



# COMPANY NOTE

## Nexstim OYJ (NXTMH-FI)

Current trading levels below the valuation floor

### KEY TAKEAWAY

Following the recent setback from the E-FIT trial causing shares to fall significantly, Nexstim has decided to exit stroke and instead to focus its capacities on its existing diagnostic and therapeutic business lines. As a result, we have lowered our target price. Considering current trading levels we believe the shares represent an asymmetric risk profile. In our view, the diagnostics segment represents a solid valuation floor with limited downside risk and potential for market expansion. Given that both sales lines are cash generative and well-differentiated from the competition, and with only commercial execution risk and minimal regulatory risk, we maintain our OUTPERFORM recommendation, but adjust our target price to €0.28 (from €1.23).

### Strong foothold of NBS for pre-surgical mapping of tumours

With stroke out of the picture, Nexstim can refocus its capacities on solidifying its existing foothold and further penetrating international markets. The NBS system allows mapping of functional areas of the brain prior to surgery to help identify tumour margins, thus facilitating optimal resection and increasing progression-free survival by c.46%. The system is both FDA-cleared and CE-marked for pre-surgical mapping, and to date over 150 systems have been sold to many world-renowned neurosurgical units globally.

### Promising commercial outlook for the treatment of depression with NBT

To date, Nexstim's NBT system remains the only FDA approved personalised navigation approach for targeted TMS in depression, targeting an addressable market of c.6m treatment-resistant patients in the US and Europe alone. The indication holds promising commercial potential and adds a robust second revenue driver to the NBS business. With strong support from key opinion leaders ("KOLs") and an expanding US team the company should be able to increase sales rapidly going into 2019E.

### E-FIT results not to be interpreted as evidence against NBT functionality

The fact that responses in both trial arms exceeded the literature-based response expectation of approximately 30% could indicate a patient selection bias of only including highly-motivated non-depressive stroke individuals and / or by the Hawthorne effect, where patients behave differently when they know they are being tested. This is important to highlight, as we believe the results provide evidence against the concept contralesional hemisphere inhibition rather than functionality of Nexstim's NBT system.

### We adjust our target price to €0.28 (from €1.23) to account for stroke exit

We value Nexstim using a DCF approach using a WACC of 14%, which yields a fair value of €0.28 per share. We also conducted an EV/Sales analysis to determine the fair value of the diagnostics business, yielding an NPV of €7.0m and a valuation floor of €17.3m including €10.3m cash (June 2018). NBT represents additional upside, bringing the total equity value to €27.7m. We highlight to investors that the company is currently trading below cash levels. We reiterate and maintain our OUTPERFORM recommendation, but lower our target price to €0.28 (from €1.23).

EUR	2016A	2017A	2018E	2019E	2020E
Sales	2	3	3	5	10
EBIT	(7)	(6)	(8)	(5)	(3)
Net Profit					
FY Dec	(7)	(7)	(9)	(7)	(4)

Source: Company data, goetzpartners Research estimates. 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.

## OUTPERFORM

Price target €0.28

Price €0.05

### FINANCIAL SUMMARY

Net Cash/Debt (M): 2.80

### MARKET DATA

Price: €0.05  
 Target Price: €0.28  
 52 Week Range: €0.40 - €0.05  
 Total Enterprise Value: 2  
 Market Cap (M): 5  
 Shares Out (M): 97.5  
 Float (M): 84.5  
 Average Daily Volume: 1,082,372

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### PRICE PERFORMANCE

Nexstim OYJ



— NXTMH-FI  
 Source: Factset

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*Solid valuation floor represents asymmetric risk profile at current trading levels*

*In light of the recent E-FIT trial disappointment, Nexstim can now refocus its commercial and financial capacities to its core business of depression and pre-surgical mapping*

*E-FIT trial results indicated no statistically significant TMS-mediated clinical improvement*

*Patient selection bias and Hawthorne effect may have distorted data. Results should not be interpreted as evidence against the functional validity of the NBT system*

*Both depression and presurgical mapping are revenue generating, and Nexstim's product is well-positioned to conquer a substantial market share in these indications in the future*

## Solid Valuation floor from NBS - Diagnostics

The recent setback of Nexstim's stroke trial should not distract from the company's fair value. In this research note we elaborate on Nexstim's adapted business model and the fair value of its remaining assets. Our Sum of the Parts ("SOTP") resulted in a new fair value of €0.28 per share or an equity value of €27.7m. The Diagnostic part ("Dx") is already a solid business with scope of market expansion. We have been conservative with our base case assumptions for the Dx business, but feel that this segment represents a solid valuation floor of €17.3m.

Regarding its therapy segment, Nexstim will focus on the commercialisation of NBT in depression, where it already generated sales. In addition, the company will continue to promote NBS for pre-surgical mapping. Both indications are FDA approved and CE marked. We remind investors that NBT for depression is the only personalised navigation approach for targeted TMS in this application. Given this business is cash generative and has two sales lines for diagnostics and therapy that are well-differentiated from the competition, we remain positive and maintain our OUTPERFORM recommendation, but adjust our target price to €0.28 from €1.23 per share.

## E-FIT results indicated no clinical improvement in stroke

Nexstim recently released the much-anticipated results from its E-FIT trial in stroke. As outlined in our previous research note (September 2018), the primary efficacy analysis, which combined the E-FIT trial dataset with data from the active trial arm of the previously completed Phase III NICHE trial showed no statistically significant difference in clinical improvement between active and sham trial arms. Similarly, a secondary analysis of the E-FIT data excluding the previous NICHE results showed no significant difference between treatment arms (60% vs. 50%, active and sham NBT, respectively,  $p=0.62$ ). While inhibition of the unaffected area has been reported to be a feasible approach to combat functional loss and to promote recovery of the healthy hemisphere, a number of variables such as motivation of patients, quality of occupational therapy and degree of impact of inhibition to facilitate recovery all represent hurdles to showing efficacy of this approach in a clinical setting.

## Evidence against therapeutic approach, not NBT functionality

The fact that the results in both trial arms exceeded the literature-based response expectation of approximately 1/3 with occupational therapy alone could be explained by the possible patient selection bias of only including highly-motivated non-depressive stroke individuals and / or by the Hawthorne effect, where patients behave differently when they know they are being tested. This is important to highlight, as we believe the results provide evidence against the concept of inhibition of the contralesional hemisphere in stroke rehabilitation rather than functionality of Nexstim's NBT system.

## Realigning the business strategy

As a result of the E-FIT trial outcome, Nexstim has decided to exit the stroke area and to focus on its other, more advanced indications – depression and pre-surgical mapping. The company is already generating revenues in both segments, and with stroke out of the picture, Nexstim can realign its strategy to focus its financial and operational capacities to solidify its foothold in these markets. Following FDA approval for depression earlier this year and with multiple systems sold in the US since launch in Q2/2018A, this application represents a lower-risk application and a viable commercial avenue for Nexstim. Since the NBT system remains the only FDA approved personalised navigation approach for targeted TMS in depression to date, the company should be able to increase the US sales rapidly going into 2019E.

*Nexstim's regulatory portfolio and reimbursement position are far advanced compared with other small medtech companies. The company trades well-below the valuation floor, representing limited downside for new investors*

## Depression and pre-surgical mapping to remain core business

While a lot of emphasis has been on the E-FIT trial in stroke in the recent past, even more so since the initial disappointment in 2016, commercialisation in both depression and pre-surgical mapping is well underway. The E-FIT trial was important, however not essential as it was not part of the company's core business. Nexstim has a clear vision for its target markets, where TMS will very likely gain in importance. In addition, the company is much more advanced than many small cap medtech companies in terms of both regulatory status in the US and Europe as well as existing reimbursement structures. From that perspective, Nexstim is currently trading below the valuation floor, representing limited downside for new investors. The vast clinical need in the targeted therapy areas together with the clear benefit supported by clinical data and a strong KOL network highlight the significant commercial opportunities for Nexstim.

*Accurate mapping of eloquent areas before surgeries allow surgeons to accurately identify tumour margins, allowing the resection of previously inoperable tumours*

*NBS improves treatment outcomes, while being non-invasive, cheaper and more reliable than comparable techniques such as direct cortical stimulation and functional magnetic resonance imaging*

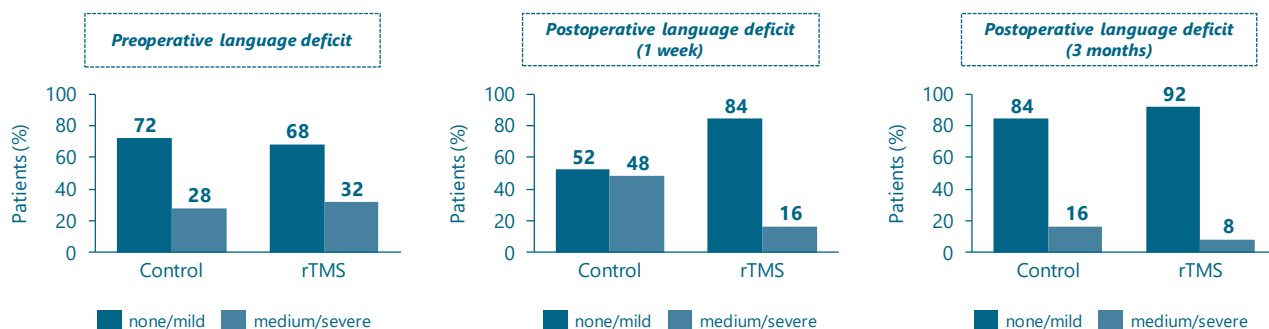
## NBS for pre-surgical mapping of tumours

Surgical resection remains the primary treatment for most brain tumours, highlighting the importance of preserving as much healthy tissue, while at the same time removing as much cancerous tissue, as possible. Using the NBS system, functional areas of the brain can be mapped prior to surgery in order to help identify tumour margins, allowing optimal resection and significantly improving the chance of progression-free survival: Frey *et al.* reported a 46% increase in progression-free survival in low grade gliomas compared with traditional methods. The NBS system is both FDA-cleared and CE-marked for pre-surgical mapping of language and motor areas of the brain, and to date more than 150 systems have been sold to many world-renowned institutions across the US and Europe, including very recently the Mayo Clinic.

## Functional maps improve neurosurgical outcomes

Presurgical mapping is used to map motor- and language-related cortical areas in order to guide neurosurgical procedures in patients with well-defined local pathology such as tumours. Direct cortical stimulation (“DCS”), the current gold standard of localising functional areas prior to neurosurgery, is invasive, costly and complicated. This highlights the need for approaches such as Nexstim’s NBS system, which enables surgeons to non-invasively determine the extent to which a brain lesion may be resected, thus maximising tumour resection while preserving neurological function (CHART 1). The neurosurgery department of the renowned Charité – Universitätsmedizin Berlin has been using Nexstim’s NBS system for over three years, where it now forms an integral part of making surgical decisions, which is testament to the degree of sophistication and application in clinical use.

**CHART 1: Language status before and after surgery in patients undergoing pre-surgical mapping of eloquent areas vs. control**



rTMS: repetitive transcranial magnetic stimulation  
Source: Sollmann *et al.* (2015)

*NBS can be used to reliably map the function of the cortex in areas that may have been heavily anatomically distorted due to tumour growth*

## Pre-surgical mapping with the NBS system is non-invasive

Activation of the NBS system produces an electric field in the underlying cortex, which generates a response in peripheral nerves that can be measured by electromyography (“EMG”). An infrared-based tracking system is used for navigation, and all individual stimuli and subsequent muscle responses are logged and displayed as a heat map. Stimuli are given around and within the tumour with 2mm - 5mm spacing and the stimulated area is expanded until evoked responses are no longer detected. The result is a clear map of the functional areas of the cortex, allowing surgeons to accurately identify optimal tumour resection margins. Furthermore, software-integrated fibre tracking allows visualisation of important local neuronal projections that should be spared.

*The large installed base of 150 units worldwide and the long list of high-calibre clients is testament to the clinical validity of the NBS system*

## KOLs support the use of NBS for pre-surgical mapping

Dr Bernhard Meyer, professor and chair of the department of neurosurgery at Klinikum rechts der Isar in Munich, emphasises the importance of Nexstim's NBS system in identifying the exact location of a tumour in relation to areas of speech and motor function in order to "make surgery safer and resection rates higher". This increases treatment outcomes and helps patients feel more confident when they go into surgery. Pre-surgical mapping is especially important in the brain where minor deviations can have devastating impacts on function. In addition, mapping using TMS reduces the need for follow-up procedures, allowing for up to 72% of tumours to be resected without residual (Dr Sandro Krieg, Neurosurgeon, Klinikum rechts der Isar). The fact that TMS is able to maximise the extent of resection while reducing intra-operative mapping time and the risk of post-surgical deficits is a key driver of adoption across many world-renowned institutions (CHART 2), representing a considerable commercial opportunity for Nexstim.

### CHART 2: Selected world-leading neurosurgery centres relying on the NBS system for pre-surgical mapping



Source: Nexstim Plc Corporate Presentation (September 2018) (Page 7).

## Key assumptions for NBS sales model

Below we summarise our assumptions for the NBS sales model:

- Due to an increased commercial focus on the existing indications rather than development of stroke, we forecast 10% annual growth of installed NBS units from 2019E to 2022E.
- We assume a 7-year replacement cycle and a unit price of €200k, declining by 3% from 2020E onwards.
- We expect utilisation to increase to 80% per unit by 2025E, driving consumable sales of €100 per session.
- Assuming the number of neurosurgical centres in the US and EU to be 492 and 699, respectively, Nexstim's penetration is expected to increase from 13% in 2017E to 22% by 2025E.
- We estimate the incidence of primary brain tumours in the US to be c.64.5k cases per year. Of these approximately 20% are located in areas requiring pre-procedural mapping of the functional motor or speech cortex.
- In addition to primary tumours, patients undergoing treatment for metastatic brain tumours as well as surgery for epilepsy may also benefit from presurgical mapping, which could double the addressable patient population and represents free upside to our current valuation.

CHART 3: NBS sales model

NBS Sales model		2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Dec YE (€m)	units	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
<b>NBS Total Sales</b>	<b>€m</b>	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>3.1</b>	<b>4.3</b>	<b>5.5</b>	<b>7.2</b>
growth	%		(1.8%)	6.6%	2.8%	12.3%	40.9%	27.9%	30.9%
<b>Installed Base</b>	<b>#</b>	<b>130</b>	<b>140</b>	<b>150</b>	<b>160</b>	<b>171</b>	<b>183</b>	<b>196</b>	<b>210</b>
growth	%		7.7%	7.1%	6.7%	6.9%	7.0%	7.1%	7.1%
New installations	#		10	10	10	11	12	13	14
growth	%			0.0%	0.0%	10.0%	9.1%	8.3%	7.7%
Replacement installations	#	-	-	-	-	-	5	10	18
<b>Price per unit</b>	<b>€k</b>		<b>194</b>	<b>195</b>	<b>200</b>	<b>200</b>	<b>194</b>	<b>188</b>	<b>183</b>
growth	%			0.5%	2.8%	0.0%	-3%	-3%	-3%
<b>Sales: Machines</b>	<b>€m</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>	<b>3.3</b>	<b>4.3</b>	<b>5.8</b>
growth	%		(2.5%)	0.5%	2.8%	10.0%	49.9%	31.2%	35.0%
<b>Sales: Consumables &amp; services</b>	<b>€m</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>1.4</b>
growth	%		0.8%	27.9%	2.9%	18.8%	17.7%	16.8%	16.1%
Patients/unit				40	45	50	55	60	65
capacity utilisation	%			40.0%	45.0%	50.0%	55.0%	60.0%	65.0%
Price per installed unit	€k	4.2	3.9	4.0	4.5	5.0	5.5	6.0	6.5
growth	%		(6.4%)	2.3%	12.5%	11.1%	10.0%	9.1%	8.3%
<b>Neurosurgical centres US &amp; EU</b>				<b>1,191</b>	<b>1,197</b>	<b>1,203</b>	<b>1,209</b>	<b>1,215</b>	<b>1,221</b>
Neurosurgical centres in US				492	494	497	499	502	504
% growth					0.5%	0.5%	0.5%	0.5%	0.5%
Neurosurgical centres in EU				699	702	706	710	713	717
% growth					0.5%	0.5%	0.5%	0.5%	0.5%
Nexstim penetration				12.6%	13.4%	14.2%	15.1%	16.1%	17.2%

Source: Company data, goetzpartners Research estimates.

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.

## Adjusting our valuation and target price

### CHART 4: Valuation summary

<b>Equity value (€m)</b>	<b>27.7</b>
Range	18.9 - 50.0
<b>Share valuation (€)</b>	<b>0.28</b>
Range	0.21 - 0.36

Source: goetzpartners Research estimates.  
Warning Note: Forecasts are not a reliable indicator of future performance

In light of the recent outcome of the E-FIT trial, we adjust our target price to €0.28 per share to account for the stroke exit. We forecast FY2018E sales of €3.1m, based on (1) H1/2018A sales of €1.1m, (2) the launch of NBT for depression in May 2018, and (3) to reflect historical trends of back-end loaded earnings. We decreased our out-year forecasts, mainly driven by a decrease in new NBT installations. This is in part compensated by an increase in near-term focus on commercialisation rather than development, thus we forecast profitability from 2021E. Our target price of €0.28 per share (CHART 4) is based on a DCF approach and we performed a sensitivity analysis to provide alternative valuation scenarios (CHART 5, CHART 6). CHART 5 outlines the equity value range based on deviations from our assumptions in terms of terminal growth and WACC, while CHART 6 outlines fair value/share ranges in terms of NBS installed base growth rates between 2019E and 2022E and WACC.

### CHART 5: Sensitivity analysis for equity value

		Equity value				
		Terminal growth				
		-4%	-2%	0%	2%	4%
WACC	16.0%	18.9	20.6	22.6	25.2	28.8
	15.0%	20.6	22.5	25.0	28.2	32.5
	14.0%	22.5	24.8	<b>27.7</b>	31.6	37.1
	13.0%	24.7	27.4	31.0	35.8	42.8
	12.0%	27.3	30.5	34.9	40.9	50.0

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

### CHART 6: Sensitivity analysis for fair value per share

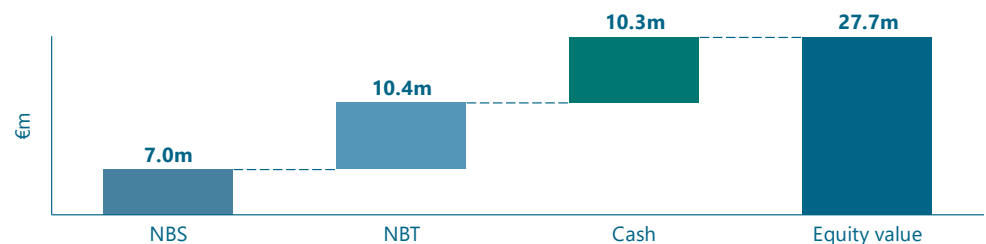
		Fair value per share				
		NBS new installation growth				
		6%	8%	10%	12%	14%
WACC	16.0%	0.22	0.21	0.23	0.23	0.23
	15.0%	0.24	0.24	0.26	0.25	0.25
	14.0%	0.26	0.26	<b>0.28</b>	0.28	0.28
	13.0%	0.30	0.29	0.32	0.31	0.31
	12.0%	0.33	0.33	0.36	0.35	0.35

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

## Valuation Summary

The total equity value of €27.7m comprises of €7.0m from the diagnostics business, derived from the EV/Sales analysis, an additional 10.4m from the depression therapeutics segment and 10.3m cash as of 30 June 2018 (CHART 7). Regarding the therapy segment, Nexstim will focus on the commercialisation of NBT in depression, where it already generated sales, and we believe the large market and commercial opportunity, and the fact that NBT for depression has been gaining strong traction since launch justify a higher fair value of €10.4m.

### CHART 7: Nexstim valuation summary



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

*EV/Sales analysis yields a €17.3m investment floor for the diagnostic business alone and additional upside for depression*

## EV/Sales for diagnostics business yields €17.3m valuation floor

Nexstim is a unique company and does not have close peers, we therefore selected a range of small and midcap companies in the diagnostics medical devices space that in our view bear similarities to Nexstim. Applying median comparable EV/Sales multiples to our 2018E-2020E sales estimates for Nexstim's established diagnostics business, we arrived at an average inferred net present value of €7.0m (CHART 8). Adding €10.3m cash suggests a €17.3m valuation floor.



**CHART 8: Comparable companies with similar diagnostic potential**

Company Name	Country	Market cap (€m)	EV/Sales		
			2018E	2019E	2020E
FUJIFILM Holdings	JP	20458	1.0x	0.9x	0.8x
Olympus	JP	11651	1.9x	1.8x	1.6x
Carl Zeiss Meditec	DE	6395	4.5x	4.1x	3.7x
Mauna Kea Technologies	FR	66.9	9.1x	6.9x	5.8x
SuperSonic Imagine	FR	40.4	2.0x	1.9x	1.6x
SciBase Holding	SE	7.0	0.6x	1.9x	1.9x
Median			<b>2.0x</b>	<b>1.9x</b>	<b>1.8x</b>
Average			<b>3.2x</b>	<b>2.9x</b>	<b>2.6x</b>
<b>Nexstim projected sales</b>			<b>3.1</b>	<b>3.5</b>	<b>4.7</b>
<b>Nexstim inferred EV (EURm)</b>			<b>6.1</b>	<b>6.7</b>	<b>8.3</b>
<b>Average</b>				<b>7.0</b>	

Source: goetzpartners Research estimates.

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

DCF analysis yields an equity value of €27.7m and a fair value of €0.28 per share

### DCF analysis captures €10.4m upside from therapeutics

Our DCF analysis for Nexstim is shown in CHART 9. We forecasted Nexstim's financial performance for 5 years to 2022E and applied a terminal growth rate of 0%. Free cash flows ("FCF") were discounted back using our estimate for Nexstim's WACC of 14%, which we feel is appropriate for an early-stage company such as Nexstim and captures the commercial risk associated with NBS reimbursement for presurgical mapping and NBT uptake for depression. This yields a total equity value of €27.7m and a fair value of €0.28 per share (CHART 9). Increased uptake of NBS for presurgical mapping in addition to primary brain tumours, including epilepsy and metastatic brain tumours, as well as expansion of the NBT offering into chronic pain represent free upside to our current valuation.

**CHART 9: Nexstim discounted cash flow analysis**

Dec YE (€m)	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Revenues</b>	<b>3.1</b>	<b>5.2</b>	<b>10.2</b>	<b>19.5</b>	<b>28.0</b>	<b>35.3</b>	<b>41.3</b>	<b>47.4</b>
NBS Sales	2.7	3.1	4.3	5.5	7.2	7.8	8.2	8.6
NBT Sales	0.4	2.1	5.9	14.0	20.8	27.5	33.1	38.8
OPEX	(5.1)	(4.6)	(5.2)	(6.0)	(6.9)	(7.9)	(9.1)	(10.5)
<b>EBITDA</b>	<b>(7.7)</b>	<b>(5.2)</b>	<b>(2.8)</b>	<b>2.7</b>	<b>7.3</b>	<b>10.7</b>	<b>12.9</b>	<b>14.7</b>
% margin	(246.5%)	(100.4%)	(27.6%)	14.0%	26.1%	30.4%	31.1%	31.1%
Tax	0.0	0.0	0.0	(0.3)	(1.2)	(1.9)	(2.3)	(2.6)
% of pretax profit	0.0%	0.0%	0.0%	(20.0%)	(20.0%)	(20.0%)	(20.0%)	(20.0%)
CapEx	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ΔWC	(0.0)	0.2	0.8	1.4	1.1	0.7	0.3	0.2

#### Discounted Cash Flow (DCF) analysis

<b>WACC</b>	<b>14.0%</b>
<b>Terminal growth</b>	<b>0%</b>
<b>NBT growth</b>	<b>10%</b>

FCFs	(7.8)	(5.0)	(2.1)	3.9	7.2
Terminal Value	51.4				
NPV - EV	17.4				
Add cash	10.3				
<b>Equity Value</b>	<b>27.7</b>				
Shares issued (m)	97.5				
<b>FV per share (€)</b>	<b>0.28</b>				

Source: Company data, goetzpartners Research estimates.

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*Nexstim's NBT represents a non-invasive solution for up to 6m patients in the US and Europe that are not responding to conventional pharmacological treatment*

## NBT for effective treatment of depression

TMS is a non-invasive procedure used to improve symptoms of depression in treatment-resistant patients. Major depressive disorder affects >200m people globally, and c.2% - 5% of the population in developed countries. Current pharmacological approaches to combat the symptoms are suboptimal in terms of efficacy and are often associated with a wide range of adverse side-effects. Approximately 18% of patients seeking treatment do not respond to pharmacological approaches, equating to an addressable market for NBT treatment for depression of c.6m patients in the US and Europe alone, and a total treatment value of more than €40bn. Nexstim has already delivered multiple systems to customers since the successful US commercial launch in May 2018, and we expect the customer base to grow quickly, especially if NBT gains additional approval for chronic pain, which often leads to trouble sleeping and increased stress causing depression, thus creating synergies for clinics that have an integrated treatment approach for both indications.

*Decreased grey matter volume in the DLPFC correlates with increased expression of depression symptoms*

## Hypoactivity in distinct brain region linked to depression

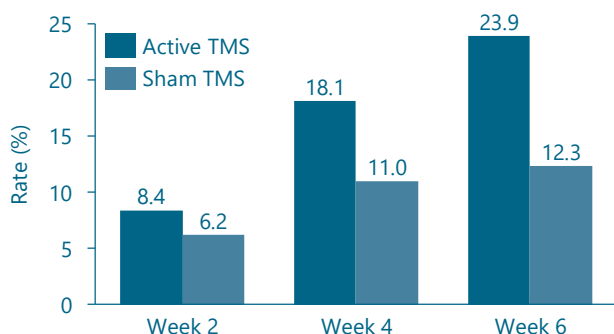
Previous studies have identified repetitive TMS as an effective approach for the treatment of drug-resistant depression. Initial findings that an imbalance between the left and right dorsolateral prefrontal cortex ("DLPFC") in patients with major depression is linked to negative emotional judgment, shed first light on the potential neurophysiological abnormalities underlying depression.

*Stimulating activity of neurons in the DLPFC can alleviate symptoms of depression*

## Targeting the DLPFC with TMS

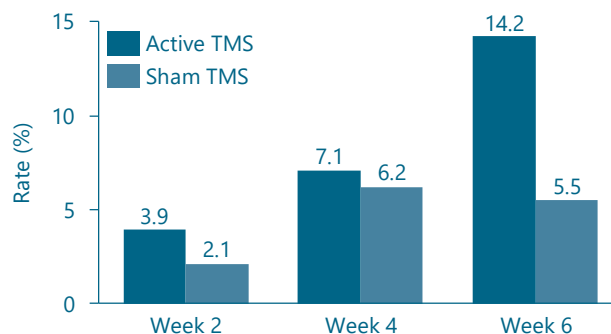
O'Reardon *et al.* (2007) reported that active TMS of the DLPFC in a randomised controlled trial was significantly superior to sham TMS for the treatment of depression, leading to significant improvement on the Montgomery–Asberg Depression Rating Scale ("MADRS") as well as the Hamilton Depression Rating Scale ("HAMD"). CHART 10 and CHART 11 outline the respective TMS-mediated response- and remission rates associated with TMS stimulation of the hypoactive DLPFC. These findings provide supporting evidence for the therapeutic benefit of stimulation of the DLPFC using TMS, which forms the foundation underlying Nexstim's approach to the treatment of depression. Lan *et al.* (2016) have identified that functional improvement in these regions is likely related to an increase in grey matter volume by up to 11.2% following repeated TMS.

**CHART 10: MADRS response rates (50% improvement from baseline)**



Source: Lan *et al.* (2016)

**CHART 11: MADRS remission rates (MADRS total score<10)**



Source: Lan *et al.* (2016)

*NBT's unique ability to accurately stimulate the DLPFC makes it a superior solution for the drug-free treatment of depression*

*Favourable reimbursement scenarios align clinician's economic interests with clinical efficacy*

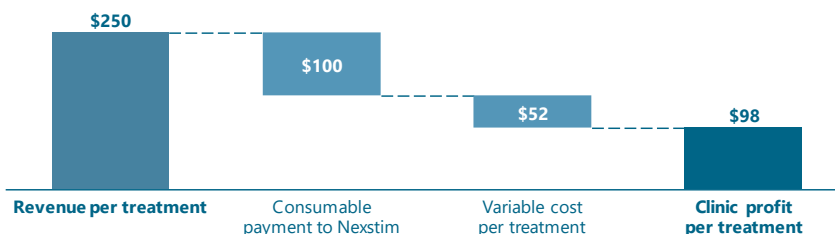
### NBT more effectively targets the DLPFC than other TMS systems

Compared with other available systems, NBT accounts for the distortion of electric fields caused by bone and brain matter. Furthermore, research has shown that other systems are only able to hit the DLPFC in 30% of cases, while NBT 100% accurately hits the DLPFC. As a result, the NBT system is more suitable for repetitive treatment for depression, where reliable reproducibility is critical. NBS's stimulus is automated and only delivered if the coil is in a precise predefined location and orientation, which increases treatment efficiency and reduces interference associated with stimulation of close surrounding areas that may be counterproductive to treatment. In addition, integration of MRI information, as utilised by NBT, is far more accurate in targeting a desired cortical region such as the DLPFC by taking into account individual brain anatomy. The "standard" procedure of coil positioning (which locates the DLPFC 5cm anterior to the "hand motor hotspot"), however, fails to achieve this 64% of the time (Ahdab *et al.*, 2010) rendering treatment ineffective.

### Favourable reimbursement scenarios to increase utilisation

Repetitive TMS treatment for depression is fully covered by most reimbursement bodies such as Medicare in the US and Nexstim currently offers customers three pricing options: (1) pay-per-use, (2) monthly lease, and (3) upfront system sale in addition to consumables. The company primarily targets TMS centres and high volume psychiatric clinics with a high patient throughput. CHART 12 outlines the economic benefit for healthcare providers in the US under the pay-per-use program. Each session is reimbursed with \$250, leaving clinics with c.\$98 profit per treatment after associated costs. This translates into a significant economic benefit over a treatment period, with minimal risk clinics as no upfront investment is required, which means a profit can be made from the first treatment. While the commercial risk is borne by Nexstim, we believe economic benefit for clinics is aligned with clinical use, which increases utilisation and hence recurring revenue.

**CHART 12: Economic benefit to healthcare provider in the US under the pay-per-use program**



Source: Company data

## Key assumptions for NBT sales model

Below we summarise our assumptions for the NBS sales model:

- We have lowered the number of new installations per year from 2019E onwards in response to the recent E-FIT trial results.
- We forecast FY2018E sales of €0.4m, based on the launch of NBT for depression in May 2018.
- The number of new installations is estimated to grow quickly initially, with 100% growth expected until 2020E, declining to <10% by 2022E.
- Purchasing the NBT unit will be a major one-off cost, we estimate average €100k, and a replacement cycle of 7 years.
- 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 following the launches of NBT in depression in the US earlier this year.
- For treatment of depression, a patient attends multiple treatment sessions per year. Each time requires disposable parts, which cost €100 per use. Nexstim estimates that one unit could serve 100 patients per year. We estimate a peak utilisation of 75% per year by 2022E.

CHART 13: NBT sales model

NBT Sales model		2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	
Dec YE (€m)		units	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
<b>NBT Total Sales</b>	<b>€m</b>	-	-	-	<b>0.4</b>	<b>2.1</b>	<b>5.9</b>	<b>14.0</b>	<b>20.8</b>	
growth	%					408.3%	175.4%	138.3%	48.1%	
<b>Installed Base</b>	<b>#</b>				<b>7</b>	<b>21</b>	<b>53</b>	<b>121</b>	<b>193</b>	
growth	%					200.0%	153.3%	127.1%	59.9%	
New installations	#				7	14	32	68	72	
growth	%					100.0%	130.0%	110.0%	7.0%	
Replacement installations	#				-	-	-	-	-	
<b>Price per unit</b>	<b>€k</b>				<b>50</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	
growth	%					100.0%	0%	0%	0%	
<b>Sales: Machines</b>	<b>€m</b>				<b>0.4</b>	<b>1.4</b>	<b>3.2</b>	<b>6.8</b>	<b>7.2</b>	
growth	%					300.0%	130.0%	110.0%	7.0%	
<b>Sales: Consumables &amp; services</b>	<b>€m</b>				<b>0.1</b>	<b>0.7</b>	<b>2.7</b>	<b>7.2</b>	<b>13.5</b>	
growth	%					950.0%	261.9%	172.5%	86.5%	
Price per installed unit	€k				10.0	35.0	50.0	60.0	70.0	
growth	%					250.0%	42.9%	20.0%	16.7%	

Source: Company data, goetzpartners Research estimates.

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.

*Nexstim's systems are rapidly gaining traction and the company is exploring avenues to enter other international markets via distributors*

## Upcoming catalysts

Nexstim is committed to continuously developing its TMS technology as well as its commercial platform. One of the major technological advances currently in development is the automatic identification of the DLPFC, which would allow further automation of the treatment process, while at the same time increasing accuracy and reducing treatment time. In addition, the company intends to file a 510k to include theta burst stimulation (short trains of stimuli at high frequency repeated at intervals of 200ms), in order to reduce treatment time, thus making therapy sessions less strenuous for patients and increasing patient throughput. Nexstim also intends to enter the Asian market via Hong Kong and is currently evaluating Chinese partner candidates.

## Financials

**CHART 14: Nexstim profit and loss model**

Profit & Loss Statement		2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	
Dec YE (€m except EPS)		units	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
<b>Revenue</b>	€m	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>	<b>3.1</b>	<b>5.2</b>	<b>10.2</b>	<b>19.5</b>	<b>28.0</b>	
growth	%		(2%)	7%	19%	65%	96%	92%	43%	
NBS sales	€m	2.5	2.5	2.6	2.7	3.1	4.3	5.5	7.2	
% sales	%	100%	100%	100%	87%	59%	42%	28%	26%	
growth	%		(2%)	7%	3%	12%	41%	28%	31%	
NBT sales	€m	-	-	-	0.4	2.1	5.9	14.0	20.8	
% sales	%	0%	0%	0%	13%	41%	58%	72%	74%	
growth	%					408%	175%	138%	48%	
COGS	€m	(0.8)	(0.7)	(0.5)	(0.9)	(1.4)	(2.6)	(4.9)	(7.0)	
% sales	%	32%	28%	20%	28%	27%	26%	25%	25%	
growth	%		(16%)	(24%)	68%	59%	89%	84%	43%	
<b>Gross profit</b>	€m	<b>1.7</b>	<b>1.8</b>	<b>2.1</b>	<b>2.3</b>	<b>3.8</b>	<b>7.5</b>	<b>14.6</b>	<b>21.0</b>	
gross margin	%	68%	72%	80%	72%	73%	74%	75%	75%	
Personnel costs	€m	(4.0)	(4.3)	(3.3)	(4.5)	(7.0)	(8.1)	(9.3)	(10.6)	
% sales	%	157%	171%	126%	143%	135%	79%	47%	38%	
growth	%		7%	(22%)	35%	56%	15%	15%	15%	
Other costs	€m	(7.3)	(3.9)	(4.0)	(5.5)	(2.0)	(2.3)	(2.6)	(3.0)	
% sales	%	290%	156%	153%	175%	39%	23%	14%	11%	
growth	%		(47%)	5%	36%	(64%)	15%	15%	15%	
D&A expenses	€m	(0.8)	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
% sales	%	31%	15%	13%	3%	2%	1%	1%	0%	
growth	%		(53%)	(8%)	(69%)	5%	4%	3%	3%	
<b>Total costs &amp; operating expenses</b>	€m	<b>(12.1)</b>	<b>(8.5)</b>	<b>(7.7)</b>	<b>(10.1)</b>	<b>(9.1)</b>	<b>(10.5)</b>	<b>(12.0)</b>	<b>(13.8)</b>	
<b>EBITDA</b>	€m	<b>(9.6)</b>	<b>(6.3)</b>	<b>(5.3)</b>	<b>(7.7)</b>	<b>(5.2)</b>	<b>(2.8)</b>	<b>2.7</b>	<b>7.3</b>	
margin	%	(379%)	(255%)	(198%)	(246%)	(100%)	(28%)	14%	26%	
growth	%		(34%)	(17%)	47%	(33%)	(46%)	(197%)	166%	
<b>EBIT</b>	€m	<b>(10.4)</b>	<b>(6.7)</b>	<b>(5.6)</b>	<b>(7.8)</b>	<b>(5.3)</b>	<b>(2.9)</b>	<b>2.6</b>	<b>7.2</b>	
margin	%	(410%)	(270%)	(211%)	(250%)	(103%)	(29%)	13%	26%	
growth	%		(35%)	(16%)	40%	(32%)	(45%)	(189%)	174%	
Interest expenses		0.5	(0.0)	(1.7)	(1.2)	(1.5)	(1.5)	(1.3)	(1.3)	
<b>Profit/Loss before tax</b>	€m	<b>(9.8)</b>	<b>(6.7)</b>	<b>(7.3)</b>	<b>(9.0)</b>	<b>(6.8)</b>	<b>(4.4)</b>	<b>1.3</b>	<b>5.9</b>	
% sales	%	(389%)	(271%)	(277%)	(288%)	(131%)	(43%)	7%	21%	
growth	%		(32%)	9%	23%	(25%)	(35%)	(130%)	348%	
Income tax	€m	0.0	0.0	(0.0)	-	-	-	(0.3)	(1.2)	
Tax rate	%	n.a	n.a	n.a	20%	20%	20%	20%	20%	
Minority share	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Net income/loss</b>	€m	<b>(9.8)</b>	<b>(6.7)</b>	<b>(7.3)</b>	<b>(9.0)</b>	<b>(6.8)</b>	<b>(4.4)</b>	<b>1.1</b>	<b>4.7</b>	

EPS calculation									
<b>Earnings per Share (Basic)</b>	€	<b>(1.226)</b>	<b>(0.143)</b>	<b>(0.079)</b>	<b>(0.080)</b>	<b>(0.046)</b>	<b>(0.030)</b>	<b>0.007</b>	<b>0.032</b>
growth	%		(88%)	(45%)	2%	(42%)	(35%)	(124%)	348%
<b>Earnings per Share (Diluted)</b>	€	<b>(1.042)</b>	<b>(0.085)</b>	<b>(0.055)</b>	<b>(0.058)</b>	<b>(0.044)</b>	<b>(0.029)</b>	<b>0.007</b>	<b>0.030</b>
growth	%		(92%)	(35%)	6%	(25%)	(35%)	(124%)	348%
Number of Shares (basic)	m	8.0	47.1	93.2	113.3	146.9	146.9	146.9	146.9
Number of Shares (diluted)	m	9.4	78.8	132.9	154.8	154.8	154.8	154.8	154.8

Source: Company data, goetzpartners Research estimates.

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.

CHART 15: Nexstim balance sheet model

Balance Sheet	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Dec YE (€m)	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
<b>ASSETS</b>								
<b>CURRENT ASSETS</b>	<b>8.2</b>	<b>9.5</b>	<b>10.3</b>	<b>6.3</b>	<b>13.4</b>	<b>9.2</b>	<b>11.4</b>	<b>18.6</b>
Cash and cash equivalents	6.9	8.2	8.5	4.2	10.8	5.6	5.9	11.0
Short-term investments	-	-	-	-	-	-	-	-
Inventories	0.4	0.3	0.4	0.5	0.8	1.7	3.4	5.2
Accounts receivable	0.9	1.1	1.5	1.6	1.8	2.0	2.1	2.4
<b>NON-CURRENT ASSETS</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>
<b>Tangible assets, net</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Goodwill	-	-	-	-	-	-	-	-
<b>Intangible assets, net</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL ASSETS</b>	<b>9.2</b>	<b>10.4</b>	<b>11.0</b>	<b>7.0</b>	<b>14.2</b>	<b>10.0</b>	<b>12.3</b>	<b>19.5</b>
<b>LIABILITIES</b>								
<b>CURRENT LIABILITIES</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>	<b>2.0</b>	<b>2.7</b>	<b>4.5</b>	<b>7.9</b>	<b>11.0</b>
Accounts payable	1.1	0.4	1.0	1.1	1.9	3.7	7.1	10.2
Short-term debt	0.4	1.0	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
<b>NON-CURRENT LIABILITIES</b>	<b>3.2</b>	<b>3.8</b>	<b>3.7</b>	<b>7.6</b>	<b>6.5</b>	<b>5.0</b>	<b>2.8</b>	<b>2.2</b>
Long-term debt	2.7	2.5	3.4	7.3	6.3	4.9	2.8	2.2
Capital loans	0.5	1.3	0.3	0.3	0.2	0.1	-	-
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL LIABILITIES</b>	<b>5.7</b>	<b>5.9</b>	<b>5.5</b>	<b>9.6</b>	<b>9.2</b>	<b>9.6</b>	<b>10.8</b>	<b>13.2</b>
<b>EQUITY</b>								
<b>SHAREHOLDERS EQUITY</b>	<b>3.5</b>	<b>4.5</b>	<b>5.5</b>	<b>(2.6)</b>	<b>4.9</b>	<b>0.5</b>	<b>1.5</b>	<b>6.2</b>
Share capital	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Reserves	23.6	31.7	38.5	39.5	53.8	53.8	53.8	53.8
Retained earnings & other	(20.1)	(27.3)	(33.1)	(42.1)	(48.9)	(53.4)	(52.3)	(47.6)
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>9.2</b>	<b>10.4</b>	<b>11.0</b>	<b>7.0</b>	<b>14.2</b>	<b>10.0</b>	<b>12.3</b>	<b>19.5</b>
<b>GEARING</b>								
<b>Gross debt</b>	<b>3.1</b>	<b>3.5</b>	<b>3.5</b>	<b>7.4</b>	<b>6.4</b>	<b>5.0</b>	<b>2.9</b>	<b>2.3</b>
Total ST debt	0.4	1.0	0.1	0.1	0.1	0.1	0.1	0.1
Total LT debt	2.7	2.5	3.4	7.3	6.3	4.9	2.8	2.2
<b>Cash and cash equivalents plus investments</b>	<b>6.9</b>	<b>8.2</b>	<b>8.5</b>	<b>4.2</b>	<b>10.8</b>	<b>5.6</b>	<b>5.9</b>	<b>11.0</b>
<b>Net debt/(cash)</b>	<b>(3.8)</b>	<b>(4.6)</b>	<b>(4.9)</b>	<b>3.2</b>	<b>(4.3)</b>	<b>(0.5)</b>	<b>(2.9)</b>	<b>(8.7)</b>

Source: Company data, goetzpartners Research estimates.

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.

**CHART 16: Nexstim cash flow model**

Cash Flow Statement	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Dec YE (€m)	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
<b>OPERATING CASH FLOW</b>								
Net income/loss	(9.8)	(6.7)	(7.3)	(9.0)	(6.8)	(4.4)	1.1	4.7
Depreciation	0.2	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Amortisation	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other	(0.4)	(0.4)	3.3	-	-	-	-	-
<b>Changes in working capital</b>	<b>0.3</b>	<b>(0.4)</b>	<b>(1.6)</b>	<b>(0.0)</b>	<b>0.2</b>	<b>0.8</b>	<b>1.4</b>	<b>1.1</b>
Changes in inventories				(0.1)	(0.4)	(0.9)	(1.7)	(1.8)
Changes in receivables				(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Changes in payables				0.2	0.7	1.8	3.4	3.1
<b>Changes in other operating assets/liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(9.6)</b>	<b>(7.2)</b>	<b>(5.3)</b>	<b>(9.0)</b>	<b>(6.5)</b>	<b>(3.6)</b>	<b>2.6</b>	<b>5.9</b>
<b>CASH FLOW FROM INVESTING</b>								
Payments for short-term investments	-	-	-	-	-	-	-	-
Proceeds from short-term investments	-	-	-	-	-	-	-	-
Investments in PP&E	(0.0)	-	-	-	-	-	-	-
Investments in intangibles	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Net cash provided by investing activities</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
<b>CASH FLOW FROM FINANCING</b>								
Equity share issue	5.3	7.7	6.8	1.0	14.3	-	-	-
Proceeds from borrowings	0.1	1.1	-	3.9	-	-	-	-
Repayment of borrowings	-	-	(0.9)	-	(1.1)	(1.5)	(2.2)	(0.6)
Dividends	-	-	-	-	-	-	-	-
Other	(0.0)	0.0	(0.1)	-	-	-	-	-
<b>Net cash provided by financing activities</b>	<b>5.4</b>	<b>8.8</b>	<b>5.7</b>	<b>4.9</b>	<b>13.2</b>	<b>(1.5)</b>	<b>(2.2)</b>	<b>(0.6)</b>
Net change in cash and cash equivalents	(4.6)	1.3	0.3	(4.3)	6.6	(5.2)	0.3	5.2
Effect of exchange rate on cash and cash equivalents	-	-	-	-	-	-	-	-
Cash and cash equivalents, beginning of period	11.5	6.9	8.2	8.5	4.2	10.8	5.6	5.9
<b>Cash and cash equivalents, end of period</b>	<b>6.9</b>	<b>8.2</b>	<b>8.5</b>	<b>4.2</b>	<b>10.8</b>	<b>5.6</b>	<b>5.9</b>	<b>11.0</b>
<b>Cash burn/(generation)</b>	<b>(10.0)</b>	<b>(7.5)</b>	<b>(5.4)</b>	<b>(9.1)</b>	<b>(6.6)</b>	<b>(3.7)</b>	<b>2.5</b>	<b>5.8</b>

Source: Company data, goetzpartners Research estimates.

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.

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## 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.

## 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, Martin Piehlmeier, 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

- Medical Technology (MT)
- Nexstim OYJ (NXTMH-FI)

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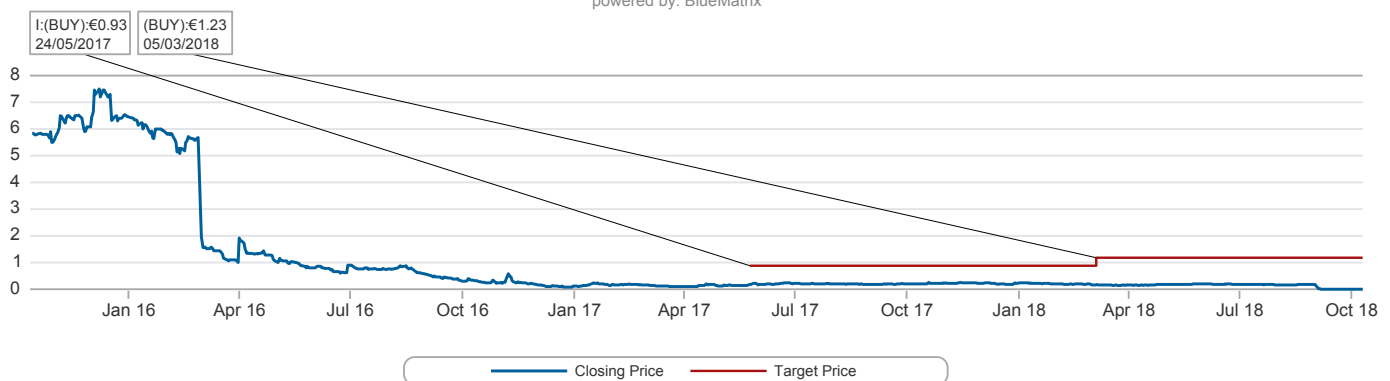
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### NXTMH-FI

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