Trinity Delta

Nexstim

Update

A positive start to the 2020-24 strategy

4 March 2021

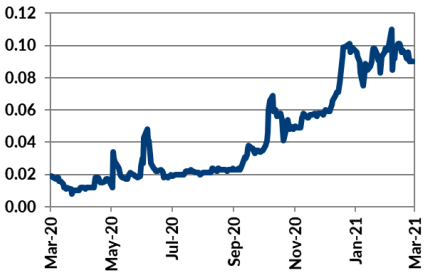
Nexstim delivered record revenues in FY20 and its lowest EBIT loss, successfully navigating a challenging year through careful cost control and new efficient ways of digital working which contributed to resilient NBT therapeutic and NBS diagnostic system sales. The company is well-positioned to drive a disruptive shift in depression treatment (and its delivery) with its accurately navigated SmartFocus transcranial magnetic stimulation (TMS) NBT technology; however, with end-December cash of €3.5m, additional funding is needed to execute on its 2020-24 corporate strategy. A key facet of this is the opportunity afforded by novel accelerated rTMS therapy protocols in development for severe depression and chronic neuropathic pain. Promising first data from the ongoing pilot study in severe depression will guide next steps for further development, clarifying cost and timelines.

Year-end: December 31	2019	2020	2021E	2022E
Sales (€m)	3.3	4.1	6.2	9.6
Adj. PBT (€m)	(6.8)	(4.2)	(3.8)	(1.4)
Net Income (€m)	(6.8)	(4.1)	(3.8)	(1.4)
EPS (€)	(0.25)	(0.0)	(0.0)	(0.0)
Cash* (€m)	4.3	3.5	6.2	7.3
EBITDA (€m)	(6.0)	(3.0)	(3.3)	(1.1)

Source: Trinity Delta Note: *Our cash forecast assumes receipt of €10m in cumulative funding in FY21 and FY22

- **Growth underpins five-year strategy** A key goal for Nexstim is revenue growth and improved profitability, both of which were achieved in FY20 despite COVID-19 impacts. Increasing utilisation of the existing installed base (c 180 NBS systems, 31 NBT systems) should drive near-term organic growth. This should be supported by wider NBS applications (motor and language mapping) as well as US reimbursement codes for presurgical mapping, and by the robust patient registry evidence base in depression (targeting >200 completed NBT treatment sessions in 2021).
- **Accelerated protocols to expand NBT opportunity** Nexstim's NBT platform is well suited to use with accelerated treatment protocols where greater accuracy is critical, given its precise, reliable, and reproducible navigation. Two ongoing pilot studies evaluating such protocols in the hospital setting for severe depression and chronic neuropathic pain should, if promising, guide design of larger double-blind multi-centre trials, potentially opening significant new market opportunities for the NBT platform. First depression pilot data available; pain data is expected mid-year.
- **New funds to support strategy delivery** Financial performance has been resilient through the pandemic to date. FY21 guidance is for a loss but continued net sales growth, with a further €3m working capital requirement over the next 12 months. Our forecasts suggest that c €10m before end-FY22 would amply support strategy execution, including the necessary pivotal trials for the accelerated protocols.
- **Core valuation of €0.10/share** Our rNPV valuation of €44.2m (€0.10/share), up from €38.4m (€0.09/share), reflects strategic delivery in FY20 despite COVID-19 impact. Ahead of further pilot study data, we conservatively assess that the iTBS protocol MDD opportunity could add €8.8m (€0.02/share) to our core valuation.

Price	€0.09
Market Cap	€40.3m
Enterprise Value	€38.7m
Shares in issue	439.6m
12 month range	€0.01-0.12
Free float	55%
Primary exchange	Helsinki
Other exchanges	Stockholm
Sector	Healthcare
Company Code	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 commercial roll out in the US, Europe and Asia.

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Valuation

Valuation raised to €44.2m, €0.10 per share, which reflects commercial progress and development opportunities

Our risk-adjusted DCF valuation model for Nexstim forecasts NPVs for three revenue streams: NBT (Navigated Brain Therapy) in depression (global), NBT in chronic pain (EU only), and NBS (Navigated Brain Stimulation). Risk adjustments range from a success probability of 100% for pre-surgical mapping to 25% for pain, reflecting its earlier stage. We employ conservative assumptions regarding patient populations, market sizes and growth rates, net pricing, adoption curves, and peak market penetration. As well as considering development, execution, and commercialisation risks, we also specifically include a financial risk adjustment. Exhibit 1 provides a detailed breakdown of our €44.2m valuation, equivalent to €0.10 per share.

Exhibit 1: DCF-based valuation of Nexstim

	Total NPV (€m)	Success probability	rNPV (€m)	rNPV/ share (€)	Financial rNPV (€m)	Financial rNPV / share (€)	Notes
NBS	5.1	100%	5.1	0.01	4.3	0.01	Peak sales: €4.0m. Launch year: N/A
NBT in MDD	41.8	100%	41.8	0.10	35.5	0.08	Peak sales: €25.0m. Launch year: FY18
NBT in Chronic Pain	28.5	25%	7.1	0.02	6.1	0.01	Peak sales: €26.4m. Launch year: FY23
Net cash	(1.6)		(1.6)	(0.00)	(1.6)	(0.00)	Net cash at FY20
Total (undiluted)	**73.5**		**52.3**	**0.12**	**44.2**	**0.10**	
Discount rate				12.5%			
Tax rate				20%			From 2026
Financial risk adjustment				85%			
Terminal growth rate				2%			From 2035

Source: Trinity Delta; Note: Peak sales achieved after nine years in the US and 10 years in Europe.

MDD represents a sizeable opportunity, especially through accelerated treatment protocols

MDD accounts for the largest element of Nexstim's valuation, comprising 80% of total company value. Potential upsides include a more rapid execution of the US commercial strategy, and better rates of clinical adoption and sales progress for MDD in any sizeable geography; however, the major source of potential upside would come from the hospital opportunity combining in-patient NBT treatment with accelerated protocols.

Less conservative assumptions on MDD would add €8.8m, €0.02 per share, to our valuation

Our current valuation considers Nexstim's core outpatient business, although we acknowledge that with additional funding and positive preliminary pilot study data with iTBS protocols, the NBT opportunity could be broader. Our March 2021 Lighthouse provides an overview of results to date from the depression pilot study. We most recently outlined our conservative assumptions and indicative rNPV valuation of the potential NBT opportunity in severe MDD patients who are treated in hospital in the US in our December 2020 Update. Based solely on the placing and use of NBT systems for primary treatment in hospitals (ie not capturing any additional revenue that may be generated by maintenance therapy of these same patients in the outpatient setting) and assuming reimbursement in line with conventional TMS therapy, accelerated therapy protocols in MDD could add an incremental €8.8m or €0.02/share to our core Nexstim valuation.

Financials

COVID impacts shrugged off to deliver record performance

Nexstim delivered a record financial performance in FY20 despite COVID-19 impacts, with net sales growth to €4.11m (FY19: €3.35m), a lower operating loss of €3.33m (FY19: loss of €6.52m) and net loss of €4.12m (FY19: loss of €6.78m).

Installed base increased despite restrictions and lockdowns

NBS diagnostics sales increased 28% to €2.0m, with NBT therapy revenues growing to €2.2m (+19%, €1.9m in FY19), despite COVID-19 related movement restrictions and lockdowns dampening the NBT commercial trajectory in particular. Management focus on leveraging the current installed base to generate recurring revenues (in excluding NBT capital system sales) continued to bear fruit with FY20 recurring revenues up 32% to €2.4m (c 56% of total sales). Nevertheless, during H220, nine new NBS systems (3 in the US and 6 in Europe/RoW) and three new NBT systems were installed, adding to the four NBS systems and five NBT systems installed during H120.

Tight cost control and new operating practices contained expenditures

Total expenditure in FY20 was lower than the prior year (€6.16m vs €8.36m in FY19) reflecting cost saving measures implemented in Q220, the organisational restructuring, and lower travel and marketing costs as new ways of working remotely were put in place in response to the COVID-19 pandemic. Operating cash flows showed a €2.72m outflow vs €6.68m in FY19.

COVID impacts could still impact 2021 revenues and clinical development plans

Financial guidance for FY21 is for continued growth in net sales and a loss expected for the financial year. We broadly maintain our financial forecast, taking reassurance from the positive FY20 result during a challenging year. We continue to recognise that COVID impacts may continue to weigh on revenue growth trajectories although these have been somewhat mitigated by the success of digital marketing and sales initiatives, and pandemic impacts as well as the outcome of the pilot studies may influence the timing and quantum of future spend on further trials with larger patient numbers. We intend to revisit our FY21 and FY22 estimates when more information on potential new studies is available.

A clear funding need, with authorization to issue up to 220m new shares

Nexstim's cash balance at end-FY20 was €3.45m (€4.8m at end-H120), including the outstanding Kreos loan of €0.99m (due December 2021). Management have indicated that a further €3m is required to cover working capital for the next 12 months. The EGM on March 1 authorised the potential issuance of up to 220m new shares (equivalent to 33.35% of enlarged share capital assuming all new shares are issued) with a preliminary subscription price of €0.03, equating to gross proceeds of €6.6m. Any issuance would be used for future financing needs, developing the equity structure, minimisation or reduction of debts, possible M&A, and other corporate purposes. We note that preliminary commitments to subscribe for new shares have been secured for c 48% (c €3.15m) of the authorised amount. We have also previously highlighted that Nexstim is evaluating various other funding options, including non-dilutive funding from strategic partnership(s) or agencies (such as the Business Finland loan secured for development and SmartFocus nTMS system optimisation).

Strategy is focussed on delivering MDD and securing financial future

Execution on the 2020-24 corporate strategy does require additional funds, and on our forecasts, we believe that a further €10m over the next 18 months (split €6m in FY21 and €4m in FY22) would be ample to achieve near- and mid-term goals for NBT in depression (including further clinical evaluation of accelerated protocols), repay the Kreos loan, and to secure the company's financial future.

Exhibit 2: Summary of financials

Year-end: December 31	€'000s	2018	2019	2020	2021E	2022E
INCOME STATEMENT						
Revenues		**2,672**	**3,348**	**4,114**	**6,168**	**9,634**
Cost of goods sold		(710)	(1,043)	(975)	(1,516)	(2,120)
Gross Profit		**1,962**	**2,305**	**3,139**	**4,652**	**7,514**
Wages and salaries		(3,353)	(3,998)	(3,122)	(4,121)	(4,616)
Social security expenses		(584)	(715)	(610)	(701)	(785)
Other expenses		(3,986)	(3,648)	(2,429)	(3,207)	(3,303)
Depreciation & amortisation		(424)	(525)	(367)	(346)	(249)
Underlying operating profit		**(6,386)**	**(6,580)**	**(3,389)**	**(3,723)**	**(1,438)**
Other revenue/expenses		70	63	56	56	56
EBITDA		**(5,892)**	**(5,993)**	**(2,966)**	**(3,321)**	**(1,133)**
Operating Profit		**(6,316)**	**(6,517)**	**(3,333)**	**(3,667)**	**(1,382)**
Financial income		163	(259)	(784)	(101)	33
Profit Before Taxes		**(6,153)**	**(6,777)**	**(4,117)**	**(3,768)**	**(1,349)**
Adj. PBT		**(6,223)**	**(6,840)**	**(4,173)**	**(3,824)**	**(1,405)**
Current tax income		(2)	(6)	(5)	(12)	(19)
Net Income		**(6,154)**	**(6,783)**	**(4,122)**	**(3,780)**	**(1,369)**
EPS (€)		**(1.93)**	**(0.25)**	**(0.02)**	**(0.01)**	**(0.00)**
Adj. EPS (€)		**(1.93)**	**(0.25)**	**(0.02)**	**(0.01)**	**(0.00)**
DPS (€)		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Average no. of shares (m)		3.2	27.6	267.7	439.6	442.5
Gross margin		*73%*	*69%*	*76%*	*75%*	*78%*
EBITDA margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Underlying operating margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
BALANCE SHEET						
Current assets		**8,757**	**6,431**	**5,384**	**8,686**	**10,394**
Cash and cash equivalents		7,175	4,266	3,456	6,204	7,322
Accounts receivable		1,324	1,680	1,482	1,859	2,375
Inventories		259	485	446	623	697
Other current assets		0	0	0	0	0
Non-current assets		**905**	**1,223**	**847**	**726**	**1,857**
Property, plant & equipment		465	859	515	569	1,789
Intangible assets		430	364	332	156	68
Current liabilities		**(2,793)**	**(3,106)**	**(3,809)**	**(11,759)**	**(15,966)**
Short-term debt		(1,104)	(989)	(1,153)	(8,053)	(12,053)
Accounts payable		(597)	(740)	(198)	(1,246)	(1,452)
Other current liabilities		(1,092)	(1,378)	(2,458)	(2,460)	(2,462)
Non-current liabilities		**(7,163)**	**(5,288)**	**(3,892)**	**(2,902)**	**(2,902)**
Long-term debt		(7,163)	(5,288)	(3,892)	(2,902)	(2,902)
Other non-current liabilities		0	0	0	0	0
Equity		**(294)**	**(740)**	**(1,469)**	**(5,249)**	**(6,618)**
Share capital		39,561	46,167	48,391	48,391	48,391
Other		(39,855)	(46,907)	(49,860)	(53,640)	(55,008)
CASH FLOW STATEMENTS						
Operating cash flow		**(6,192)**	**(6,681)**	**(2,725)**	**(2,937)**	**(1,502)**
Profit before tax		(6,154)	(6,783)	(4,122)	(3,780)	(1,369)
Non-cash adjustments		(361)	515	1,406	447	216
Change in working capital		721	268	129	507	(365)
Interest paid		(398)	(682)	(138)	(101)	33
Taxes paid		0	0	0	(11)	(18)
Investing cash flow		**(611)**	**(843)**	**10**	**(225)**	**(1,380)**
CAPEX		(611)	(843)	10	(225)	(1,380)
Other investing cash flows		0	0	0	0	0
Financing cash flow		**5,505**	**4,616**	**1,905**	**5,910**	**4,000**
Proceeds from equity		962	6,606	2,224	0	0
Increase in loans		4,543	(1,990)	(319)	6,900	4,000
Other financing cash flow		0	0	0	(990)	0
Net increase in cash		**(1,298)**	**(2,909)**	**(810)**	**2,748**	**1,117**
Exchange rate effects		0	0	0	0	0
Cash at start of year		8,474	7,176	4,267	3,457	6,204
Cash at end of year		**7,176**	**4,267**	**3,457**	**6,204**	**7,322**
Net cash at end of year		**(1,092)**	**(2,011)**	**(1,589)**	**(4,750)**	**(7,633)**

Source: Company, Trinity Delta Note: Accounts produced according to Finnish GAAP. The short-term debt in FY21 is indicative of our view of the company's funding requirement. Sales forecasts do not include any contribution from indications yet to be approved.

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