REDEYE

Equity Research

Update

Date (15 12 2021)

Nexstim

Sector: Medtech

Doing the Right Things

Picking up momentum despite the pandemic

Since our initiation of coverage, Nexstim has continued to deliver solid and higher-than-expected growth in its key segments of diagnostics and therapeutics. While we see most potential and growth opportunities in Nexstim's depression therapy segment, we are pleasantly surprised by the strong development in the diagnostics segment of pre-surgical mapping, where Nexstim has a strong position and is supported by leaders in the field.

Increased confidence in the strategic direction

Since the formation of the new management team in 2020, Nexstim has staked out a few strategic goals, mainly focused on profitable growth. We believe management has delivered on its goals overall so far, including a trend towards profitability, such as improving the EBIT margin from -200% to estimated -40% in two years, and we think that, if anything, the company's troubled past has made Nexstim more vigilant and eager to turn its finances around.

Upside of 40 percent

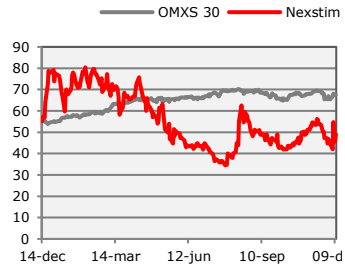
In light of all this, we take a more positive stance on Nexstim and increase our valuation to SEK 65 (60) – representing upside of roughly 40 percent. We slightly lift our near-term growth expectations for the key diagnostics and depression therapy segments (NBS and NBT), assigning a CAGR of 27% in the upcoming five years, as well as our estimation of profitability. For now, we still see the accelerated depression therapy as an option for further upside, a potential therapy at the research stage with increasing interest and clinical data but not yet included in our valuation.

Key Financials (EURm)	2019	2020	2021E	2022E	2023E
Revenues	3	4	6	8	10
Revenue growth	25%	23%	53%	21%	28%
EBITDA	-6	-3	-2	-2	0
EBIT	-7	-3	-2	-2	-1
EBIT Margin (%)	-197%	-81%	-37%	-26%	-6%
Net Income	-7	-4	-2	-2	-1

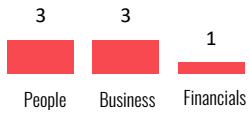
FAIR VALUE RANGE

BEAR	BASE	BULL
20	65	150

TICKER VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	NXTMS
Market	First North
Share Price (SEK)	46
Market Cap (SEKm)	313
Free Float (%)	90
Avg. daily volume ('000)	110

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Investment Thesis

TMS Diagnostics market leader with KOL support

Nexstim's NBS diagnostics system benefits from the support of key opinion leaders and leading university hospitals for the use of navigated TMS (transcranial magnetic stimulation) in pre-surgical mapping of brain tumors. More than 100 academic publications regarding the system have been published. We view the NBS system as a potential driver of future growth in the therapy area thanks to the navigation platform's validation by leading neurosurgeons. It is also the source of durable and growing income, which came as a surprise to us in H1 2021. We also expect increased use in other areas following Nexstim's launch of an NBS system with a therapy software update option.

Significant potential in high-growth treatment market

TMS is a non-invasive and well-tolerated method to treat depression that has gained the approval of payers and regulators in the US and the EU in recent years. While the market is still relatively small (EUR 120m in 2021, according to our estimates), the case for broadening the application into other psychiatric disorders and settings is growing. The total market potential exceeds EUR 11bn, we estimate. We see high overall growth in the segment – 15 percent per year on average between 2022 and 2025 – thanks to these factors.

Precision positions 'navigated' TMS well

Nexstim's therapy system stands out for its precision compared to established TMS treatments. It enables clinicians to target hotspots accurately, increasing treatment reliability. Data from the company's patient registry look promising, with remission or response rates higher than or similar to comparable devices (51 percent remission, 76 percent response). Accordingly, we view Nexstim as well positioned for the future compared with 'catch-all' systems like that of its competitor Brainsway, particularly once the underlying mechanisms are more widely understood and fine-tuning can optimize treatment to an even greater degree.

Attractive model underpins long-term outlook

Nexstim's FDA- and CE-approved NBT therapy system has an installed base of some 44 systems, mainly in the US. In view of its attractive leasing and reimbursement model, we see good potential for growth in the coming years through expansion of installed systems, increased use, and recurring high-margin treatment revenues. We expect Nexstim to take ten percent of the overall TMS market (14.5 percent in the US and six percent in EU15), with annual recurring revenues of EUR 100,000 per system, translating into peak sales of EUR 43m for this segment.

Catalysts

H2 report

Nexstim is a commercial stage company, and we see its H2 report as the key catalyst for the stock in the coming months. Following the strong H1 report, we want to see ongoing strong growth in Nexstim's core segments with a continued path towards profitability, representing a further break from the unprofitable market as a whole. We forecast revenues of EUR 6.3m (48% y/y growth) and EBIT of EUR -2.35m (EUR -3.35m for full-year 2020).

Time Horizon: Three to six months

Chronic pain pilot study and further studies in severe depression

One way for Nexstim to find a niche to dominate is for it to focus more on a newer accelerated treatment protocol, aiTBS, where the benefits of navigation and increased reliability may be more crucial. It has started two investigator-initiated pilot studies in severe depression and chronic pain and has seen good early indications from the study in severe depression. Good outcomes in chronic pain, and especially replicated or improved results in larger studies, could position Nexstim well in new markets that are currently unexplored.

Time Horizon: One to six months

Strategic partnerships

Like those of its larger competitors, Nexstim's therapy business is not yet profitable. This is mainly due to the high sales costs in attracting each new clinic. Nexstim plans to forge strategic partnerships with clinic chains and hospitals. Along with more usage per system, this could create sufficient scale for TMS therapy to become profitable in the future. A partnership with a supplier of other pre-surgical equipment could also bolster the NBS diagnostics system's value-added further.

Time Horizon: Three to 12 months

Counter-Thesis

Competition creates need for a niche

While TMS is a relatively new field, well-established competitors hold clearance for more psychiatry indications. Accordingly, Nexstim needs to differentiate its system sufficiently to compete with the more established competitors, such as Neuronetics and Brainsway, as well as other challengers. We see its main target as depression clinics and specialized hospitals, for which a high-quality niche product is still attractive.

Unprofitable market

Despite sales that are 10-20x Nexstim's, market leaders Neuronetics and Brainsway remain unprofitable, with their strong focus on market expansion and R&D and the overall new and immature market for TMS therapy contributing to these difficulties. While we believe that Nexstim has laid a credible path towards profitability by focusing on recurring revenues and establishing itself at the premium end of the spectrum, the market conditions add uncertainty to the case.

Stock Performance

Nexstim's stock performance has been volatile to say the least. After seeing a strong 2020, the stock has since witnessed a negative development, partly, in our view, because of the reversed split that was finalized in May – a neutral event for us – but it led to reduced liquidity and speculation in the stock. A clear and positive trigger was the H1 report in August, with its better-than-expected results. Since then, the stock has fallen back again and has underperformed the Swedish stock index and Redeye's Swedish Medtech Index[1] over the last year.

[1] The index consists of all medtech companies listed in Sweden, equally weighed, with 104 constituents.

Reviewing Our Case

We make some adjustments to our valuation of Nexstim due to strong sales momentum and our increased confidence in the management team and its strategic direction.

H1 report

This summer, Nexstim released a solid H1 report that exceeded our expectations.

- Net sales in H1 increased by 83 percent to EUR 3m compared with the same period last year (1.6).
- Net sales from the NBS diagnostics system increased by 96 percent to EUR 1.8m (0.9)
- Net sales from the NBT therapy system increased by 67 percent to EUR 1.2m (0.7)
- The operating loss decreased to EUR -0.9m (-1.8)
- Results were EUR -0.9m (-1.2)

Some of this growth stemmed from base effects versus the weaker H1 2020, but we were particularly surprised by the strong momentum in Nexstim's Diagnostics segment (NBS), a market where the company's solid reputation continues to deliver. It sold and delivered seven systems during the period. Customers for NBS tend to be university hospitals with long budget periods, and the NBS system is a capital good with a long product cycle, which makes it less dependent on cyclical and Covid-19-related factors.

Sales in the therapy (NBT) segment were stable but still affected by the pandemic, as the main revenue here stems from reimbursements per treatment session. Still, Nexstim sold five new units in this segment.

Increased confidence in management and the strategic direction

Since the formation of the new management team in 2020, Nexstim has staked out a few strategic goals, mainly focused on profitable growth. In our initiation report, our initial thoughts on the new management team (CEO Mikko Karvinen and CFO Joonas Juokslahti) were positive, although slightly reserved due to the previous management's troubled history with rights issues, high operating expenses, and the failure within stroke rehabilitation. Since then, we believe that management has delivered on its overall goals so far, including a trend towards profitability, and our impression is that, if anything, the company's troubled past has made management hyper-aware and determined to turn the finances around.

Stronger outlook – we see upside of 50 percent

Nexstim has exceeded our expectations since our initiation report, and we now revise our estimates to reflect our more positive view on the company and its future. We increase our near-term growth expectations for Nexstim's key segments diagnostics and depression therapy (NBS and NBT) with a CAGR of 27% the upcoming five years, while we also think that Nexstim has a more credible path towards profitability. For now, we still consider the accelerated depression therapy only as an option for further upside – representing a therapy type with increasing interest and clinical data.

TMS – The Evidence is Mounting

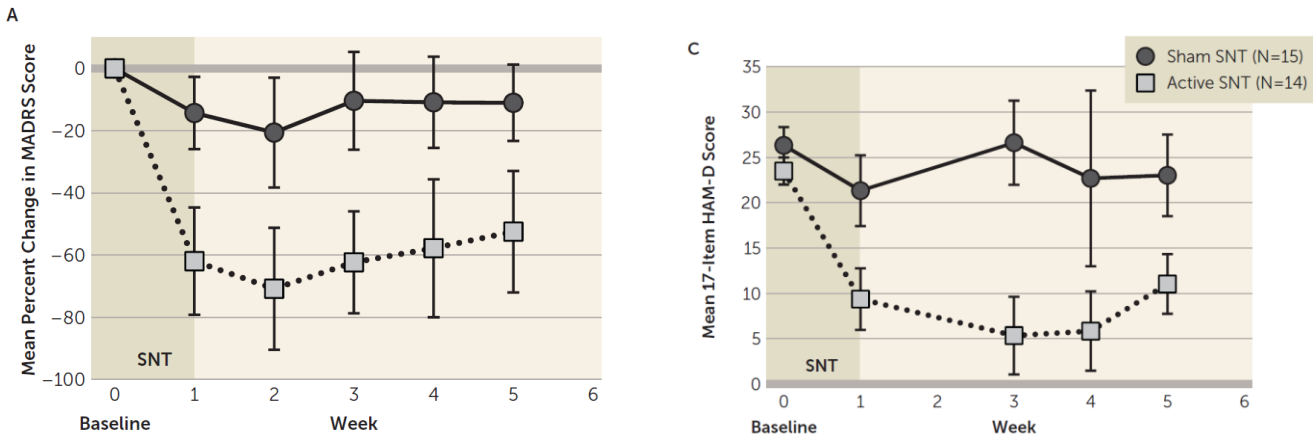
In our initiation report, we noted extensive research on the use of transcranial magnetic stimulation (TMS) and its potential use in many possible indications, given its long history and as there are several providers today with FDA clearance. Since then, a few additional studies and reviews have been conducted that we believe should be interesting for investors in TMS companies.

An indication of the efficacy of accelerated TMS – Cole et al (2021)

A few weeks ago, a new study was published on the antidepressant effect of accelerated TMS by a research team from Stanford. The study, a placebo-controlled and randomized trial (n=29), followed participants with treatment-resistant depression with an ongoing moderate to severe episode, in a five-day daily and intense TMS treatment, followed by a four-week follow-up period. The Stanford Neuromodulation Therapy protocol (SNT) is characterized by frequent daily treatment sessions (ten a day) of higher-than-usual doses of TMS (18,000 pulses daily) with a proprietary targeting method.

The results, as measured on the MADRS scale, indicated a mean percent reduction of 52.5 percent compared to 11 percent in the placebo group. The study was originally planned to enroll 60 patients, but it was ended after the interim readout due to the large effect size. As argued by the authors, the study enrolled more severe patients than other randomized TMS trials, as also indicated by the lower-than-average placebo effect, which we consider promising given the strong effect.

Stanford Neuromodulation Therapy – primary endpoint (left), secondary endpoint (right)



Source: Cole Et al (2021)

Overall, we are positive on the results and the implications for Nexstim's accelerated treatment, although we believe that they need to be replicated in a larger study with a longer follow-up period. Given the intensity of the SNT protocol, a sustained effect for at least two months is probably needed, in our view, to warrant the time and resources, also given the established treatments today such as ECT (electroconvulsive therapy) and pharmaceuticals. However, as stated by the SNT team, accelerated TMS could be used as an acute treatment with "standard" TMS as a maintenance treatment. As accelerated TMS is still at the research stage, it is not yet clear how it will fit into the current treatment algorithm.

Nexstim pilot study in severe depression – Kuopio University Hospital

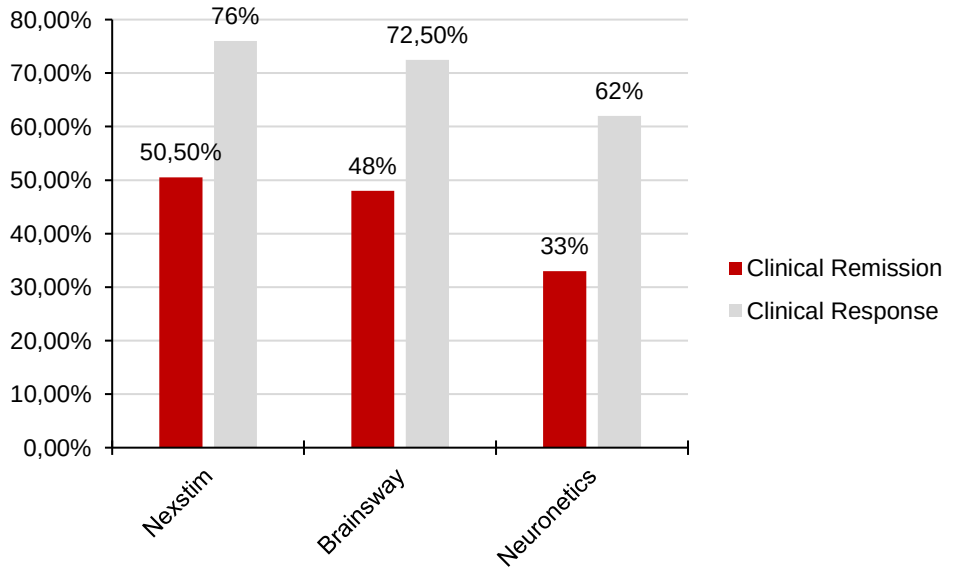
In March 2021, Nexstim announced the outcome from its first open-label pilot study using an accelerated and condensed treatment protocol with the company's NBT system for patients with severe depression. Instead of the regular once-daily treatments for four to six weeks, patients were treated several times a day for a week. Ten patients were enrolled in the pilot study and seven were analyzed in the follow-up. The initial results showed an improvement in the Hamilton Depression Rating Scales (mean decrease of 37 percent). In the seven patients who completed their follow-up visit, two (29 percent) were in clinical remission and three (43 percent) demonstrated a clinical response.

Overall, while early, we believe the results indicate an effect in this difficult patient population and motivate further studies. It is our impression, however, that the protocol (intensity of sessions and power) and targeted patient population are a work-in-progress, and we expect Nexstim to optimize these parameters in one or more smaller studies before moving on to a more expensive multi-center trial. As indicated by Nexstim, the intensity and duration were lower for safety/ethical reasons; upcoming trials will be conducted in more optimal settings.

Nexstim's patient registry

As Nexstim's NBT system was approved based on a predicative device, its patient registry is today the key source for data on the system's effectiveness. While the evidence level is lower owing to the non-experimental nature, we believe it can still add further to our understanding of the treatment effect. So far, results (n=208) indicate an effect better than or at least on par with the most established competitors – Brainsway and Neuronetics[2] – which, in combination with its advanced and user-friendly navigation features, justifies Nexstim's position as a premium brand. We believe the patient registry can be a strong selling point if the company continues to deliver strong data in more patients.

Comparative treatment effect – patient registries



Source: Nexstim; Brainsway; Neuronetics: Redeye Research

[2] Brainway patient registry (n>1,000) and Neuronetics (n>10,000). Although some variation in methodology, all are based/partly based on the PHQ9 scale.

Evidence-based guidelines on therapeutic use of TMS 2014-2018)– Lefaucheur et al (2020)

In 2020, Lefaucheur et al followed up their influential evidence-based guidelines on TMS from 2014 that recommented rTMS as a treatment in several indications, including major depression disorder (MDD) and neuropathic pain. The updated version included several new indications, such as a probable effect of rTMS in fibromyalgia, Parkinson's disease, certain motor recovery from stroke, and PTSD. As can be seen in the table below, research on rTMS as a therapy is rapidly increasing, and there is considerable potential for label expansion into new indications for Nexstim down the road, although this is not currently part of the company's core strategy.

We think that investors should be aware of the vast extent of independent research into TMS, and we see a strong rationale for a rapidly increasing market size in the upcoming years. Nexstim does not necessarily need to conduct expensive studies on its own to take part in this growing market.

Summary of recommendations of rTMS efficacy

Neuropathic pain	Definite analgesic efficacy of HF-rTMS of M1 contralateral to pain side (Level A), while LF-rTMS is probably ineffective (Level B)
CRPS type I	Possible analgesic efficacy of HF-rTMS of M1 contralateral to pain side (Level C)
Fibromyalgia	**Probable efficacy of HF-rTMS of the left M1 in improving quality of life of patients with fibromyalgia (Level B)**
Fibromyalgia	**Probable analgesic efficacy of HF-rTMS of the left DLPFC in patients with fibromyalgia (Level B)**
Parkinson's disease	**Probable efficacy of HF-rTMS of bilateral M1 regions in motor symptoms of PD patients (Level B)**
Parkinson's disease	Probable antidepressant efficacy of HF-rTMS of the left DLPFC in PD patients (Level B)
Motor stroke	**Definite efficacy of LF-rTMS of contralesional M1 in hand motor recovery at the postacute stage (Level A)**
Motor stroke	**Probable efficacy of HF-rTMS of ipsilesional M1 in hand motor recovery at the postacute stage (Level B)**
Motor stroke	**Possible efficacy of LF-rTMS of contralesional M1 in hand motor recovery at the chronic stage (Level C)**
Post-stroke aphasia	**Probable efficacy of LF-rTMS of right IFG in nonfluent aphasia recovery at the chronic stage (Level B)**
Hemispatial neglect	Possible efficacy of cTBS of the contralesional left parietal in visuospatial hemineglect recovery at the post-acute stage of stroke (Level C)
Multiple sclerosis	**Probable efficacy of iTBS of the leg area of M1 contralateral to the most affected limb (or both M1) in lower limb spasticity (Level B)**
Epilepsy	Possible antiepileptic efficacy of LF-rTMS of the epileptic focus (Level C)
Alzheimer's disease	**Possible efficacy of multisite rTMS-COG to improve cognitive function, memory and language level of AD patients, especially at a mild/early stage of the disease (Level C)**
Tinnitus	Possible efficacy of LF rTMS of the auditory cortex of the left hemisphere (or contralateral to the affected ear) in chronic tinnitus (Level C)
Depression	Definite antidepressant efficacy of HF-rTMS of the left DLPFC in major depression using a figure-of-8 coil or a H1-coil (Level A)
Depression	**Definite antidepressant efficacy of deep HF-rTMS over the left DLPFC in major depression (Level A)**
Depression	Probable antidepressant efficacy of LF-rTMS of the right DLPFC in major depression (Level B)
Depression	**Probable antidepressant efficacy of bilateral right-sided LF-rTMS and left-sided HF-rTMS of the DLPFC in major depression (Level B)**
Depression	**Probable antidepressant efficacy of bilateral right-sided cTBS and left-sided iTBS of the DLPFC in major unipolar depression (Level B), while unilateral right-sided cTBS is possibly ineffective (Level C)**
Depression	**Possibly no differential antidepressant efficacy between: right LF-rTMS vs. left HF-rTMS, bilateral vs. unilateral rTMS of the DLPFC, and rTMS performed alone vs. combined with antidepressants (Level C)**
Post-traumatic stress disorder	**Probable efficacy of HF-rTMS of the right DLPFC in PTSD (Level B)**
Obsessive compulsive disorder	**Possible efficacy of LF-rTMS of the right DLPFC in OCD (Level C)**
Schizophrenia:auditory hallucinations	Possible efficacy of LF-rTMS of the left TPC in auditory hallucinations in schizophrenia (Level C)
Schizophrenia: negative symptoms	**Possible efficacy of HF-rTMS of the left DLPFC on negative symptoms of schizophrenia (Level C)**
Addiction and craving	Possible efficacy of HF-rTMS of the left DLPFC on cigarette craving and consumption (Level C)

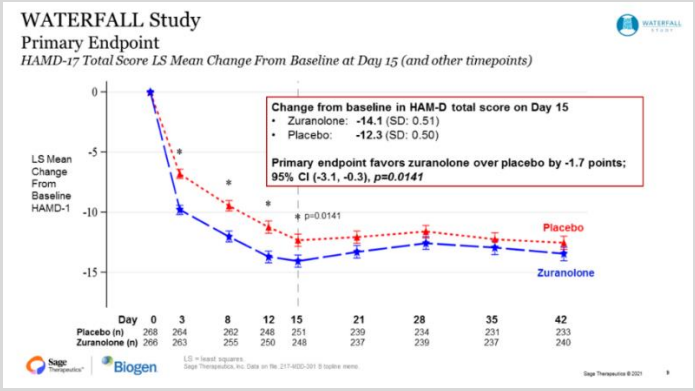
In all other conditions, there is "no recommendation", which means the absence of sufficient data to make a recommendation, but not the evidence for an absence of effect. Recommendations that change from our previous work (Lefaucheur et al., 2014) are shown in bold.

Source: Lefaucheur et al 2020

Other Major Events in the MDD Pipeline

Sage Therapeutics/Biogen – Zuranolone Phase III Readout

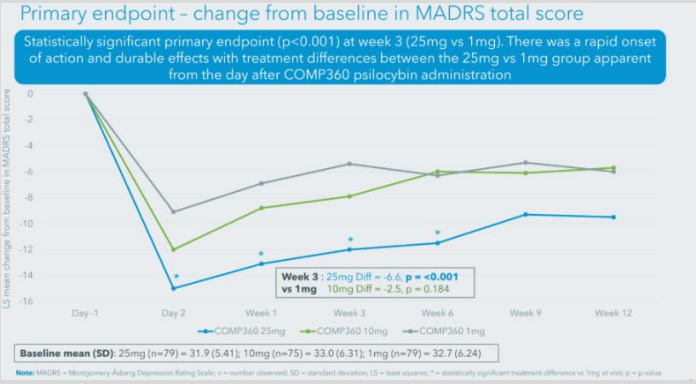
This summer, Sage Therapeutics presented top-line data from a pivotal phase III study of Zuranolone as an acute treatment in MDD. The study showed a modest but statistically significant treatment effect from day three to day 15 – a comparatively short time frame, in our view, given the relatively modest treatment effect. Sage Therapeutics traded down on the data, and the company is currently awaiting further data from its Coral study that puts Zuranolone against standard of care (sertraline). We do not see Zuranolone as a direct competitor to Nexstim and TMS, but we take note of the relatively modest and short effect in relation to TMS and accelerated treatment (the TMS approach to acute MDD treatment).



Source: Sage Therapeutics

Compass COMP360 psilocybin therapy for treatment-resistant depression

COMPASS Pathways sponsored a randomized, controlled, and double-blinded trial (n=233) using the investigational drug COMP360 psilocybin, a hallucinogenic mushroom used in combination with psychological support. The study showed that the higher dose (25mg) demonstrated a significantly higher antidepressant effect (MADRS scale) than in patients receiving 1mg ($p<0.001$) at three weeks. The lower active dose did not show a statistically differentiated effect from the placebo group. The effect was not statistically different from placebo after 12 weeks, and the number of mild to moderate side effects was relatively high (75 percent), which led to the stock falling following the announcement of the top-line data. Again, we think that TMS stands up well in comparison, also in terms of adverse effects in relation to treatment effect.



Source: Compass Pathways Presentation

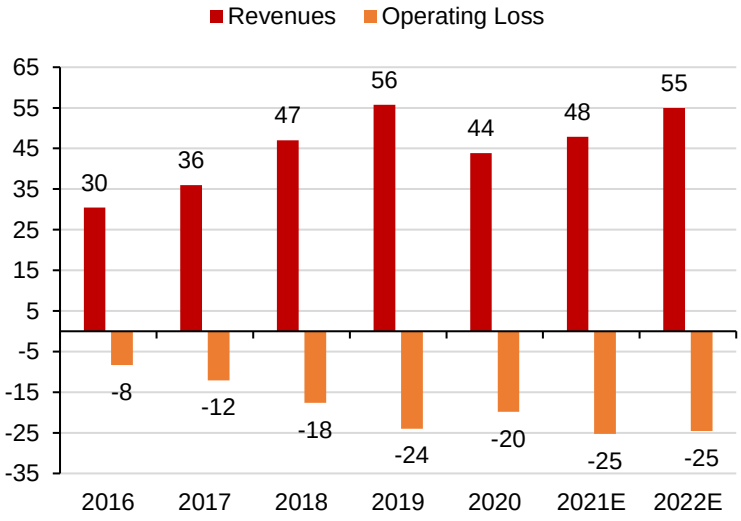
An Update on TMS Competition

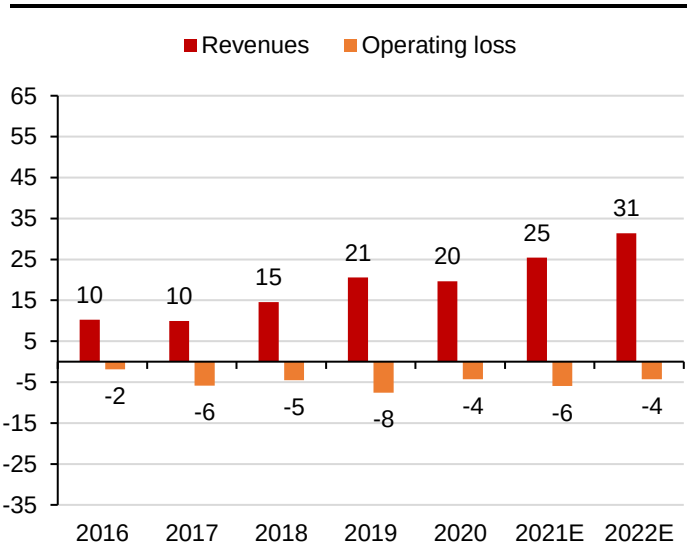
In our initiation report, we saw two segments of competitors to Nexstim: Neuronetics and Brainsway (the "market leaders"); and the "market challengers" – smaller companies with a stronger focus on technology.

Neuronetics has been strongly impacted by the Covid-19 pandemic and has not regained its pre-pandemic sales levels yet. The share is down some 63 percent YTD. Brainsway has fared better, with a strong turnaround in 2021. The stock is up four percent YTD. Neither company is profitable, and according to FactSet consensus, neither is expected to present positive operating results until at least 2024, despite their size (10-20x that of Nexstim) and potential for scale economies. Expensive sales organizations, modest revenues per system, an ongoing focus on R&D (~20 percent of revenues), and leading the way into new indications contribute to this. This suggests a growing yet still immature market for TMS treatments.

We favor Nexstim's more careful approach to R&D and hope the company will avoid the mistakes of the two market leaders in expanding the organization and R&D too rapidly. We also believe that Nexstim's second and more established segment, NBS Diagnostics, differentiates it from other TMS companies and de-risks the case, especially in the short term.

Neuronetics (left) and Brainsway (right), EURm





Source: FactSet

Amongst the market challengers, we note Magnus Medical, a new, private, pre-revenue company that licenses the rights to Stanford Neuromodulation Therapy (SNT) (i.e., accelerated treatment). The company has received an FDA breakthrough device designation, a process that grants it closer access to the agency, and it has also recently finalized a series of financing rounds with investors including Jazz Ventures. We see Magnus Medical as a competitor to Nexstim, especially in the emerging field of accelerated treatment, but we currently do not know much about its device, the regulatory path, or time to market. It is possible that it will require further and larger multi-center trials before an accelerated protocol

can be approved, and we do not necessarily see it as a problem at this stage that more companies are paving the way in this new indication.

Nexstim's Business Model

Nexstim's sales models differs between the NBS and NBT systems. The NBS system, used for surgical clinics and hospitals, today mostly consists of capital sales. Beyond that, there are also after-sales, such as software upgrades, recalibration, and consumables. We consider these a small share of the total revenues for the NBS system.

In October 2021, Nexstim launched a combined system (NBS5+) in the US: an NBS diagnostics system that includes NBT (navigated brain therapy) as a software option, combining both of Nexstim's FDA-approved systems in one.

Nexstim states that it could increase the utilization of the system, such as for different departments at a research hospitals (rather than mainly specific TMS clinics in the US today). We view this as a smart opportunity to increase the recurring revenues per system at a low cost, while the more research-oriented new users of the therapy system could produce interesting data and test new treatment modalities.

The sales structure of the NBT system is more complicated as Nexstim has three different models: all-inclusive pay-per-use; pay-per-month with no limit on usage; and capital sales with consumable costs. Today, most of Nexstim's revenues in the therapy segment are recurring revenues, such as the pay-per-use , and income from sales of head trackers, coils and service agreements. Looking at the whole TMS market, we believe that recurring revenues will become increasingly important, and given the very high margins, important for the company in a mature stage.

Financial Forecasts

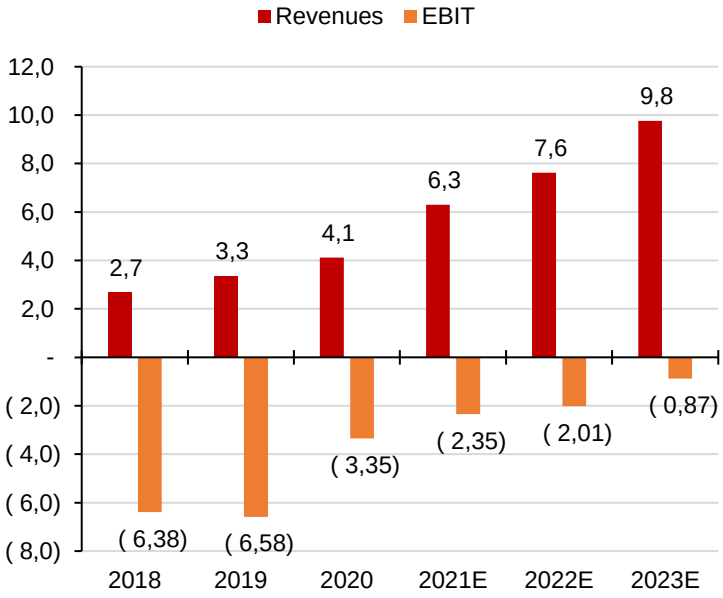
In the first six months of 2021, Nexstim recorded sales of EUR 3m – an increase of 83 percent y/y. Nexstim is historically stronger in H2, and the company has also announced the delivery of an order of NBS systems for research purposes worth EUR 0.9m. Still, we expect the H2 2021 report to be roughly on par with H1; the H1 2021 report was unusually strong owing to deliveries of the backlog from the previous year.

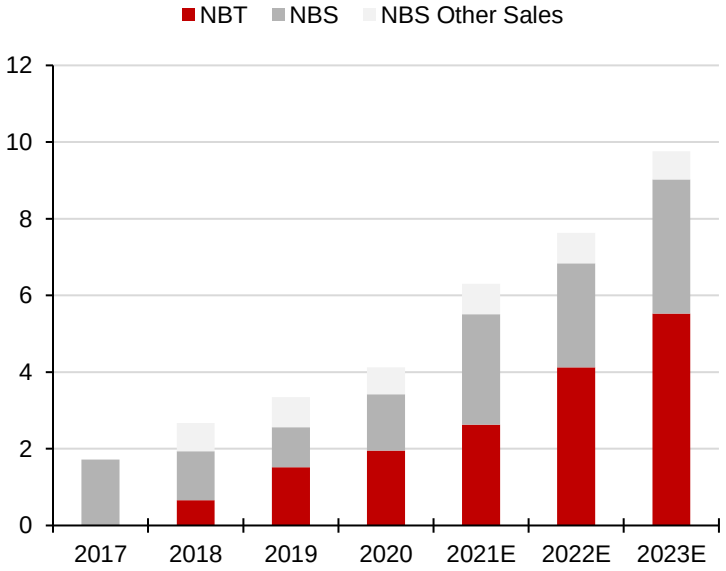
Looking through the Q3 update, we count two delivered NBS systems and a backlog of six systems. After the update, Nexstim announced at least four more NBS system sales and one system update. If we take a conservative stance and exclude Q4 orders and assume that half of the backlog orders will be delivered in H2, we still estimate NBS sales of EUR 2m for H2 alone – indicating y/y system sales of 95 percent from 2020 to 2021

NBT System

In Q3, Nexstim announced that 44 systems were installed, including both NBT systems and NBS systems with NBT software. We estimate average annual revenues per NBT system of EUR 78,000[3], although lower for the combined systems since we expect this usage to be lower initially in the hospital setting than in TMS clinics

Our forecasts (EURm)

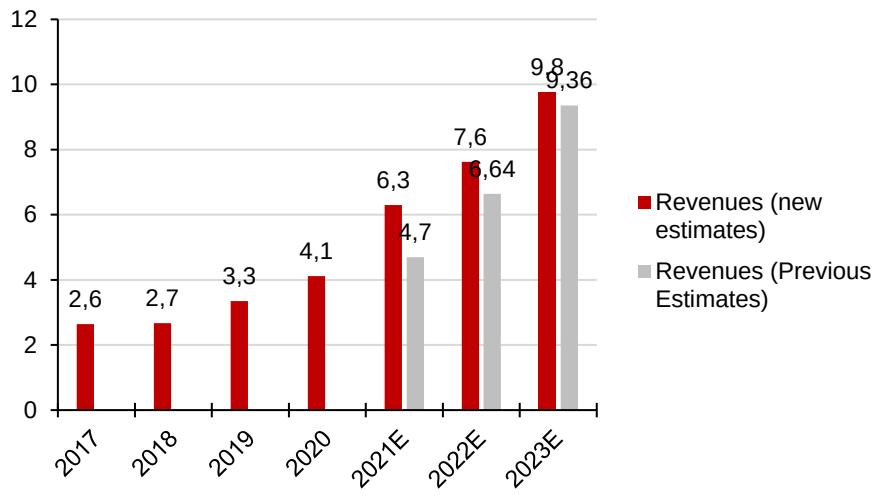




Source: Nexstim; Redeye Research

[3] In other words, systems installed for 12 months. 31 systems were installed and used by the end of H2 2020 and 33 by the end of H1 2021.

Compared to previous estimates (EURm)

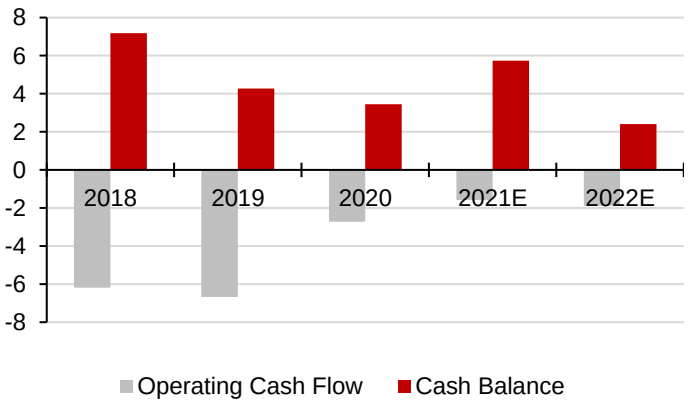


Source: Redeye Research; Nexstim

Funding

In H1, Nexstim finalized a rights issue of EUR 6.4m. 219 million shares were subscribed for at SEK 0.31 (the previous day's closing price was SEK 0.67), with 95 percent from subscription rights and the remaining five percent from secondary subscriptions by those with subscription rights. In total, share subscriptions amounted to 178 percent of the offered shares. We were pleased to see Nexstim delivering on its funding objective – key to financing the company's operations and delivering on its strategic objectives – although we in retrospect think that the subscription price could have been higher. We estimate that Nexstim will need additional funding by the end of 2022. In the best scenario, this could be the last raise before the company turns profitable. However, if Nexstim is aiming to be the first company to receive approval for an accelerated treatment in the US, it would need to conduct a larger multi-center trial, and we estimate that Nexstim probably then need additional funds beyond a smaller 2022 issue, either through a rights issue or non-dilutive funding.

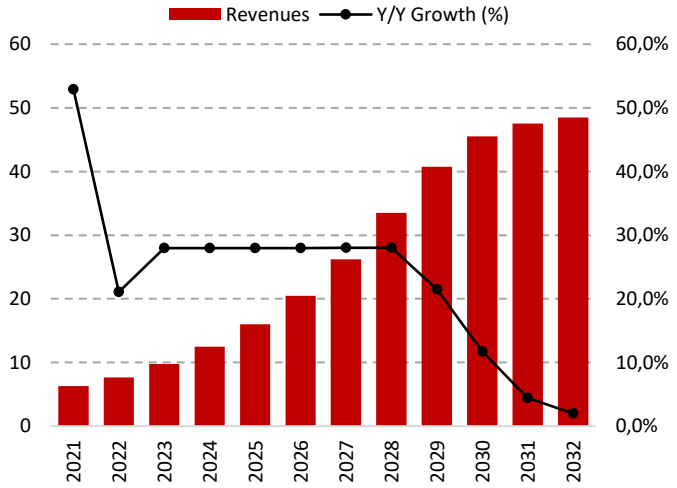
Operating cash flow and cash balance (EURm)

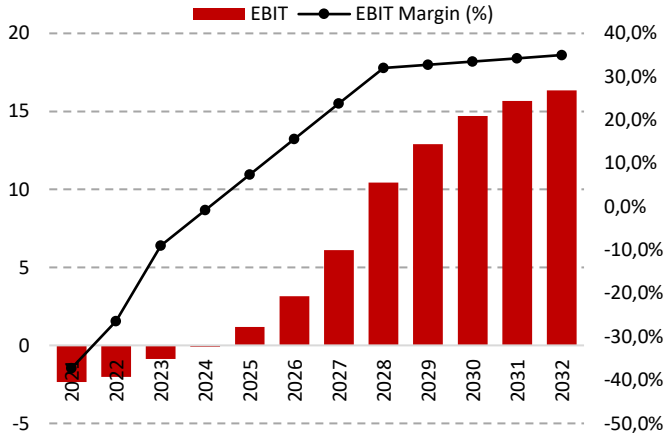


Source: Nexstim; Redeye Research

Valuation

Our base case valuation continues to revolve around today's approved indications: MDD in the EU and the US; chronic pain in the EU; and pre-surgical mapping worldwide. While we see the accelerated treatment protocol as an option for further upside, we do not include it in our Base Case today as we await a clearer regulatory path and a decision from Nexstim whether this will be prioritized in the near term, although we think that the prospects are exciting. We expect the company to break even in 2024; we estimate a CAGR of 20 percent in our DCF estimation period 2021-2032.





Source: Redeye Research

DCF Summary			
Assumptions 2021-2032		**DCF Value**	
CAGR Sales	20%	WACC	14%
Terminal		Value of Firm (EURm)	40,89
Terminal Growth FCF	2%	Net Debt (EURm)	-2.39
Terminal EBIT Margin	37,5%	Value of Equity (EURm)	44
		Estimated Fair Value (SEK)	65

Bear Case: SEK 20

NBT sales do not gain traction and limited growth is seen in the coming years. Our valuation focuses on the more established diagnostics NBS system.

2021-2025 CAGR 15%
2025-2032 CAGR 10%
Terminal EBIT margin: 25%

Base Case: SEK 65

See above

Bull Case: SEK 150

Nexstim delivers strong patient registry data

The company lands a strategic partner for the NBT system

It launches accelerated treatment for severe depression with peak market share of ten percent

2021-2025 CAGR 45%
2025-2032 CAGR: 30%
Terminal EBIT margin: 40%

Peer Valuation

Peer valuation

Company	EV (EUR)	EV/Sales 2021E	EV/Sales 2022E	EV/Sales 2023E	Sales 2021E (EUR)	Sales 20-23E
International Peers						
Neuronetics	49	1,0x	0,9x	0,8x	48	14%
Brainway	66	2,0x	1,6x	1,3x	25,9	27%
Swedish Medtech Peers						
Dignitania	52	8,4x	4,8x	2,7x	6	58%
Bio-Works	73	35,5x	22,2x	13,6x	2,0	95%
Senzime	115	115,3x	26,8x	5,7x	1	180%
Integrum	96	19,5x	12,3x	8,0x	7,0	59%
Mean	**75**	**30,3x**	**11,4x**	**5,4x**	14,8	72%
Nexstim	24	3,8x	3,1x	2,4x	6	33%

Source: Factset *Redeye Research

How similar medtech companies are currently valued adds an additional viewpoint on the company's valuation. We include four Swedish peers at a similar stage in commersialization and two US peers, the “market leaders” within TMS.

The Swedish peers have a 2021E EV/sales multiple range of 8.4-115.3x and the more mature US TMS companies are at 1-2x. Nexstim is currently trading at 3.8x for 2021E, 3.1x for 2022E, and 2.4x for 2023E.

We conclude that Nexstim should be placed somewhere in the middle of the range, as the TMS companies are more mature yet unprofitable, and the Swedish medtech companies have somewhat higher expected sales growth in 2020-2023e.

Our DCF valuation indicates a 2021E EV/sales multiple of 7x, which we consider reasonable and still relatively modest versus peers.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 3

(No Changes)

Business: 3

(No Changes)

Financials: 1

(No Changes)

	2020	2021E	2022E	2023E
INCOME STATEMENT				
Revenues	4	6	8	10
Cost of Revenues	1	1	2	2
Gross Profit	3	5	6	8
Operating Expenses	6	7	7	8
EBITDA	-3	-2	-2	0
Depreciation & Amortization	0	0	0	1
EBIT	-3	-2	-2	-1
Net Financial Items	-1	0	0	0
EBT	-4	-2	-2	-1
Income Tax Expenses	0	0	0	0
Non-Controlling Interest	0	0	0	0
Net Income	-4	-2	-2	-1
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	3	5	2	0
Inventories	0	1	1	1
Accounts Receivable	1	3	4	5
Other Current Assets	0	0	0	0
Total Current Assets	5	10	7	7
Non-current assets				
Property, Plant & Equipment, N	1	1	2	3
Goodwill	0	0	0	0
Intangible Assets	0	1	1	1
Right-of-Use Assets	0	0	0	0
Shares in Associates	0	0	0	0
Other Long-Term Assets	0	0	0	0
Total Non-Current Assets	1	2	3	4
Total Assets	6	12	10	11
Liabilities				
Current liabilities				
Short-Term Debt	1	1	1	1
Short-Term Lease Liabilities	0	0	0	0
Accounts Payable	0	1	1	1
Other Current Liabilities	2	3	3	3
Total Current Liabilities	4	6	6	8
Non-current liabilities				
Long-Term Debt	4	2	3	3
Long-Term Lease Liabilities	0	0	0	0
Other Long-Term Liabilities	0	0	0	0
Total Non-current Liabilities	4	3	3	4
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	-1	2	0	-1
Total Liabilities & Equity	6	11	9	10
CASH FLOW				
NOPAT	-3	-2	-2	-1
Change in Working Capital	0	0	-1	-1
Operating Cash Flow	-3	-2	-2	0
Capital Expenditures	0	-1	-1	-1
Investment in Intangible Assets	0	0	0	0
Investing Cash Flow	0	0	-1	-2
Financing Cash Flow	2	4	0	0
Free Cash Flow	-3	-3	-3	-2

DCF Valuation Metrics	**Sum FCF (EURm)**
Firm Value	40,89
Net Debt	-2,73
Equity Value	43,62
Fair Value per Share	6,52

	2020	2021E	2022E	2023E
CAPITAL STRUCTURE				
Equity Ratio	-0,2	0,1	0,0	-0,1
Debt to equity	-3,4	2,4	-7,8	-3,0
Net Debt	2	-2	1	3
Capital Employed	2	6	4	3
Working Capital Turnove	30,3	23,0	8,3	6,6
GROWTH				
Revenue Growth	23%	53%	21%	28%
Basic EPS Growth	-82%	-88%	-12%	-61%
Adjusted Basic EPS Grow	-82%	-88%	-12%	-61%
PROFITABILITY				
ROE	379%	-4127%	-380%	90%
ROCE	-139%	-41%	-53%	-18%
ROIC	-312%	-147%	-67%	-13%
EBITDA Margin (%)	-72%	-34%	-20%	0%
EBIT Margin (%)	-81%	-37%	-26%	-6%
Net Income Margin (%)	-102%	-37%	-27%	-8%
VALUATION				
Basic EPS	0,0	0,0	0,0	0,0
Adjusted Basic EPS	0,0	0,0	0,0	0,0
P/E	neg	neg	neg	neg
EV/Revenue	8276,4	3425,6	2829,6	2211,7
EV/EBITDA	neg	neg	neg	###########
EV/EBIT	neg	neg	neg	neg
P/B	neg	13637,5	neg	neg

SHAREHOLDER STRUCTURE	**CAPITAL %**	**VOTES %**
Kaikarhenni Oy	15,3%	15,3%
Ossi Antero Haapaniemi	10,8%	10,8%
Kyösti Kakkonen	4,2%	4,2%
Kreos Kapital	1,9%	1,9%
Eva Syrjänänen	1,7%	1,7%

SHARE INFORMATION	
Reuters code	NXSTM
List	First North
Share price	46
Total shares, million	6,686

MANAGEMENT & BOARD	
CEO	Mikko Karvinen
CFO	Joonas Juokslahti
Chairman	Leena Niemistö

ANALYSTS	Redeye AB
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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

Redeye Equity Research team

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Disclaimer

Important information
Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.
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Redeye Rating (2021-12-15)

Rating	People	Business	Financials
5p	19	14	3
3p - 4p	96	77	36
0p - 2p	6	30	82
Company N	121	121	121

Duplication and distribution

CONFLICT OF INTERESTS

Fredrik Thor owns shares in the company : No
Filip Einarsson owns shares in the company : No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.