

## Nexstim

### Mapping out the 2020-24 corporate strategy

**Nexstim delivered a record interim performance in H120 (revenues, operating result, and net loss) despite market turbulence caused by the COVID-19 pandemic. The business model has remained resilient with a solid NBS (Diagnostic) installed base and flexible pricing models, coupled with careful cost control. The 2020-24 corporate strategy update provides a road map to better exploit commercial opportunities with existing and new customers, where Nexstim's navigated TMS (transcranial magnetic stimulation) technology can improve clinical and health economics outcomes. NBT (Therapy) represents growth opportunities. Pilot studies exploring the potential of new accelerated therapy protocols in severe depression and chronic neuropathic pain could be the first step to entering a new and attractive inpatient market. We continue to value Nexstim at €32.2m (€0.07/share).**

Year-end: December 31	2018	2019	2020E	2021E
Sales (€m)	2.7	3.3	3.7	6.6
Adj. PBT (€m)	(6.2)	(6.8)	(3.8)	(3.3)
Net Income (€m)	(6.2)	(6.8)	(3.7)	(4.0)
EPS (€)	(1.93)	(0.25)	(0.01)	(0.01)
Cash* (€m)	7.2	4.3	6.9	4.8
EBITDA (€m)	(5.9)	(6.0)	(3.8)	(3.3)

Source: Trinity Delta Note: \*Our cash forecast assumes additional raises of €5m in FY20 and €5m in FY21

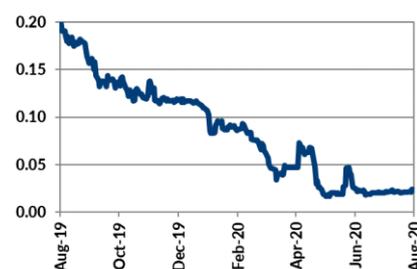
- Clear objectives for 2020** General corporate goals include narrowing the operating loss (via revenue growth and cost discipline) and securing additional funding (from capital markets and/or partnerships). For NBT, a key aim is starting two pilot studies using accelerated therapy. Growing the patient registry to >100 treatment sessions (vs 55 as presented in April) would strengthen the evidence base in depression, while a new deeper partnership business model could boost profitability. For NBS, the search for strategic partner(s) and the pursuit of NBS pre-surgical mapping reimbursement in the US also have the potential to drive future revenue growth.
- Long term 2020-24 vision** Nexstim's overarching aim is improved profitability through leveraging the existing installed base (c 170 NBS systems, 28 NBT systems for major depressive disorder and chronic pain) and through new client acquisition (including with strategic partners). Technological development could unlock further revenue growth. In NBS, motor and speech mapping could be applied to wider pre-procedure planning (tumours, epilepsy, radiotherapy). In NBT, accelerated protocol validation could open a new severe depression inpatient market.
- A record H120** Despite COVID-19, revenues grew 33% to €1.6m, largely from NBS (€895k). All NBT revenues were recurring. Cost savings decreased the operating loss. FY20 guidance is for a lower operating loss vs FY19. The €2.2m raise boosted end-June cash to €4.8m (including the Kreos loan), providing a runway into Q121.
- Valuation maintained at €0.07/share** We value Nexstim using an rNPV model and continue to ascribe a €32.2m valuation, equivalent to €0.07 per share. COVID-19 uncertainties are likely to weigh on H220, but there is room for valuation upside as Nexstim's strategy is implemented and commercial execution visibility rises.

## Update

18 August 2020

Price	€0.02
Market Cap	€9.58m
Enterprise Value	€10.0m
Shares in issue	439.6m
12 month range	€0.01-0.19
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.

### Analysts

#### Lala Gregorek

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

#### Franc Gregori

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

## Nexstim: mapping out the future

Nexstim has provided further detail on its strategic plan for 2020-24 and outlined its objectives for 2020. The company intends to better exploit existing and potential commercial opportunities for the application of its navigated TMS (transcranial magnetic stimulation) technology in diagnosis or therapy of brain diseases/disorders, with both current and new customers. Nexstim has mapped out a strategy to accelerate revenue growth through demonstrating its potential competitive advantages with data-led evidence of improved clinical outcomes for patients and health economic outcomes for payors. The NBS (Diagnostic) pre-surgical brain mapping business provides a stable, and rising, revenue stream, while the NBT (Therapy) business is expected to be the key growth driver in future. We maintain our €32.2m valuation (equivalent to €0.07/share).

### A clear view of the commercial goals and market opportunities

Nexstim's 2020-24 corporate strategy update builds on the plans presented earlier this year ([May 2020 Update](#)) when management announced the intention to support organic expansion of its existing NBS and NBT businesses, in addition to investing in carving out a promising, and sizeable, niche for NBT in depression. The latter initiative includes running pilot studies to explore potentially highly lucrative new inpatient opportunities for use of NBT with accelerated therapy protocols in severe depression (and in chronic neuropathic pain). The August strategy update refines the steps that Nexstim intends to take on its path to improved profitability and the applications on which it will focus. 2020 objectives are presented in Exhibit 1: these form the first phase of the longer-term strategy.

### Exhibit 1: 2020 strategic objectives

General	NBT (Therapy)	NBS (Diagnostic)
Decrease the operating loss through a focus on achieving profitable revenue growth and strict cost control	Initiate two new pilot studies in treating severe depression and/or chronic pain patients using accelerated therapy treatment protocols	Continue developing the US NBS pre-surgical mapping reimbursement process
Obtain further funding from capital markets and/or via strategic partnerships	Develop and execute a deeper profitable partnership business model in the key therapy markets together with valued partners	Continue strategic partner search for the diagnostic business
	Build the patient data registry of over 100 completed treatment sessions of depression patients	

Source: Nexstim, Trinity Delta,

### Precise and reproducible navigation is the differentiator

Nexstim's highly accurate, reliable, and reproducible TMS technology platform is based on its e-field navigation capabilities. Clinical evidence to date has shown that this more personalised approach, when applied as a diagnostic or therapy option for brain diseases, leads to improved patient outcomes. This provides clear differentiation from the competition, which coupled with KOL support, has the potential to increase the overall market opportunity. Nexstim plans to leverage the use of its TMS platform into broader indications and treatment settings. Our [January 2020 Outlook](#) provides further detail on the background to Nexstim's technology, the competitive landscape, and market opportunities. We summarise the main areas highlighted in the corporate update below.

## NBS: diagnosing more patients

### An attractive core business...

NBS (navigated brain stimulation) provides Nexstim with a dependable, high-margin revenue stream through its global installed base of c 170 systems at leading university and research hospitals. Revenues are derived from capital sales of instruments and recurring revenues from consumables. Nexstim's strategy for growing the profitability of the NBS business includes establishing new US reimbursement codes for pre-surgical mapping, leveraging the existing installed base, and securing new sales direct as well as potentially via a long-term strategic partnership to expand the current commercial reach.

### ...that could benefit from additional support

The value of NBS in pre-surgical mapping (PSM) of the brain ahead of, typically, tumour removal is acknowledged and results in impressive survival benefits as surgeons can be more aggressive in their tumour resections. However, there is scope to further develop the technology to map the speech and motor cortices of the brain ahead of other procedures. The recent [\\$16.4bn acquisition](#) of Varian by Siemens Healthineers endorses the role that data analysis is increasingly playing in decision making in the surgical environment. Nexstim has identified preprocedural planning for difficult brain tumour and epilepsy patients, and planning for patients undergoing radiotherapy for brain tumours, as key areas for development.

## NBT: broader accelerated therapy potential

### Therapeutic treatment opportunities offer materially larger commercial potential

Therapeutic use of TMS is a substantially larger market opportunity than PSM. Nexstim's NBT (navigated brain therapy) is addressing major depressive disorder (MDD) and chronic pain (the latter in Europe only). The current installed base is 28 NBT systems globally; hence there is potential to optimise and grow recurring revenues through the installed base and from placing new systems with new and existing TMS providers. COVID-19 slowed plans for the latter as restrictions on movement limited the number of treatments carried out, while the cost saving programme impacted NBT commercial activities. Nevertheless, there remain multiple growth levers which are applicable now and for the future.

### Robust and compelling clinical evidence helps drive penetration

Clinical evidence of improved patient outcomes – and patient retention – should help drive better utilisation of the existing NBT base and expand it. Patient registry data is an important facet of this. Data reported in April 2020 from the first 55 MDD patients to complete NBT treatment, showed 40% clinical remission and 71% clinical response at the end of the treatment course. This compares with 26.5-28.7% clinical remission and 41.5-56.4% clinical response from an [rTMS meta-analysis](#) in MDD. Registry data from 100 patients is keenly anticipated.

### Two investigator-led studies set to broaden clinical data

The NBT platform will be leveraged around selected therapeutic indications (depression and chronic pain) at US and European TMS providers. Nexstim also plans to launch a new severe depression business based on accelerated therapy protocols targeting psychiatric hospitals and those with inpatient psychiatric departments. This will be supported by new investigator-sponsored pilot studies at university hospitals. NBT's highly accurate navigation means it is well-suited for use in intensive treatment protocols such as the three-minute Thetaburst, and this concept has been explored by Stanford with its [SAINT](#) protocol which delivered 86.4% clinical remission in severe depression. Nexstim's pilot studies, due to start imminently, should determine whether NBT can also deliver improved clinical efficacy in these challenging, highly treatment refractory patient groups.

## Financials

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### **An impressive performance during challenging times**

H120 marked a record interim performance with net sales of €1.6m (+33% on H119m: €1.2m), operating loss of €1.8m (H119: loss of €3.4m), and net loss of €1.2m (H119: loss of €3.7m).

### **Strong revenue performances despite headwinds**

NBS sales increased an impressive 47% to €895k, with NBT revenues growing 18% to €720k. COVID-19 undoubtedly dampened the NBT commercial trajectory; however, the focus was on leveraging the current installed base to generate recurring revenues (ie excluding NBT capital system sales). As such H120 NBT sales were comprised solely of recurring revenues. On a rolling 12-month basis, Nexstim has achieved an average therapy revenue per NBT system of €70k, a lower figure than the €85k reported at FY19. NBS was impacted less as hospital neurosurgeries were largely unaffected. During the period, four new NBS systems (three in the US and one in Sweden) and five new NBT systems were installed. The global installed base is now c 170 NBS systems installed at research universities and hospitals, and 28 NBT systems (split equally between the US and RoW).

### **Targeted cost savings were implemented across the board**

Cost saving measures implemented in response to the COVID-19 pandemic decreased operating costs, with operating cash flows showing a €1.6m outflow in H120 vs €3.7m in H119. Nexstim previously indicated that €0.8m in cost savings would be achieved in April-June 2020, with targeted annual savings of up to €3m. Given the uncertainty still posed by the pandemic, financial guidance is limited to stating that FY20 is expected to deliver a lower full year operating loss vs FY19.

### **Financial position strengthened, with runway through to Q121**

The €2.2m raised in the rights issue ([June 2020 Update](#)), coupled with the cancellation of €0.9m of Business Finland loans, boosted Nexstim's end-June cash position to €4.8m (including the outstanding Kreos loan of €1.45m) vs €4.3m at end-FY19. This represents a cash runway into Q121, based on our revenue and expense estimates as summarised in Exhibit 2.

### **Further funding could arise from a number of sources**

Management have outlined their strategic priorities for 2020 and beyond. In our view, execution on the 2020-24 corporate strategy will require additional funds. Our forecasts suggest that a further €10m would be required over the next 18 months to achieve near- and mid-term goals for NBT in depression, repay the Kreos loan (due December 2021) and to secure the company's financial future. We note that Nexstim is evaluating various funding options, including non-dilutive funding from strategic partnership(s) and has engaged an international life sciences investment bank to assist in this process.

**Exhibit 2: Summary of financials**

Year-end: December 31	€'000s	2017	2018	2019	2020E	2021E
<b>INCOME STATEMENT</b>						
Revenues		2,645	2,672	3,348	3,663	6,571
Cost of goods sold		(552)	(710)	(1,043)	(1,006)	(1,141)
<b>Gross Profit</b>		<b>2,093</b>	<b>1,962</b>	<b>2,305</b>	<b>2,656</b>	<b>5,429</b>
Wages and salaries		(2,903)	(3,353)	(3,998)	(3,013)	(4,369)
Social security expenses		(431)	(584)	(715)	(571)	(743)
Other expenses		(4,118)	(3,986)	(3,648)	(2,959)	(3,699)
Depreciation & amortisation		(341)	(424)	(525)	(475)	(534)
<b>Underlying operating profit</b>		<b>(5,701)</b>	<b>(6,386)</b>	<b>(6,580)</b>	<b>(4,362)</b>	<b>(3,915)</b>
Other revenue/expenses		109	70	63	79	79
<b>EBITDA</b>		<b>(5,251)</b>	<b>(5,892)</b>	<b>(5,993)</b>	<b>(3,808)</b>	<b>(3,302)</b>
<b>Operating Profit</b>		<b>(5,592)</b>	<b>(6,316)</b>	<b>(6,517)</b>	<b>(4,283)</b>	<b>(3,836)</b>
Financial income		(1,733)	163	(259)	539	(185)
<b>Profit Before Taxes</b>		<b>(7,325)</b>	<b>(6,153)</b>	<b>(6,777)</b>	<b>(3,744)</b>	<b>(4,021)</b>
<b>Adj. PBT</b>		<b>(7,434)</b>	<b>(6,223)</b>	<b>(6,840)</b>	<b>(3,823)</b>	<b>(4,100)</b>
Current tax income		(3)	(2)	(6)	(3)	(13)
<b>Net Income</b>		<b>(7,328)</b>	<b>(6,154)</b>	<b>(6,783)</b>	<b>(3,747)</b>	<b>(4,034)</b>
<b>EPS (€)</b>		<b>(2.77)</b>	<b>(1.93)</b>	<b>(0.25)</b>	<b>(0.01)</b>	<b>(0.01)</b>
<b>Adj. EPS (€)</b>		<b>(2.81)</b>	<b>(1.93)</b>	<b>(0.25)</b>	<b>(0.01)</b>	<b>(0.01)</b>
<b>DPS (€)</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Average no. of shares (m)		2.6	3.2	27.6	266.7	439.6
<i>Gross margin</i>		79%	73%	69%	73%	83%
<i>EBITDA margin</i>		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
<b>BALANCE SHEET</b>						
<b>Current assets</b>		<b>10,326</b>	<b>8,757</b>	<b>6,431</b>	<b>8,924</b>	<b>7,260</b>
Cash and cash equivalents		8,474	7,175	4,266	6,784	4,811
Accounts receivable		1,465	1,324	1,680	1,505	1,980
Inventories		387	259	485	634	469
Other current assets		0	0	0	0	0
<b>Non-current assets</b>		<b>718</b>	<b>905</b>	<b>1,223</b>	<b>1,269</b>	<b>2,429</b>
Property, plant & equipment		167	465	859	672	1,676
Intangible assets		541	430	364	597	753
<b>Current liabilities</b>		<b>(1,786)</b>	<b>(2,793)</b>	<b>(3,106)</b>	<b>(7,778)</b>	<b>(7,754)</b>
Short-term debt		0	(1,104)	(989)	(5,506)	(5,506)
Accounts payable		(961)	(597)	(740)	(965)	(938)
Other current liabilities		(824)	(1,092)	(1,378)	(1,307)	(1,309)
<b>Non-current liabilities</b>		<b>(3,737)</b>	<b>(7,163)</b>	<b>(5,288)</b>	<b>(4,704)</b>	<b>(8,258)</b>
Long-term debt		(3,724)	(7,163)	(5,288)	(4,704)	(8,258)
Other non-current liabilities		(13)	0	0	0	0
<b>Equity</b>		<b>5,521</b>	<b>(294)</b>	<b>(740)</b>	<b>(2,289)</b>	<b>(6,324)</b>
Share capital		38,599	39,561	46,167	48,391	48,391
Other		(33,078)	(39,855)	(46,907)	(50,680)	(54,714)
<b>CASH FLOW STATEMENTS</b>						
<b>Operating cash flow</b>		<b>(5,403)</b>	<b>(6,192)</b>	<b>(6,681)</b>	<b>(4,032)</b>	<b>(3,835)</b>
Profit before tax		(7,328)	(6,154)	(6,783)	(3,747)	(4,034)
Non-cash adjustments		3,618	(361)	515	(1,004)	719
Change in working capital		(1,555)	721	268	43	(324)
Interest paid		(138)	(398)	(682)	678	(185)
Taxes paid		0	0	0	(1)	(11)
<b>Investing cash flow</b>		<b>(148)</b>	<b>(611)</b>	<b>(843)</b>	<b>(521)</b>	<b>(1,694)</b>
CAPEX		(148)	(611)	(843)	(521)	(1,694)
Other investing cash flows		0	0	0	0	0
<b>Financing cash flow</b>		<b>5,868</b>	<b>5,505</b>	<b>4,616</b>	<b>7,070</b>	<b>3,555</b>
Proceeds from equity		6,765	962	6,606	2,224	0
Increase in loans		(897)	4,543	(1,990)	4,846	3,555
Other financing cash flow		0	0	0	0	0
<b>Net increase in cash</b>		<b>318</b>	<b>(1,298)</b>	<b>(2,909)</b>	<b>2,518</b>	<b>(1,974)</b>
Exchange rate effects		0	0	0	0	0
Cash at start of year		8,156	8,474	7,176	4,267	6,784
<b>Cash at end of year</b>		<b>8,474</b>	<b>7,176</b>	<b>4,267</b>	<b>6,784</b>	<b>4,811</b>
<b>Net cash at end of year</b>		<b>4,750</b>	<b>(1,092)</b>	<b>(2,011)</b>	<b>(3,425)</b>	<b>(8,954)</b>

Source: Company, Trinity Delta Note: The accounts are produced according to Finnish GAAP. The €5m of short-term debt in each of FY20 and FY21 is indicative of our view of the company's funding requirement. Our sales forecasts do not include any contribution from indications 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

Lala Gregorek

[lgregorek@trinitydelta.org](mailto:lgregorek@trinitydelta.org)  
+44 (0) 20 3637 5043

Franc Gregori

[fgregori@trinitydelta.org](mailto:fgregori@trinitydelta.org)  
+44 (0) 20 3637 5041

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