

Nexstim

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Muutoksia kumppanin aikatauluissa” published on 7/5/2023 at 7:16 am

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Changes in partner's schedules

We reiterate our Accumulate recommendation for Nexstim and lower our target price to EUR 4.2 (previously 4.5). In light of information that has trickled out from Nexstim's partner Magnus Medical, Nexstim's license income could start during H2'24, which is one year later compared to our previous estimate. In our estimates, the five-year licensing period is postponed by one year. We also revise our cost level expectations for Nexstim slightly downwards. Our view of the company's fair value decreases due to delayed cash flows, even though no significant changes have taken place in the company's big picture.

Sale of Magnus Medical's equipment appears to start in H2'24

Nexstim has signed an agreement to license its technology to Magnus Medical (MM) in the US. MM's new TMS equipment received FDA clearance in September 2022, which was clearly faster than our expectations at the time. We expected sale of the equipment and license income to start in H2'23. However, in a recent interview, MM [outlines](#) that the equipment could be launched commercially in mid-to-late 2024. To our understanding, based on the agreement between Nexstim and MM, Nexstim cannot really comment on matters related to the agreement. We therefor depend on MM for information, which, as a private company, does not have extensive reporting obligations for its plans. Otherwise, Nexstim's H1 seems to have progressed in line with our expectations. The company has announced five system orders during H1. This is less than in the comparison period, but the company does not announce all orders so we will only know the final sales volume in connection with the H1 report. The company has not announced any cooperation in the expansion of the clinic network during the period, but in our estimates, we expect net sales from clinics only from H2'23 onwards.

Net sales estimates decrease due to the delay in the license agreement

Our net sales estimates for 2023-2025 fall by 8-9% due to license revenues being postponed by one year. Our view of the total amount of license income for the five-year period remains unchanged. We also revise the H1'23 net sales from equipment sales slightly downwards, as indicated by the announced system orders. We have also reviewed the company's cost level and made minor downward adjustments to costs. As a result of the adjustments, our EBIT estimate falls slightly less than net sales measured in EUR (2023: -6% vs. 2022). The company has reported successful cost savings of MEUR 0.6 this year and the guidance indicates a positive result measured by EBITDA. Our own 2023 EBITDA estimate is slightly negative, so reaching the guidance this year would be a positive signal for us.

Fair value decreases slightly due to estimate changes

Our valuation is based on the DCF model and EV/S ratio. Our DCF model indicates that current value of cash flows is EUR 4.3 (previous EUR 4.5) due to license income being postponed by one year. The fair EV/S ratio for the share estimated in our Initiation of coverage report is 3-4x. With our 2023 estimates, Nexstim's ratio is at the top of the range, but falls to 2.9x with our 2024 growth estimates, which we consider cautiously attractive. The share's risk level is still highish due to continued losses and high estimate risk, but we believe that the growth and improved profitability outlook offer a sufficient expected return to bear the risk.

Recommendation

Accumulate
(previous Accumulate)

EUR 4.20
(previous EUR 4.50)

Share price:
3.51



Key figures

	2022	2023e	2024e	2025e
Revenue	9.5	6.8	9.0	11.3
growth-%	49%	-28%	32%	25%
EBIT adj.	0.8	-1.1	-0.1	1.0
EBIT-% adj.	8.8 %	-16.7 %	-1.1 %	9.1 %
Net Income	1.3	-1.2	-0.2	0.9
EPS (adj.)	0.18	-0.17	-0.03	0.13

P/E (adj.)	22.2	neg.	neg.	27.4
P/B	7.1	9.0	9.7	7.2
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	33.6	neg.	neg.	24.5
EV/EBITDA	21.4	neg.	64.3	15.4
EV/S	3.0	3.8	2.9	2.2

Source: Inderes

Guidance

(Unchanged)

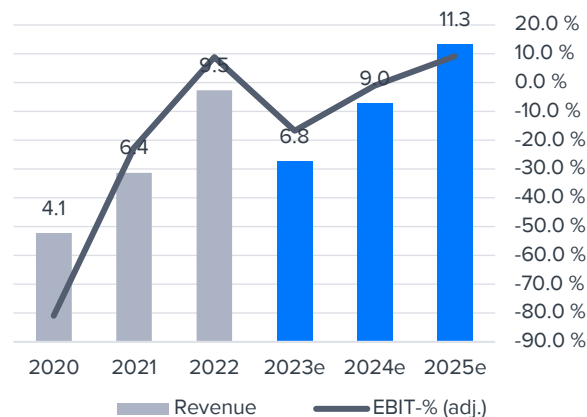
Based on business forecasts, the company expects that its comparable net sales will grow in 2023 and its EBITDA (operating result before depreciations) for the financial year will be positive.

Share price



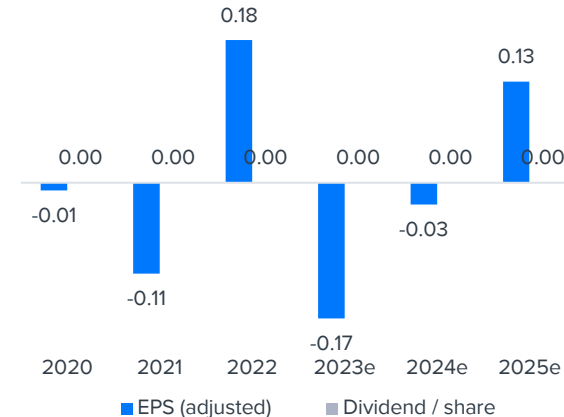
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Growing markets and underlying megatrends
- Growth in system base drives profitable and scalable recurring net sales
- Licensing agreement generates strong cash flow in the ongoing decade
- Opportunities for value creation from expanding the network of exclusive partner clinics



Risk factors

- Tough competition in the therapy business can chip away at growth and margins
- Considerable uncertainty about the timing and level of license fees
- The company may fall behind the competition if the development of accelerated treatment protocols fails
- The company's resources are small compared to its competitors
- Possibility of new share issues cannot be excluded

Valuation	2023e	2024e	2025e
Share price	3.50	3.50	3.50
Number of shares, millions	7.27	7.27	7.27
Market cap	26	26	26
EV	26	26	25
P/E (adj.)	neg.	neg.	27.5
P/E	neg.	neg.	27.5
P/FCF	neg.	neg.	24.3
P/B	9.0	9.7	7.2
P/S	3.7	2.8	2.3
EV/Sales	3.8	2.9	2.2
EV/EBITDA	neg.	64.3	15.4
EV/EBIT (adj.)	neg.	neg.	24.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Estimate revisions

Estimate revisions 2023e-2025e

- We postpone our forecast of the timing of license income by one year, based on Magnus Medical's comments of the schedule for the commercialization of the TMS equipment.
- We also revise the H1'23 net sales estimate from equipment sales slightly downwards, based on the system orders announced thus far.
- As a result of these changes, our net sales estimate decreases by 8-9%.
- We have revised our cost estimates slightly downwards, resulting in euro-denominated EBIT weakening slightly less than net sales.

Operational earnings drivers 2023-2024e:

- Increasing equipment sales and recurring net sales driven by new NBS6 system.
- Investments in the network of partner clinics and building related service business.
- Expanding the clinic network was a strategic focus area of the company in 2022 and we expect news on the network this year.
- License income is based on an agreement with Nexstim's partner Magnus Medical , according to which Nexstim receives royalties based on Magnus Medical's equipment sales.
- Nexstim is entitled to license income for 5 years.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	7.4	6.8	-8%	9.9	9.0	-9%	12.4	11.3	-9%
EBIT	-1.2	-1.1	-6%	0.3	-0.1	-136%	1.9	1.0	-46%
PTP	-1.3	-1.2	-6%	0.2	-0.2	-214%	1.8	0.9	-49%
EPS (excl. NRIs)	-0.18	-0.17	-6%	0.02	-0.03	-214%	0.25	0.13	-49%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Fair value decreases slightly with estimates

Valuation is based on the DCF model and EV/S ratio

We use the EV/S ratio as the valuation multiple as earnings-based multiples become more moderate only in a few years. A key tool is also the DCF model that models the current value of cash flows. We do not expect a dividend from Nexstim in the next few years, so the investor's return is based on value changes in the share. The margin of error in valuation is high due to the estimate risk and low business visibility. The valuation multiples may, therefore, fluctuate significantly as we have seen throughout the history of the share.

DCF model indicates an upside in the share

Our DCF model indicates that current value of Nexstim's cash flows is EUR 4.3 per share (previous EUR 4.5). This change is explained by our estimate change caused by licensing income being postponed by one year. Our slightly lower estimate of cost development has a small increasing effect on DCF.

The DCF model indicates a moderate undervaluation of the share and an upside that exceeds the required return. However, there is considerable uncertainty about the estimate materializing, which raises the share's risk profile. The DCF value can therefore be expected to fluctuate in the future as estimates are updated with company development. The weighted average cost of capital (WACC) we use in the model is 10.4%, which reflects the still loss-making business and, on the other hand, the potential for high profitability in a defensive industry. Investors should note that there are considerable uncertainties about the realization of estimated cash flows. The DCF model is also very sensitive to the assumptions used,

especially when cash flows are far in the future. 62% of the DCF is explained by the terminal period after 2032

The EV/S ratio becomes attractive with growth

In the still relevant [Initiation of coverage report](#), we outlined an EV/S ratio of 3-4x as the fair value of the share. With our estimates for 2023, the valuation is at the top of the range, but falls to an attractive level of 2.9x with 2024 estimates. The ratio continues to fall rapidly in the following years, provided that our growth estimate materializes.

The valuation picture is mostly unchanged

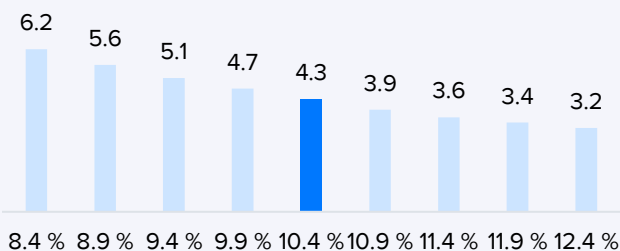
During our coverage, Nexstim's share has decreased by about 25% (from May 2022) which has helped moderate the share's valuation picture. Based on the EV/S ratio, the share is valued at a cautiously attractive level as the ratio falls below our fair value range of 3-4x with 2024 estimates. The DCF model shows potential of exceeding our required return with a reasonable margin. We feel the risk level of a share is highish (level 3) due to continuing losses and high estimate risk. However, we believe that the risk is currently adequately compensated, so we maintain our recommendation at Accumulate. We lower the target price to EUR 4.2 (previous 4.5) reflecting the change in the DCF value.

Supported by its business model and good sales margin, Nexstim has the chance to achieve excellent profitability. If the company reaches our growth estimate, the share has precondition for good development from the current share price level.

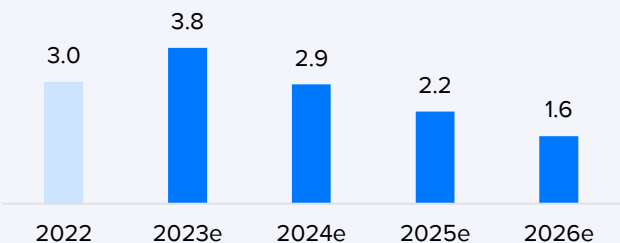
Valuation	2023e	2024e	2025e
Share price	3.50	3.50	3.50
Number of shares, millions	7.27	7.27	7.27
Market cap	26	26	26
EV	26	26	25
P/E (adj.)	neg.	neg.	27.5
P/E	neg.	neg.	27.5
P/FCF	neg.	neg.	24.3
P/B	9.0	9.7	7.2
P/S	3.7	2.8	2.3
EV/Sales	3.8	2.9	2.2
EV/EBITDA	neg.	64.3	15.4
EV/EBIT (adj.)	neg.	neg.	24.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Sensitivity of DCF value to WACC, EUR/share



EV/S ratio



Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	0.60	0.12	0.10	4.78	4.00	3.50	3.50	3.50	3.50
Number of shares, millions	3.25	62.8	439.6	7.27	7.27	7.27	7.27	7.27	7.27
Market cap	2.0	7.5	43	35	29	25	25	25	25
EV	3.0	9.5	45	33	28	26	26	25	23
P/E (adj.)	neg.	neg.	neg.	neg.	22.2	neg.	neg.	27.4	10.5
P/E	neg.	neg.	neg.	neg.	22.2	neg.	neg.	27.4	10.5
P/FCF	neg.	neg.	neg.	neg.	neg.	neg.	neg.	24.3	9.8
P/B	neg.	neg.	neg.	10.9	7.1	9.0	9.7	7.2	4.3
P/S	0.7	2.3	10.5	5.4	3.1	3.7	2.8	2.3	1.8
EV/Sales	1.1	2.9	10.9	5.2	3.0	3.8	2.9	2.2	1.6
EV/EBITDA	neg.	neg.	neg.	neg.	21.4	neg.	64.3	15.3	7.2
EV/EBIT (adj.)	neg.	neg.	neg.	neg.	33.6	neg.	neg.	24.4	8.7
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	25.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	2.4 %

Source: Inderes

Income statement

Income statement	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	H1'24e	H2'24e	2024e	2025e	2026e
Revenue	6.8	2.7	9.5	3.0	3.9	6.8	4.0	5.1	9.0	11.3	13.9
Nexstim	6.8	2.7	9.5	3.0	3.9	6.8	4.0	5.1	9.0	11.3	13.9
EBITDA	2.5	-1.2	1.3	-0.6	0.0	-0.7	-0.2	0.6	0.4	1.6	3.1
Depreciation	-0.2	-0.3	-0.5	-0.2	-0.2	-0.5	-0.3	-0.3	-0.5	-0.6	-0.5
EBIT (excl. NRI)	2.3	-1.5	0.8	-0.9	-0.3	-1.1	-0.4	0.3	-0.1	1.0	2.6
EBIT	2.3	-1.5	0.8	-0.9	-0.3	-1.1	-0.4	0.3	-0.1	1.0	2.6
Nexstim	2.3	-1.5	0.8	-0.9	-0.3	-1.1	-0.4	0.3	-0.1	1.0	2.6
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	0.9	-0.4	0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
PTP	3.2	-1.9	1.3	-0.9	-0.3	-1.2	-0.5	0.3	-0.2	0.9	2.4
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	3.2	-1.9	1.3	-0.9	-0.3	-1.2	-0.5	0.3	-0.2	0.9	2.4
EPS (adj.)	0.44	-0.26	0.18	-0.13	-0.04	-0.17	-0.07	0.04	-0.03	0.13	0.33
EPS (rep.)	0.44	-0.26	0.18	-0.13	-0.04	-0.17	-0.07	0.04	-0.03	0.13	0.33

Key figures	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	H1'24e	H2'24e	2024e	2025e	2026e
Revenue growth-%	129.6 %	-20.5 %	48.9 %	-56.3 %	41.7 %	-28.2 %	33.3 %	30.8 %	31.9 %	24.8 %	23.5 %
Adjusted EBIT growth-%	-358.1 %	171.8 %	-157.6 %	-137.5 %	-81.9 %	-236.6 %	-50.0 %	-224.7 %	-91.3 %	-1131.0 %	154.5 %
EBITDA-%	37.2 %	-44.4 %	13.8 %	-21.8 %	-1.2 %	-10.1 %	-4.7 %	11.7 %	4.5 %	14.6 %	22.6 %
Adjusted EBIT-%	34.3 %	-54.6 %	8.8 %	-29.4 %	-7.0 %	-16.7 %	-11.0 %	6.6 %	-1.1 %	9.1 %	18.8 %
Net earnings-%	47.3 %	-69.6 %	13.7 %	-31.1 %	-8.3 %	-18.2 %	-12.3 %	5.7 %	-2.2 %	8.2 %	17.5 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	2.0	3.0	3.1	3.2	3.3
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	1.1	2.1	2.3	2.4	2.4
Tangible assets	0.4	0.4	0.4	0.3	0.4
Associated companies	0.5	0.5	0.5	0.5	0.5
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	8.0	7.3	8.3	9.2	10.0
Inventories	1.0	0.9	0.3	0.5	0.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	1.8	1.9	2.7	3.4	4.1
Cash and equivalents	5.2	4.4	5.2	5.2	5.2
Balance sheet total	10.0	10.2	11.4	12.4	13.4

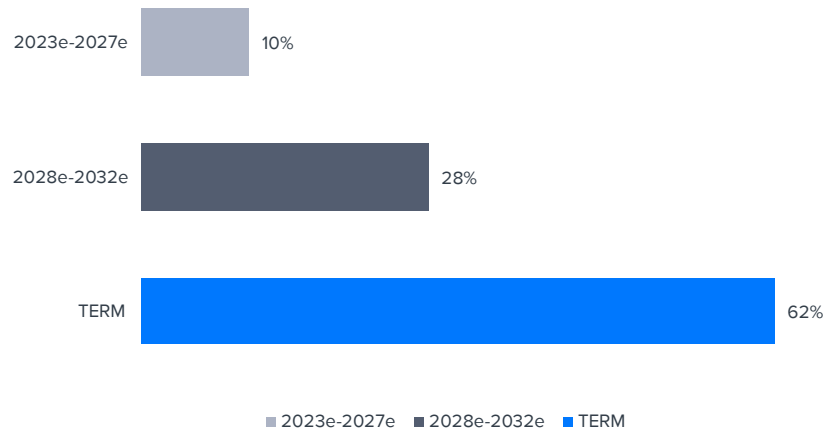
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	3.2	4.1	2.8	2.6	3.6
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-51.8	-51.0	-52.2	-52.4	-51.5
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	54.9	55.0	55.0	55.0	55.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	3.3	2.6	4.4	4.6	3.8
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	3.3	2.6	4.4	4.6	3.8
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	3.6	3.5	4.2	5.2	6.0
Short term debt	0.6	0.9	1.2	1.2	1.1
Payables	2.9	2.7	3.0	4.0	4.9
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	10.0	10.2	11.4	12.4	13.4

DCF calculation

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Cash flow distribution



WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	11.1 %
Weighted average cost of capital (WACC)	10.4 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	4.1	6.4	9.5	6.8	9.0	EPS (reported)	-0.01	-0.11	0.18	-0.17	-0.03
EBITDA	-3.0	-1.0	1.3	-0.7	0.4	EPS (adj.)	-0.01	-0.11	0.18	-0.17	-0.03
EBIT	-3.3	-1.5	0.8	-1.1	-0.1	OCF / share	0.00	-0.25	0.14	-0.08	0.06
PTP	-4.1	-0.7	1.3	-1.2	-0.2	FCF / share	0.00	-0.41	-0.05	-0.17	-0.02
Net Income	-4.1	-0.8	1.3	-1.2	-0.2	Book value / share	0.00	0.44	0.56	0.39	0.36
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	6.2	10.0	10.2	11.4	12.4	Revenue growth-%	23%	56%	49%	-28%	32%
Equity capital	-1.5	3.2	4.1	2.8	2.6	EBITDA growth-%	-52%	-66%	-230%	-153%	-158%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-49%	-56%	-158%	-237%	-91%
Net debt	1.6	-1.3	-1.0	0.4	0.6	EPS (adj.) growth-%	-91%	1121%	-257%	-195%	-84%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	-72.1 %	-15.8 %	13.8 %	-10.1 %	4.5 %
EBITDA	-3.0	-1.0	1.3	-0.7	0.4	EBIT (adj.)-%	-81.0 %	-22.7 %	8.8 %	-16.7 %	-1.1 %
Change in working capital	0.8	-0.6	-0.3	0.1	0.1	EBIT-%	-81.0 %	-22.7 %	8.8 %	-16.7 %	-1.1 %
Operating cash flow	-2.2	-1.8	1.0	-0.6	0.5	ROE-%	373.1 %	-96.0 %	36.0 %	-36.1 %	-7.3 %
CAPEX	0.0	-1.2	-1.4	-0.6	-0.6	ROI-%	-73.1 %	-27.2 %	11.4 %	-14.3 %	-1.2 %
Free cash flow	-2.2	-3.0	-0.4	-1.2	-0.1	Equity ratio	-23.5 %	31.9 %	39.8 %	24.7 %	21.2 %
						Gearing	-108.1 %	-40.6 %	-23.4 %	13.9 %	23.8 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	10.9	5.2	3.0	3.8	2.9						
EV/EBITDA (adj.)	neg.	neg.	21.4	neg.	64.3						
EV/EBIT (adj.)	neg.	neg.	33.6	neg.	neg.						
P/E (adj.)	neg.	neg.	22.2	neg.	neg.						
P/B	neg.	10.9	7.1	9.0	9.7						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
5/30/2022	Reduce	4.60 €	4.85 €
8/15/2022	Reduce	4.40 €	4.73 €
9/8/2022	Reduce	4.40 €	4.06 €
1/10/2023	Reduce	4.30 €	4.25 €
2/28/2023	Accumulate	4.50 €	3.96 €
7/5/2023	Accumulate	4.20 €	3.51 €



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