit 5: 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	3,411	5,401
Cost of goods sold		(821)	(689)	(552)	(710)	(807)	(988)
Gross Profit		1,707	1,794	2,093	1,962	2,604	4,413
Wages and salaries		(3,292)	(3,602)	(2,903)	(3,353)	(3,838)	(4,274)
Social security expenses		(677)	(651)	(431)	(584)	(714)	(748)
Other expenses		(7,843)	(3,908)	(4,118)	(3,986)	(4,197)	(4,715)
Depreciation & amortisation		(386)	(372)	(341)	(424)	(407)	(609)
Underlying operating profit		(10,492)	(6,739)	(5,701)	(6,386)	(6,551)	(5,934)
Other revenue/expenses		122	43	109	70	66	66
EBITDA		(9,984)	(6,324)	(5,251)	(5,892)	(6,078)	(5,258)
Operating Profit		(10,370)	(6,696)	(5,592)	(6,316)	(6,485)	(5,868)
Financial income		544	(34)	(1,733)	163	(560)	(572)
Profit Before Taxes		(9,826)	(6,730)	(7,325)	(6,153)	(7,046)	(6,439)
Adj. PBT		(9,948)	(6,774)	(7,434)	(6,223)	(7,112)	(6,505)
Current tax income		(1)	(2)	(3)	(2)	(8)	(5)
Net Income		(9,827)	(6,733)	(7,328)	(6,154)	(7,053)	(6,445)
EPS (€)		(41.20)	(16.90)	(2.77)	(1.93)	(0.36)	(0.13)
Adj. EPS (€)		(41.72)	(17.01)	(2.81)	(1.93)	(0.36)	(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	28.1	51.5
<i>Gross margin</i>		68%	72%	79%	73%	76%	82%
<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	8,757	6,271	9,057
Cash and cash equivalents		6,875	8,156	8,474	7,175	4,081	5,771
Accounts receivable		937	1,057	1,465	1,324	1,682	2,663
Inventories		421	292	387	259	508	623
Other current assets		0	0	0	0	0	0
Non-current assets		974	911	718	905	1,350	2,073
Property, plant & equipment		333	249	167	465	645	1,266
Intangible assets		631	652	541	430	696	797
Current liabilities		(2,417)	(2,137)	(1,786)	(2,793)	(3,120)	(3,073)
Short-term debt		0	0	0	(1,104)	(1,456)	(1,456)
Accounts payable		(1,084)	(397)	(961)	(597)	(995)	(948)
Other current liabilities		(1,332)	(1,740)	(824)	(1,092)	(669)	(669)
Non-current liabilities		(3,245)	(3,802)	(3,737)	(7,163)	(6,537)	(6,537)
Long-term debt		(3,197)	(3,778)	(3,724)	(7,163)	(6,537)	(6,537)
Other non-current liabilities		(47)	(24)	(13)	0	0	0
Equity		3,545	4,478	5,521	(294)	(2,035)	1,520
Share capital		23,662	31,773	38,599	39,561	44,947	54,947
Other		(20,117)	(27,294)	(33,078)	(39,855)	(46,983)	(53,427)
CASH FLOW STATEMENTS							
Operating cash flow		(9,609)	(7,225)	(5,403)	(6,192)	(7,354)	(6,977)
Profit before tax		(9,827)	(6,733)	(7,328)	(6,154)	(7,053)	(6,445)
Non-cash adjustments		432	(106)	3,618	(361)	894	1,181
Change in working capital		330	(411)	(1,555)	721	(526)	(1,137)
Interest paid		(544)	25	(138)	(398)	(665)	(572)
Taxes paid		0	0	0	0	(4)	(5)
Investing cash flow		(380)	(310)	(148)	(611)	(853)	(1,333)
CAPEX		(380)	(310)	(148)	(611)	(853)	(1,333)
Other investing cash flows		0	0	0	0	0	0
Financing cash flow		5,380	8,817	5,868	5,505	5,113	10,000
Proceeds from equity		5,280	7,700	6,765	962	5,387	10,000
Increase in loans		100	1,117	(897)	4,543	(274)	0
Other financing cash flow		0	0	0	0	0	0
Net increase in cash		(4,609)	1,282	318	(1,298)	(3,094)	1,690
Exchange rate effects		0	0	0	0	0	0
Cash at start of year		11,484	6,875	8,156	8,474	7,175	4,081
Cash at end of year		6,875	8,156	8,474	7,176	4,081	5,771
Net cash at end of year		3,677	4,378	4,750	(1,092)	(3,912)	(2,222)

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.

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