goetzpartners SECURITIES

COMPANY NOTE

Nexstim OYJ (NXTMH-FI)

2018: An exciting year ahead

OUTPERFORM

Price target €1.23
Price €0.20

KEY TAKEAWAY

We reiterate our OUTPERFORM recommendation on Nexstim and ahead of what is likely to be an exciting year of news flow, we increase our target price to €1.23 (from €0.93). We believe the risk reward relationship is very lucrative - the company is on the way to developing a new therapy platform of NBT system with appealing recurring revenue. Recent FDA approval for depression reduces the risks as the platform is not solely based on stroke rehabilitation anymore.

Nexstim is a Finnish medtech company with game changing technology for targeting transcranial magnetic stimulation ("TMS") treatment in the brain.

NBT, a platform for profitable growth: The company initially validated the company with NBS (Navigated Brain Stimulation), used for pre-surgical mapping of the motor cortex. NBT (Navigated Brain Therapy) uses the same technology in therapy of various neurological and psychiatric indications. The NBT equipment is intended to be used for multiple indications including stroke rehabilitation, depression and neurological pain. The growth drivers are the number of outstanding units and their utilisation rate where multiple indications for the same unit are the key. With the profit margins on the consumables exceeding 80%, Nexstim's business model will combine high profit margins with stickiness of customers.

Risk-reward situation improving further: Since our initiation note (22nd May 2017), the company has improved their cash situation by raising more finance and received the FDA approval for NBT system in depression treatment. The key uncertainly remains the same - the outcome of the stroke trial E-FIT in Q3/2018 - but with the patient enrolment complete and the FDA approval for depression de-risking the device, the risk-reward situation has improved further in our view.

FY2017 sales were slightly below our expectations (€2.6m vs. €3.0m) while the loss was smaller than we expected (EBIT €-5,6m vs. €-6.3m). Gross margin expansion was stronger and personnel cost reduction larger than we expected. The company guides for a larger loss in 2018, which we already expected.

Launch in depression will start driving the growth in Q2/2018, but there is uncertainty on the pricing model Nexstim will use. It is possible that the NBT business will move into specialised centres that will use the units for multiple indications, leading to more uniform pricing of consumables and services per unit. Our current model is based on unit sales plus recurring consumable sales, but it is possible Nexstim will move to monthly invoicing. This would not have an impact on the long-term value, we believe, but may affect the timing of the sales growth.

We provide an update on the expected dilution. Investors should note that the current market cap does not reflect the eventual dilution - see chart 13 for details.

In our view, the company has executed an impressive turnaround and the current market cap is clearly too low for a promising medtech company like Nexstim. Based on our DCF valuation we set our new target price at €1.23 (increased from €0.93) and reiterate our OUTPERFORM recommendation.

FINANCIAL SUMMARY

Net Cash/Debt (M):	9.00

MARKET DATA

Price:	€0.20
Target Price:	€1.23
52 Week Range:	€0.40 - €0.14
Total Enterprise Value:	11
Market Cap (M):	19
Shares Out (M):	93.2
Float (M):	93.2
Average Daily Volume:	265,451

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PRICE PERFORMANCE

Source: Factset

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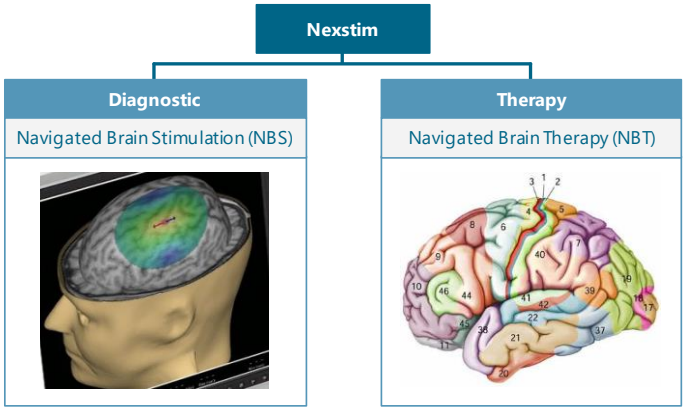
Nexstim overview

The company focus is shifting towards a therapy platform built around NBT System

Nexstim is a Finnish Helsinki-based medical technology company with a new technology in navigated transcranial magnetic stimulation. The current focus is on improving rehabilitation for stroke patients with non-invasive brain stimulation, but in our view, the Navigated Brain Therapy ("NBT System") will eventually develop into a therapy platform used in multiple indications. Nexstim pioneered the technology for brain diagnostics with its Navigated Brain Stimulation ("NBS System"). The same technology was approved by the FDA for depression in November 2017 and the key trial "E-FIT" is ongoing for use of the NBT System in stroke rehabilitation.

CHART 1: Nexstim Transcranial Magnetic Stimulation (TMS) platform

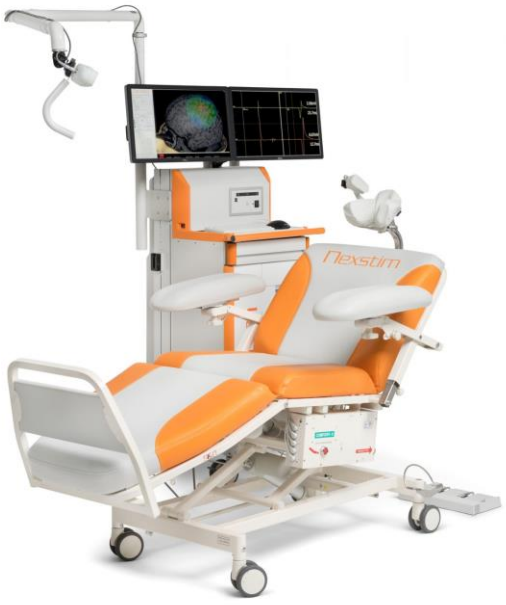


Source: goetzpartners Research, Nexstim

Navigation is the key technology of Nexstim

The founders of Nexstim believed that adding brain sector-specific navigation to the Transcranial Magnetic Stimulation ("TMS") toolkit would be crucial for the technology to become a useful clinical tool. NBS and NBT Systems create a map of the eloquent cortex superimposed on an MRI. The systems include the full set-up of necessary equipment arranged around a chair where the patient is seated during the operation. Nexstim uses third-party providers for most of the equipment, but the assembling and the final configuration are carried out by the company in Finland.

CHART 2: NBS System



Source: goetzpartners Research, Nexstim

The Investment Case

Attractive risk reward profile

We believe Nexstim is significantly undervalued and offers a highly attractive risk-reward ratio for new investors. The shares experienced a significant hit after the company released the stroke trial results in 2016 followed by unfavourable financing arrangements where the pre-existing shareholders were heavily diluted. We believe that the clinical trial failure was due to an ill designed control arm and there is now significant upside opportunity for new investors. In addition, reduced burn rate and the FDA approval for the NBT System in depression further improves the risk reward profile.

The FDA appears to be very favorable for Nexstim's device

The FDA seems to be favourable with Nexstim, in our view. When discussing the flawed trial, the FDA asked the company to redo a smaller trial to confirm the ill designed sham device and the promising data in the experimental arm. We expect a confirmatory result for the intervention in Q3/2018. The approval for depression convinces us of the good relationship the company has with the FDA and about the professionalism of the quality and compliance functions.

Our base scenario assumption is that depression indication will be launched in the US during Q2/2018 and that the current 60-patient supplementary trial will confirm the efficacy of the NBT System treatment in stroke patients' rehabilitation, and lead to FDA marketing clearance in Q2/2019. With the ability to build the base of the installed units from Q2/2018 onwards with depression launch, the company should be able to increase the US sales rapidly going into 2019. Under such a scenario, the current fully diluted market cap of €30m would be extremely attractive, even considering the funding needs for US commercialisation.

Base case forecasts, leading to the DCF-derived value of €1.23 per share

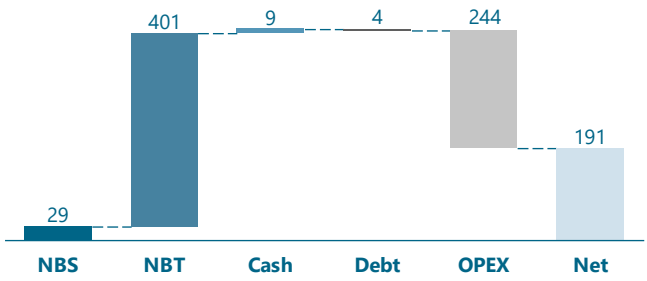
Based on our forecasts and DCF valuation, w**e** believe the share is worth €1.23. Our model is driven by the following news and assumptions:

- NBT's FDA marketing clearance for depression was granted Q4/2017.
- US launch of NBT in depression in Q2/2018.
- Success of the supplementary trial, news out Q3/2018.
- €10m financing in Q4/2018 at €0.50 per share, followed by drawing of all outstanding warrants.
- NBT's FDA marketing clearance for stroke rehabilitation in Q2/2019, followed by immediate launch.
- Steady growth of the NBS System in Europe and US.
- Rapid build-up of sales efforts and other costs in 2019-2020, leading to €9m increase in cost base.

If the supplementary trial fails, we see limited upside opportunity in the near to midterm for Nexstim shares. However, there is some downside protection from the current sales of the NBS System and additional upside from possible out-licensing the technology and use in depression and pain. But clearly our investment case is based on successful E-FIT trial and synergies between the various indications of NBT System.

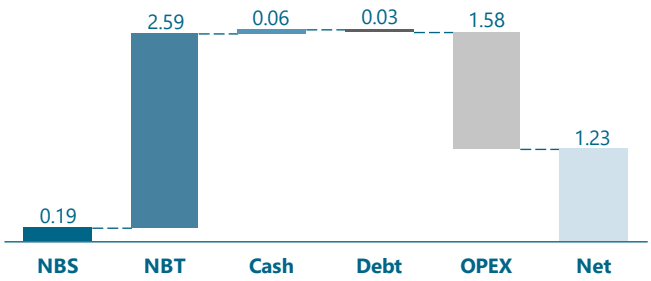
We have built into our model the complete dilution from the outstanding warrants and options. Using the current net cash, our forecasts and the fully diluted share number including the €10m share issue, our DCF based valuation suggests €1.23 per share.

CHART 3: SOTP per equity value €m



Source: goetzpartners Research

CHART 4: SOTP per share €



Source: goetzpartners Research

CHART 5: Nexstim Discounted Cash Flow and multiples

€m	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal value
Multiples:									
EPS (€)	(0.06)	(0.04)	0.05	0.09	0.14	0.17	0.21	0.23	
EV / Sales x	12.9	3.6	1.4	1.1	1.0	1.1	1.2	1.3	
EV / EBIT x	(5.4)	(10.4)	5.7	3.1	2.4	2.6	2.7	3.0	
P/E x	(4.1)	(6.4)	5.2	2.9	1.8	1.5	1.2	1.1	
Current share price:	0.21								
DCF:									
Free Cash Flow	(9.0)	(9.2)	(0.8)	6.1	12.4	18.4	22.1	27.6	345.2
Present value	(8.2)	(7.6)	(0.6)	4.1	7.7	10.4	11.3	12.9	161.0
Cumulative DCF Value € per shares:	**(0.05)**	**(0.10)**	**(0.11)**	**(0.08)**	**(0.03)**	**0.04**	**0.11**	**0.19**	**1.23**
Discount rate:	10%								
Terminal growth:	2%								

Source: goetzpartners Research estimates
Warning Note: Forecasts are not a reliable indicator of future performance or results. The return may increase or decrease as a result of currency fluctuations.

In addition to DCF, it is essential to look at the multiples. Although even the EV/Sales multiples are very high now, we believe the company can be very attractively valued on profit multiples in 2020-2021, if everything goes well. In 2021, we forecast €47m sales and €17m EBIT for the company, leading to a single digit P/E multiple. What is more, the technology platform approach will enable a very attractive business model where the consumables & service sales growth follows the growing number and use of installed units. We believe that in the case of success, Nexstim share will trade at very high multiples leading to strong share price increase.

It should be noted that in addition to company-specific risks, there is an above-average level of market risk in our scenario. Even if the E-FIT trial succeeds, a rapid deterioration of the equity market could make our assumption of €10m share issue at €0.50 per share unrealistic later this year. Under such a scenario, there would be more dilution to the current shareholders even if the operational forecasts prove correct.

However, we believe the risks point heavily to the upside. The company has announced that it is negotiating distribution agreements and other commercial co-operation with Chinese companies – a market that is outside our current models. The agreement will probably take still some time to negotiate since it can include local manufacturing or assembly arrangements and financing on top of distribution. Related down payments or investments into the Nexstim parent company could even add runway to our financial forecast without other equity issuance. But any cash from Chinese deals is likely to be re-invested in expansion into the Chinese market. Even so, this would accelerate the sales growth and increase our operational forecasts further.

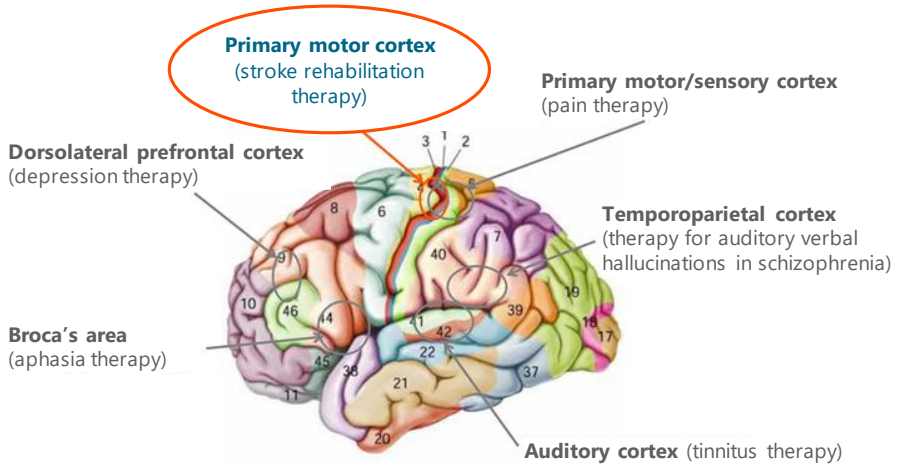
Another source of possible positive surprises is the utilisation rate of units. We have currently conservative forecasts on NBT utilisation rate due to existing pricing pressures in the depression market. We have assumed that higher competition in depression will put an upper limit in the pricing level of consumables. This could prove too conservative if Nexstim comes out with convincing data on depression or if the utilisation rates of installed units rise substantially when specialised clinics start using units to multiple indications.

The final risk to the upside comes from possible acquisitions. The current market cap is clearly too low for a company with technology and prospects like Nexstim's. If the stock market will not appreciate the company, we believe it is likely that an industrial company would be interested in acquiring Nexstim.

NBT in Depression

In all indications, Nexstim attempts to use the NBT system and navigated transcranial magnetic stimulation therapeutically. The assumption is that stimulation or inhibition of targeted brain areas can provide treatment effects more conveniently than pharmaceuticals or where pharmaceutical treatment is not possible. The indication and effects depend on the brain area targeted.

CHART 6: Brain sections targeted depend on the indication



Source: Nexstim

Compared to biochemical interventions, the main benefit is the lack of systemic side effects when the drug does not need to be given via gastrointestinal route or intravenously. This also has the added benefit of lighter regulatory scrutiny when approval as a pharmaceutical is not required but a lighter - although still thorough - medical device approval process is involved.

In our initiation report ("The stroke patient is recovering" – 24th May 2017), we left depression out of the model due to a lack of published scientific data or near-term plans to enter the market. However, Nexstim announced on 13 November 2017 that FDA had cleared the NBT system for marketing in the US for the treatment of Major Depressive Disorder ("MDD"). Nexstim has started preparations for the commercialisation in the US and after reviewing the available data, we believe there is now enough grounds to include the indication in our forecasts, further increasing the upside for the share.

Depression

Depression is a recurrent and chronic psychiatric disorder that is typically characterised by at least two weeks of low mood, accompanied by low self-esteem, loss of interest in normally enjoyable activities low energy and often also pain without a clear cause. The causes are unclear, but are believed to be both genetic, environmental and psychological.

Depression is a significant unmet clinical need; Up to 5% of the population suffer from MDD in the developed countries and 20% - 40% of patients gain insufficient benefit from current treatment options. In addition, most well-known pharmaceutical products (Prozac being the most well-known) have lost their patent protection and few new products have been approved in recent years, leaving a large part of the patient population insufficiently treated.

The reasons for the high proportion of non-responders are not entirely clear - some patients benefit from pharmaceutical interventions that are of no help to others. Pharmacogenetic factors may be involved, but it should also be noted that weak patient compliance (where patients do not actually take the drugs) plays a role.

Use of TMS

Nexstim intends to introduce TMS treatment into the market as a new non-pharmacological intervention. Stimulation of the brain through repetitive TMS treatment has been demonstrated to be effective in the treatment of MDD in patients who have failed pharmacologic treatment.

Although the causes of depression are not entirely clear, it is known that in depression, the activity in the left side of the brain, more specifically in the left dorsolateral prefrontal cortex ("DLPFC") is reduced. Stimulation of DLPFC by rTMS is expected to increase activity and to lead to alleviated symptoms.

There are multiple articles about transcranial magnetic stimulation in depression, demonstrating various levels of efficacy. Most importantly, in 2015 the first randomised double-blind controlled multicenter study was published by Levkovitz et al using equipment by Brainsway (Israel) while the earlier studies had been conducted using equipment by Neuronetics, a US company.

CHART 7: Scientific publications of TMS in depression

Publication	Device	Note
Levkovitz et al (World Psychiatry, 2015)	Brainsway dTMS System	HDRS score improved by 6.39 points vs 3.28 point in the sham group (P=0.008) over 5 weeks. Improved response and remission rates vs sham.
Lisanby et al (Neuropsychopharmacology 2009)	Neuronetics / NeuroStar TMS Therapy System	Responder analysis on O'Reardon 2007 & other studies. Efficacy of TMS stronger in patients with only one event of antidepressant treatment resistance and short duration of current episode.
Fitzgerald et al (Neuropsychopharmacology 2009)	Medtronic / MagPro TMS device	Suggests that MRI-based navigation leads to bigger MADRS score reduction (30.8 => 15.7) vs standard 5cm targeting (33.4 => 24.2) over four weeks of treatment.
O'Reardon et al (Biol Psyichiatry 2007)	Neuronetics / NeuroStar TMS Therapy System	MADRS score reduced more in active arm (32.8 => 27.0) vs sham (33.9 => 29.8) over four weeks in drug non-responders. Not statistically significant (p=0.057).
Herwig et al (Biological Psychiatry 2001)	Zeiss / Surgical Tool Navigator	DLPFC (dorsolateral prefrontal cortex) not sufficient targeting for treatment, individual positioning improved by navigating procedures.

Source: goetzpartners Research

Neuronetics is a private company with more than 1,000 devices installed and 1.4m treatments delivered to more than 50,000 patients. It is backed by multiple VC firms and healthcare companies, including GE Ventures and Pfizer, and received the Japanese approval for the device in October 2017. The latest funding round in June 2017 raised USD 15m and according to Crunchbase the company has raised over USD 176m in total.

Although the Neuronetics data is not entirely convincing due to the lack of statistical significance and open-label design of some studies, the company is building a large Outcomes Registry for the patients treated. Launched in late 2016, the registry is scheduled to grow to 6,000 patients by 2019 and provide real-life experience data for the company. In May 2017 the company stated that during the initial six months 62% of the patients experienced significant improvement. This will prove a high hurdle for Nexstim to exceed when NBT system is launched.

Brainsway is a listed company (BRIN IT) and in a private placement in December 2017 it was valued at USD 121m. In addition to depression, the company is currently widening the indication range to other neurological disorders by filing the OCD (obsessive compulsive disorder) with the FDA in October 2017. The company's revenue has suffered when the company last year changed its business model

towards leasing of the equipment. According to the Q3 release, the company currently projects USD 23m revenue based on the existing binding contractual agreements.

After the latest scientific depression publication mentioned above, the company has published headline data on a Obsessive Compulsive Disorder trial with 94 patients who had failed to respond to pharmaceutical or psychological treatments. Over 6 weeks, there was a 38% response rate and statistically significant reduction in the YBOCS score (Yale-Brown Obsessive-Compulsive Scale) vs. sham arm. To us it looks like Brainsway is also expanding the indication range for their device like Nexstim is.

Other competition

In addition to TMS, there are other novel medical devices with new approaches to depression treatment. One example is transcranial direct current stimulation where low-intensity current stimulation is applied to the brain.

CHART 8: Transcranial direct current stimulation

Source: goetzpartners Research

In tDCS there are no medical preparations needed for the treatment and the patient can be fully awake and alert. The treatment is designed to be an additive to both medication and psychotherapy. There is currently limited data on the efficacy of tDCSs in treatment of depression, but some analysis suggests the treatment could have similar efficacy compared to TMS and that tDCSs can further improve response and remission rates in combination with setraline. Sooma, a start-up active in the field is currently running a 120-patient clinical trial with results expected in 2019 at the earliest while Soterix Medical, another company active in the field, failed to show non-inferiority vs. escitalopram in 245-patient trial published in June 2017 (Moon et al, Clinical Psychiatry News 2017).

Another potential arrival is Openwater, a California-based start-up whose goal is a wearable device with MRI-plus resolution, enabling telephony and transformative diagnostic device. The company uses LCDs with very small pixels to record scattering of infrared light, so that MRI-resolution images of living body or brain can be created. At the moment, there are no patents or publications on the technology so we are currently not able to evaluate this further at the present time, but will review this when we are able to.

Conclusions

Making accurate forecasts on NBT sales in depression is challenging, given the lack of public data. In addition, there is very limited data available for the market size and competitors.

However, we can conclude that Neuronetic's 1.4m treatments would convert into USD 140m cumulative revenue for the equipment manufacturer on USD 100 cost per treatment. Initially the price

has certainly been lower, but equally the treatment has not started to penetrate the depression market properly yet.

We also note that approval for depression gives Nexstim the opportunity to start building the network of installed units in the US already this year, ahead of the E-FIT trial outcome. When both indications are approved, the cross-selling of them will become economically more profitable and there is upside from the utilisation rate per unit.

We believe Nexstim will publish more data on depression when the launch happens in Q2/2018, and that there will already be some component in the sales figures from H1/2018. Our NBT forecasts have been modified on the back of depression approval, but we see room for further upside later this year if the data is good.

STROKE AND REHABILITATION

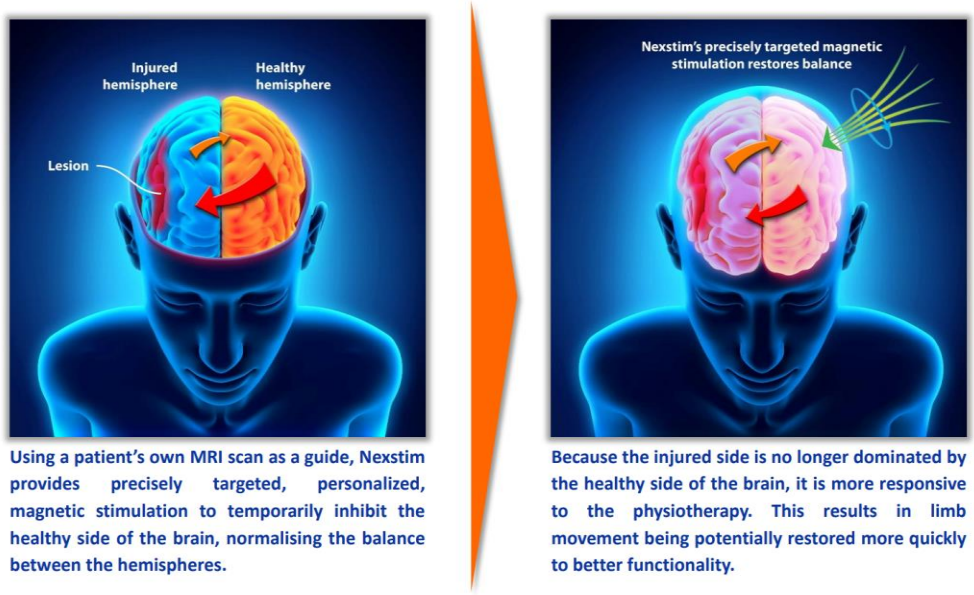
Depression has only now received attention and until this year, the investment case has been completely based on NBT in stroke rehabilitation therapy. Stroke has been a difficult indication for the pharmaceutical industry and Nexstim has experienced their fair share of headwinds in stroke therapy development. But the company announced on 6 January 2018 that the E-FIT trial was fully enrolled. Consequently, during 2018 we will find out the definitive outcome for Nexstim's attempts to enter the market by introducing NBT System in stroke rehabilitation use.

Background

In stroke, the brain is deprived of oxygen due to either lack of blood flow in the brain (ischemic stroke), or rupture of a weakened blood vessel in the brain (haemorrhagic stroke). This causes damage to the brain tissue and the worst affected brain cells die. The clinical effects of stroke depend on the area of the brain affected. The severity of the effect depends on the extent of the brain tissue affected and the duration of the oxygen deprivation.

After the acute attack is over, the recovery starts and Stroke rehabilitation is most commonly used during the first 3-month period after the stroke and this is the period when Nexstim is proposing the NBT to be used to improve hand and arm movement, which affects the vast majority of patients. NBT system resumes natural balance between the brain sides by inhibiting the healthy side of the brain that normally would take over and cover for the lesioned side (caused by the stroke). The assumption is that this forces the damaged brain areas to re-learn functions prior to the stroke and that the NBT treatment can provide treatment more conveniently than pharmaceuticals and without systemic side effects.

CHART 9: NBT: How it works in stroke rehabilitation



Source: Nexstim

Nexstim attempted to gain FDA approval and to enter the US market with a phase 3 niche study called Niche. The 199-patient study had the same primary endpoint as previous phase 2 studies, but used a different coil in what was supposed to be the placebo arm. The study failed to reach its primary endpoint when the placebo-arm patients did surprisingly well during the study.

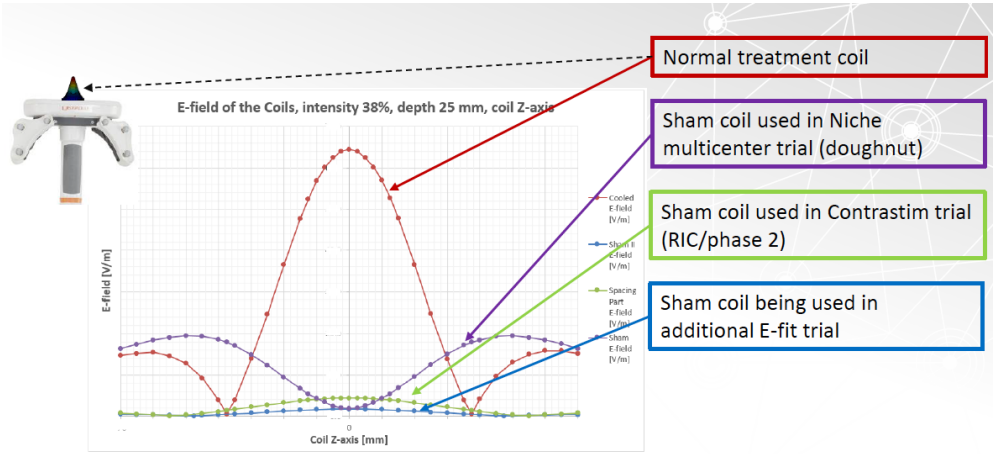
CHART 9: NICHE trial results

	Description
Primary outcome measure	Proportion of patients showing minimal clinically important improvement, defined as an increase of 5 points on the upper-extremity Fugl-Meyer score
Results	The study was stopped prematurely. 173/199 patients had gone through the full 6-month follow-up while the remaining had only had the follow-up visit at 3 months. Primary endpoint: Clinically important improvement was reached by 67% of subjects in the active arm and 65% in the sham arm. The difference was not anywhere near statistically significant. The average improvement on UEFM was 8.2 points. Secondary endpoints: Action Research Arm Test; Wolf-Motor Function Test; Stroke Impact Scale; National Institute of Health Stroke Scale; Chedoke McMaster Stroke Assessment for Hand and Arm and the quality of life instrument ED-5Q, demonstrated a statistically significant improvement from baseline to 6 months after end of trial therapy in both trial arms (P<0.001). No serious adverse events were reported.

Source: Nexstim

We have discussed the reasons for the failure and the scientific background in depth in our initiation report ("The stroke patient is recovering" – 24th May 2017). In summary, we believe the coil used in the NICHE trial did actually create stimulation not unlike that of the active coil due to activity caused by the doughnut-shape of the field. In the E-FIT trial the coil is much more passive and does not create simulation.

CHART 10: Shapes of the fields in phase 2, NICHE trial and the E-FIT trial.



Source: Nexstim

After discussing the situation with the FDA, Nexstim designed a new trial called E-FIT, where the more passive coil is used. Notably, the company will be allowed to pool the active arm patients from the NICHE and E-FIT trials together for a common analysis. E-FIT has 1:1 randomisation of 60 patients and the 200 patients of the NICHE trial were randomised on a 2:1 ratio, leading to a pool of 30 sham group patients vs. approximately 165 active arm patients. The company is confident that this will be enough to give statistical power to the analysis and lead to rapid approval afterwards.

The patients will initially be treated for six weeks and the follow-up period is 6 months. Allowing a few weeks for analysis, we believe news of the E-FIT trial is likely to be announced in late Q3/2018, most probably in late August or early September.

CHART 11: Summary of the E-FIT trial design

	Description	Note
Study objective	To determine whether inhibition of the hand muscle areas on the healthy brain hemisphere has a beneficial effect on the motor recovery of the corresponding stroke-affected muscles	1Hz frequency used
Concomitant therapy	Standard task-oriented motor rehabilitation	
# patients	60 (planned)	1:1 randomisation
Primary outcome measure	Upper-extremity Fugl-Meyer score	
Control	Nexstim new sham coil creating a lower-than before e-field (blue line in the graph above)	
Timeline	6 months (Fully enrolled 6 January 2018)	Estimated completion: Q3 2018

Source: Nexstim, clinicaltrials.gov

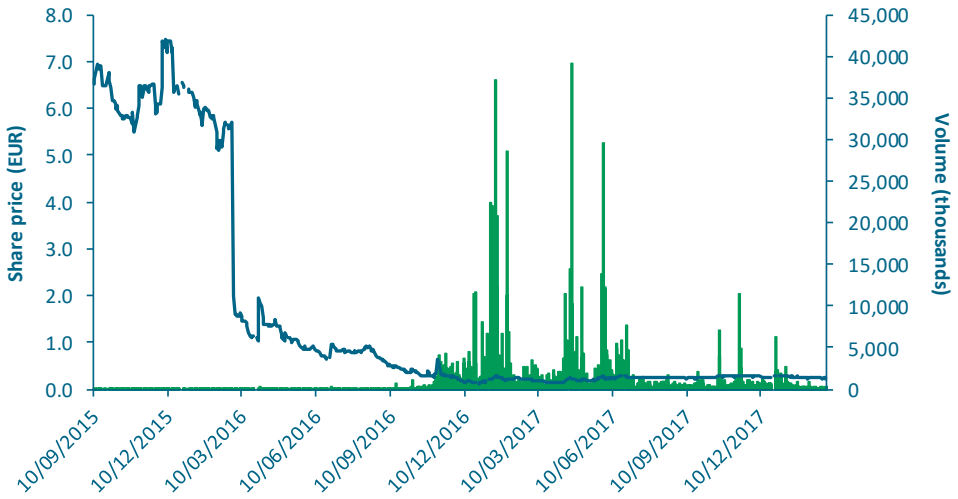
We believe that success of E-FIT is more likely than failure. The phase II trial results were very positive and, in our view, the explanation for phase III failure is credible. In case of success of E-FIT, Nexstim will be the only company with clinical proof of treatment of motor and speech cortices with a nTMS device.

SHARE AND FINANCING UPDATE

The reasons for the share price fall have been cleared

Understanding the history of Nexstim as a public company is key to understanding the investment opportunity. The share price chart makes it clear that the company does not have a uniformly successful past and raises questions whether the reasons for the share price fall have been cleared. In our view, the scientific and product-related uncertainly has been crucially reduced. But in addition, the financial transparency has now improved.

CHART 12: Nexstim price (LHS) & volume (RHS) development



Source: FactSet, goetzpartners Research. Warning Note: Past performance is not a reliable indicator of future performance or results. The return may increase or decrease as a result of currency fluctuations.

In our initiation report ("The stroke patient is recovering" – 24th May 2017), we pointed out that major uncertainty about the number of shares had been putting pressure on Nexstim and that improved visibility would support the share. During 2017 the financial situation of the company has further improved and the company can now be analysed with transparent number of shares, warrants and options outstanding.

Late 2017 the company published new financing initiatives that we have now included in our model.

- Directed share issue to City Financial. On 25 October 2017, Nexstim announced a directed share issue of 7m shares at €0.25 per share to London-based City Financial Investment Company. The issue raised €1.75m that added crucial months to the company's runway and widens the time window for arranging new financing after the outcome of the E-FIT trial is known. At the time, Nexstim said that following the directed share issue it had sufficient funding through Q1/2019.

- Financing arrangement with Kreos Capital. On 11 December 2017, Nexstim announced a financing arrangement with growth debt provider Kreos Capital. Kreos will grant Nexstim a senior secured loan facility of €4m. Loans drawn will carry 10.75% interest and the undrawn share of the facility will carry 1% interest, plus additional fees. Kreos will also receive warrants on the company when the loans are drawn, adding maximum 1.4m shares to the total.

CHART 13: # of shares and the current status of the financing instruments

Instrument	Size, total	Funding status	Dilution, # shares	Note
Shares outstanding			93,321,764	
Convertible notes	€5m	Completed		
Stand-by-Equity Facilities	**€6.5m**	**Completed**		
Direct share issue	€0.5m	Completed		
Warrants	**€14.8m**	**Outstanding**	33,541,358	KREOS included, requires AGM decision
Management Options		Maximum	7,972,060	Not all issued, strike prices not determined yet
Total shares outstanding after the dilution			134,835,182	

Source: goetzpartners Research, Nexstim

Due to increased marketing spending needs when two indications are launched at the same time, (depression in addition to stroke) we now model in €10m share issue during late 2018 at a price of €0.5 per share. In addition, the company can expect to gain money from the outstanding warrants, some have exercise prices as low as €0.2773. If the share price rises enough, the holders of the warrants (Sitra and Bracknor) may decide to exercise the warrants before expiry day, lengthening the runway further before the share issue to new shareholders needs to be executed.

CHART 14: List of outstanding warrants

Warrant	Exercise price	Max # of warrants	Expiry	Capital raised (calculated)
CBF1	€0.8539	378,871	August 2020	€323,518
CBF2	€0.5013	645,419	September 2020	€323,549
CBF3	€0.3381	1,026,947	October 2020	€347,211
CBF4	€0.3035	2,231,545	November 2020	€677,274
CBF5	€0.2900	4,463,090	November 2020	€1,294,296
CBF6	€0.2773	10,033,864	December 2020	€2,782,390
SEDA1	€0.6571	482,822	November 2019	€317,262
SEDA2	€0.6571	781,041	November 2019	€513,222
SEDA3	€0.6571	853,564	November 2019	€560,877
SEDA4	€0.6571	1,438,228	November 2019	€945,060
SEDA5	€0.6571	772,346	January 2020	€507,509
SEDA6	€0.6571	5,875,539	March 2020	€3,860,817
SITRA1	€0.6571	251,652	August 2019	€165,361
SITRA2	€0.6571	816,669	December 2019	€536,633
SITRA3	€0.6571	1,233,664	March 2020	€810,641
SITRA4	€0.6571	516,336	June 2020	€339,284
KREOS	€0.2759	1,739,761	Not known yet	€480,000
Total		**33,541,358**		**€14,784,903**

Source: goetzpartners Research, Nexstim

Financial Assumptions

In our base case model, we expect the NICHE trial to be successful. Consequently, we expect the company to start expansion of the sales force & commercial activities during 2018 on the back of the depression indication and gaining FDA clearance for NBT in stroke early 2019. This should lead to an acceleration of growth in 2018, although new NBT sales impact will accelerate only in 2019. We exclude other possible indications for NBS.

Sales assumptions

We expect the company to focus on NBT and we also believe there will be some cross-use of the units, leading to reducing pricing power in NBS units (which have been more highly priced in the past). Hence our current estimates point to a modest €7m peak sales for NBS.

The business model of NBT is very different from NBS. The unit price is likely to be much lower, we estimate €100k in our model. This is compensated for by expected more active use of installed unit bases. For stroke recovery and rehabilitation, a patient undergoes treatment 20 times per year. Each time requires disposable parts, which cost €100 per use. Nexstim estimates that one unit could serve 100 patients per year, which would mean €200,000 revenue per installed unit for Nexstim. In our model, we have cautiously estimated €100,000 per year on average.

But we point out that the pricing and earnings models are subject to change. We understand Nexstim are evaluating possibilities to move into a lease model where the clinics would pay for the units a monthly price (e.g. USD 10,000 per month) which would include a limited amount of disposable parts. We expect to hear more of this issue when the company launches NBT in depression in the US, during Q2/2018.

The economics for the clinics using NBT systems are lucrative and we believe the clinics can show positive return on investment at very reasonable pricing and capacity utilisation. Purchasing the NBT unit will be a major one-off cost (we estimate average €100k). However, the variable costs are rather low and we believe the marginal costs can be covered even at €150 per session. At €200 add-on cost from using NBT, the clinics could already be able to recover the purchase price in little more than a year, if the utilisation rate was 100%.

Balance sheet and cash flow assumptions

The company will need more financing before Q1/2019, but the timing and type of financing depends on the share price. We could expect Sitra, Bracknor and KREOS to use all of their warrants with a share price above €0.85. which will equal c.€15m of additional financing. But most of the warrants have exercise prices at much lower levels and in case of the positive outcome of the E-FIT trial some exercise of warrants is likely. But the timing of the trial suggests this will not happen until late 2018 and in any case the company will need to prepare for the future financing without certainty of this. The warrants have durations into 2019 or 2020, putting no pressure for the warrant holders to use them soon. For modelling purposes, we have included a €10m equity issue at €0.5 per share in Q4/2018 in our model, followed by full subscription of all outstanding warrants in 2019.

Financial Models

Sales model

Our model reaches nearly 1300 installed units in 2025, meaning capacity to treat 80,000 stroke patients, just over 10% of the annual 700,000 stroke cases in Europe and the US plus over 10,000 from depression patients.

Our NBT forecasts start now earlier than before but also slow down earlier due to our lowered revenue estimates from consumables and services. We highlight that this assumes no strong competitive advantage over competitors in depression and a halo effect to stroke pricing as well, leading to price pressures. Good clinical data and ability to reach premium pricing for NBT in depression would lead to higher peak sales.

CHART 15: NBS-Sales model

€m	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Installed Base #	130	140	150	158	173	186	200	216	233	251	270
New installations #	-	10	10	10	20	22	24	26	28	30	32
Replacement installations #	-	-	-	-	-	5	10	18	20	21	22
Cancelled installations #	-	-	-	(2)	(5)	(9)	(10)	(10)	(11)	(12)	(13)
Price €/unit €t	-	194	195	200	200	180	162	146	131	118	106
Sales: Machines €m	**2.0**	**1.9**	**1.9**	**2.0**	**4.0**	**4.9**	**5.5**	**6.4**	**6.3**	**6.0**	**5.7**
Consumables & service / unit, €t	4.2	3.9	4.0	4.1	4.2	4.4	4.5	4.6	4.8	4.9	5.0
Sales: Consumables & services €m	0.5	0.5	0.7	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.4
NBS sales €m	**2.5**	**2.5**	**2.6**	**2.6**	**4.7**	**5.7**	**6.4**	**7.4**	**7.4**	**7.3**	**7.1**
% yoy	*14.4%*	*-1.8%*	*6.6%*	*0.1%*	*78.5%*	*20.1%*	*12.8%*	*15.6%*	*0.1%*	*-2.2%*	*-2.3%*

Source: goetzpartners Research estimates, Nexstim. Warning Note: Past performance and forecasts are not a reliable indicator of future performance or results. The return may increase or decrease as a result of currency fluctuations.

CHART16: NBT-Sales model

€m	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Installed Base #			-	10	70	220	370	526	674	840	998
New installations #			-	10	60	150	150	175	175	200	200
Replacement installations #			-	-	-	-	-	-	-	-	1
Cancelled installations #			-	-	-	-	-	(19)	(27)	(34)	(42)
Price €/unit €t				50	100	100	100	100	100	100	100
Sales: Machines €m				**0.5**	**6.0**	**15.0**	**15.0**	**17.5**	**17.5**	**20.0**	**20.1**
Consumables & service / unit, €t				10	35	55	70	75	75	75	75
Sales: Consumables & services €m			-	0.1	2.5	12.1	25.9	39.5	50.6	63.0	74.9
NBT sales €m	**-**	**-**	**-**	**0.6**	**8.5**	**27.1**	**40.9**	**57.0**	**68.1**	**83.0**	**95.0**
% yoy					*1308.3%*	*220.7%*	*50.9%*	*39.2%*	*19.5%*	*22.0%*	*14.4%*

Source: goetzpartners Research estimates, Nexstim. Warning Note: Past performance and forecasts are not a reliable indicator of future performance or results. The return may increase or decrease as a result of currency fluctuations.

Profit & Loss Model

CHART 17: Nexstim P&L

€m	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	2.53	2.48	2.65	3.25	13.18	32.78	47.31	64.36	75.47	90.25	102.04
% yoy	*14.4%*	*-1.8%*	*6.6%*	*22.8%*	*305.7%*	*148.8%*	*44.3%*	*36.0%*	*17.3%*	*19.6%*	*13.1%*
COGS	(0.8)	(0.7)	(0.5)	(0.9)	(3.6)	(8.5)	(11.8)	(16.1)	(18.9)	(22.6)	(25.5)
Gross profit	**1.7**	**1.8**	**2.1**	**2.3**	**9.6**	**24.3**	**35.5**	**48.3**	**56.6**	**67.7**	**76.5**
% of sales	*67.5%*	*72.3%*	*80.3%*	*72.0%*	*73.0%*	*74.0%*	*75.0%*	*75.0%*	*75.0%*	*75.0%*	*75.0%*
Personnel costs	(4.0)	(4.3)	(3.3)	(4.5)	(8.0)	(9.2)	(10.6)	(12.2)	(14.0)	(16.1)	(18.5)
Other costs	(7.3)	(3.9)	(4.0)	(5.5)	(6.0)	(6.9)	(7.9)	(9.1)	(10.5)	(12.1)	(13.9)
EBITDA	(9.6)	(6.3)	(5.3)	(7.7)	(4.4)	8.2	17.0	27.0	32.1	39.5	44.1
D&A	(0.8)	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	(10.4)	(6.7)	(5.6)	(7.8)	(4.5)	8.0	16.8	26.9	32.0	39.4	44.0
EBIT margin %	*-410.2%*	*-269.7%*	*-211.4%*	*-239.2%*	*-34.1%*	*24.5%*	*35.6%*	*41.7%*	*42.4%*	*43.7%*	*43.1%*
Financial expenses & income	0.5	(0.0)	(1.7)	(1.0)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)	(1.4)	(1.5)
Pre-tax Profit	**(9.8)**	**(6.7)**	**(7.3)**	**(8.8)**	**(5.6)**	**6.9**	**15.6**	**25.6**	**30.7**	**38.0**	**42.5**
Taxes	0.0	0.0	(0.0)	0.0	0.0	0.0	(3.1)	(5.1)	(6.1)	(7.6)	(8.5)
Tax rate %	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	20.0%	20.0%	20.0%	20.0%	20.0%
Minority Share	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Profit	**(9.8)**	**(6.7)**	**(7.3)**	**(8.8)**	**(5.6)**	**6.9**	**12.5**	**20.5**	**24.5**	**30.4**	**34.0**
% yoy								*63.6%*	*19.8%*	*24.0%*	*12.0%*

Source: goetzpartners Research estimates, Nexstim. Warning Note: Past performance and forecasts are not a reliable indicator of future performance or results. The return may increase or decrease as a result of currency fluctuations.

Cash Flow Statement

CHART18: Nexstim Cash Flow & Equity Financing

€m	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Profit for the period	(9.8)	(6.7)	(7.3)	(8.8)	(5.6)	6.9	12.5	20.5	24.5	30.4	34.0
Amortisation intangibles	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Depreciation of tangibles	0.2	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.4)	(0.4)	3.3	-	-	-	-	-	-	-	-
Changes in working capital	0.3	(0.4)	(1.6)	(0.2)	(3.6)	(7.6)	(6.4)	(8.1)	(6.1)	(8.3)	(6.4)
Operating Cash Flow	(9.6)	(7.2)	(5.3)	(8.9)	(9.1)	(0.6)	6.2	12.5	18.5	22.3	27.8
Investments in intangibles	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Investments in tangibles	(0.0)	-	-	-	-	-	-	-	-	-	-
Free Cash Flow	(10.0)	(7.5)	(5.4)	(9.0)	(9.2)	(0.8)	6.1	12.4	18.4	22.1	27.6
Change in debt	0.1	1.1	(0.9)	(0.0)	(0.1)	(0.1)	(0.7)	(0.6)	(0.6)	(0.6)	(1.0)
Equity share issue	5.3	7.7	6.8	10.0	14.3						
Dividends	-	-	-	-	-	-	-	-	-	-	-
Other adjustments	(0.0)	0.0	(0.1)	-	-	-	-	-	-	-	-
Change in cash	**(4.6)**	**1.3**	**0.3**	**1.0**	**5.0**	**(0.9)**	**5.4**	**11.8**	**17.8**	**21.5**	**26.6**
Net Debt	(3.8)	(4.6)	(4.9)	(5.9)	(10.9)	(10.0)	(16.0)	(28.4)	(46.7)	(68.8)	(96.4)
# shares y/e m.	8.0	47.1	93.2	113.3	146.9	146.9	146.9	146.9	146.9	146.9	146.9
# unused warrants m.	-	30.4	31.8	33.5	-	-	-	-	-	-	-
# shares including warrants	**8.0**	**77.5**	**125.0**	**146.9**	**146.9**	**146.9**	**146.9**	**146.9**	**146.9**	**146.9**	**146.9**
# unused options m.	1.4	1.3	7.7	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
# shares, fully diluted	**9.4**	**78.8**	**132.7**	**154.8**	**154.8**	**154.8**	**154.8**	**154.8**	**154.8**	**154.8**	**154.8**

Source: goetzpartners Research estimates, Nexstim. Warning Note: Past performance and forecasts are not a reliable indicator of future performance or results. The return may increase or decrease as a result of currency fluctuations.

Balance Sheet

CHART19: Nexstim Balance Sheet

€m	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
ASSETS	**9.2**	**10.4**	**11.0**	**12.5**	**24.7**	**38.6**	**55.7**	**81.8**	**109.7**	**144.9**	**182.2**
Goodwill	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	0.6	0.7	0.5	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Property, plants & equipment	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other long-term assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term assets	1.0	0.9	0.7	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Inventories	0.4	0.3	0.4	0.5	2.1	5.5	8.3	12.0	14.8	18.6	22.1
Accounts receivable	0.9	1.1	1.5	1.8	7.4	18.8	27.6	38.2	45.6	55.4	62.6
Short-term investments	-	-	-	-	-	-	-	-	-	-	-
Cash & cash equivalents	6.9	8.2	8.5	9.5	14.4	13.5	18.9	30.7	48.4	70.0	96.6
Current Assets	8.2	9.5	10.3	11.7	23.9	37.8	54.9	80.9	108.8	144.0	181.3
Checksum	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES & EQUITY	**9.2**	**10.4**	**11.0**	**12.5**	**24.7**	**38.6**	**55.7**	**81.8**	**109.7**	**144.9**	**182.2**
Share Capital	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Reserves	23.6	31.7	38.5	48.5	62.8	62.8	62.8	62.8	62.8	62.8	62.8
Retained earnings & other	(20.1)	(27.3)	(33.1)	(41.8)	(47.4)	(40.5)	(28.0)	(7.6)	16.9	47.3	81.4
Shareholders' Equity	3.5	4.5	5.5	6.8	15.5	22.4	34.9	55.3	79.8	110.2	144.3
Accounts Payable	1.1	0.4	1.0	1.2	4.8	11.9	17.2	23.4	27.4	32.8	37.1
Short-term debt	0.4	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other current liabilities	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Current liabilities	2.4	2.1	1.8	2.0	5.6	12.7	18.0	24.2	28.3	33.6	37.9
Long-term debts	2.7	2.5	3.4	3.4	3.4	3.4	2.8	2.2	1.6	1.0	-
Capital loans	0.5	1.3	0.3	0.3	0.2	0.1	-	-	-	-	-
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	3.2	3.8	3.7	3.7	3.6	3.5	2.8	2.2	1.6	1.0	0.0

Source: goetzpartners Research estimates, Nexstim. Warning Note: Past performance and forecasts are not a reliable indicator of future performance or results. The return may increase or decrease as a result of currency fluctuations.

FINANCIAL CALENDAR

Q2 2018 - US launch of NBT in depression
Q3/2018: Outcome of the E-FIT trial of NBT in stroke rehabilitation
H2/2018: Signing of Chinese marketing agreement
2019: US approval of NBT in stroke rehabilitation

COMPANY DESCRIPTION

Nexstim, a medical technology company, provides rehabilitation for stroke patients through the use of non-invasive brain stimulation. The company offers navigated brain stimulation ("NBS") system, a navigated trans cranial magnetic stimulation device for pre-surgical mapping of the speech and motor cortices. The company is also promoting navigated brain therapy ("NBT") system, which is in the market in the EU and final stage development in the US for stroke rehabilitation and depression. Nexstim was founded in 2000 and is headquartered in Helsinki, Finland.

SCENARIOS

Base Case - GP Investment Case

Our base case scenario assumes successful outcome of the E-FIT trial and US launch of NBT in 2018 (depression). We have also built in our model a €10m share issue at €0.50 per share.

Bluesky Scenario

In a blue sky scenario, our unit estimates for the NBT system would be reached ahead of schedule in 2020 and the utilisation rate would be 100% (i.e. the machines would be used at full capacity). The sales would be €190m already in 2022, leading to Net Profit of €89m.

Downside risk

In an extreme bear scenario, the E-FIT trial would fail and the company would not succeed in raising new financing for new indications or boosting the sales of NBS. The company would try sell out the technology or focus on other indications but a bankruptcy would be a possibility in early 2019 if raising financing would not succeed.

SWOT

Strengths - Validated technology. Existing NBS business with potential to grow. Very profitable NBT business model in lucrative market.
Weakness - Clinical proof of NBT in stroke rehabilitation is missing. High cost base compared to existing sales level. Lack of financial resources to fully commercialise the technology.
Opportunities - Strategic co-operations and sales partnerships outside Europe and US. New therapeutic indications for NBT (pain) and use of the technology as a platform. M&A could lead to faster commercialisation and sales growth.
Threats - Failure of E-FIT trial would lead to financing crisis. New emerging competition with bigger financial resources. Due to the company history and low share price, the company may end up being acquired at below fair value.

Important Disclosures: Non-Independent Research

Analyst Certification

I, Tero Weckroth, hereby certify that the views regarding the companies and their securities expressed in this research report are accurate and are truly held. I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this research report.

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Companies Mentioned in this report

- (BRAINSWAY LTD (BRIN IT))
- (NEURONETCS INC (PRIVATE COMPANY))
- (SOOMA OY (PRIVATE COMPANY))
- (SOTERIX MEDICAL INC (PRIVATE COMPANY))
- Healthcare (HLTH)
- Nexstim OYJ (NXTMH-FI)
- Pharmaceuticals (PHRM)

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