

Nexstim

Extensive report

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✓ Inderes corporate customer

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Growth initiatives waiting for lift-off

Nexstim is a medical technology company whose transcranial magnetic stimulation systems are used in pre-operative brain mapping and to treat neurological diseases and disorders. The company is a technologically advanced niche player in large markets supported by megatrends. Nexstim is still in an early stage of commercialization and seeking sustainable positive earnings. The valuation of the share relies heavily on future expectations of system sales growth, licensing income recognition and expansion of the new clinic network model. We find the valuation reasonable but it does not provide investors sufficient expected return relative to the risks at the current level. We lower our recommendation for Nexstim to Reduce and revise the target price to EUR 3.0 (was EUR 3.6) based on the increased financial risk and continued losses.

Value creation with systems, licensing income and clinic network model

Nexstim develops and sells systems for therapy applications (64% of net sales in 2022) for the treatment of major depressive disorder and pain and diagnostic applications (36%) for pre-operative brain mapping. In addition, the company has licensed its technology from which it expects significant net sales in coming years. Nexstim is also expanding its small-scale partner clinic service network and thus seeking a piece of the value creation of TMS clinics in the future. The company's business model has scalable features and potential for high profitability. However, this will require a larger system sales volume than at present, which Nexstim is seeking with a new easy-to-use and modular NBS6 system.

Expecting growth from various sources and profitability by 2025

Nexstim's result was profitable in 2022 supported by non-recurring licensing income, but we expect the result to turn back to the red before achieving more permanent profitability from 2025 as license fees increase. In 2023-2026, we expect strong growth (CAGR 22%) adjusted for one-off items, which will require the company to accelerate system sales, licensing income materializing almost according to the preliminary estimate, and successful expansion of the clinic network. The forecasting risk is quite high, as visibility, especially for licensing income materializing and growth of the clinic network, is low. Uncertainty related to the growth of the system business comes from tighter competition we estimate in the industry both in terms of technological development and pricing of consumables. In the long term, we see potential for an EBIT of up to 20% driven by a high sales margin and licensing income if the company succeeds in its growth strategy. Based on the cash position and our cash flow estimate, we expect a share issue or other financing arrangement next year.

Share pricing seems reasonable, but the risk level is high and predictability low

We base our valuation on EV/S multiples and DCF. Nexstim's 2023e EV/S is 3.5x and decreases to 2.6x in 2024e. The share pricing is neutral compared to its own history. Compared to listed peers, the multiples are high although the peers have clearly weaker profitability than Nexstim. Based on historical valuation, peer valuation and general sector valuation we believe that a neutral EV/S ratio is currently around 2.5-3.5x (2023e). Based on our DCF model the share's value is EUR 3.3 (was EUR 3.6). Although the share is not unreasonably priced considering the growth and profitability expectations, we do not feel investors receive adequate expected return for carrying the high risk.

Recommendation

Reduce

(previous Accumulate)

EUR 3.00

(previous 3.60)

Share price:

2.90



Key figures

	2022	2023e	2024e	2025e
Revenue	9.5	6.3	8.5	10.7
growth-%	49%	-34%	35%	26%
EBIT adj.	0.8	-1.8	-0.4	0.7
EBIT-% adj.	8.8 %	-28.9 %	-5.2 %	6.4 %
Net Income	1.3	-1.9	-0.5	0.6
EPS (adj.)	0.18	-0.26	-0.07	0.08

P/E (adj.)	22.2	neg.	neg.	35.8
P/B	7.1	9.8	13.1	9.6
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	33.6	neg.	neg.	31.3
EV/EBITDA	21.4	neg.	>100	17.4
EV/S	3.0	3.5	2.6	2.0

Source: Inderes

Guidance

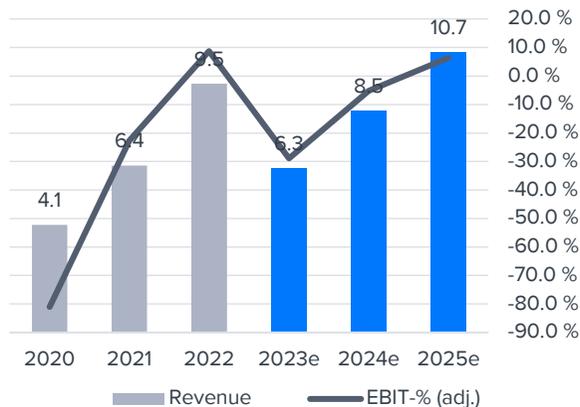
Based on business forecasts, the company expects that its comparable net sales will grow in 2023 and its EBITDA (operating result before depreciations) for the financial year will be positive.

Share price



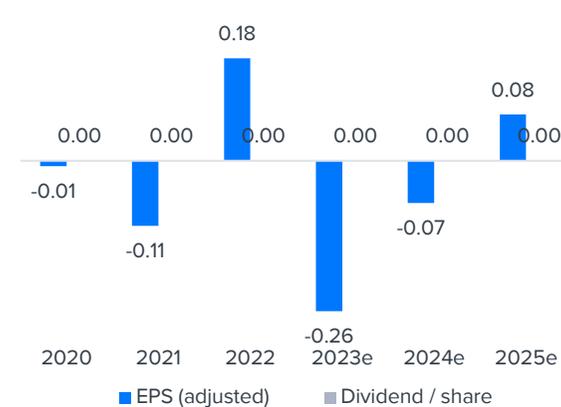
Source: Millstream Market Data AB

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	2.90	2.90	2.90
Number of shares, millions	7.27	7.27	7.27
Market cap	21	21	21
EV	22	22	22
P/E (adj.)	neg.	neg.	35.8
P/E	neg.	neg.	35.8
P/B	9.8	13.1	9.6
P/S	3.4	2.5	2.0
EV/Sales	3.5	2.6	2.0
EV/EBITDA	neg.	>100	17.4
EV/EBIT (adj.)	neg.	neg.	31.3
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Nexstim in brief

Nexstim is a medical technology company that aims to enable personalized and effective therapies and diagnostics for challenging brain diseases and disorders. The company's systems are used, for example, for pre-operative mapping of brain surgeries and treatment of major depressive disorder and chronic pain.

2000

Year of establishment

2014

Listing on the First North marketplace

9.5 MEUR (+49% vs. 2021)

Revenue 2022 (incl. 3.5 MEUR non-recurring licensing income)

0.8 MEUR

EBIT 2022

49% / 51%

Net sales distribution systems / continuing business 2022

39

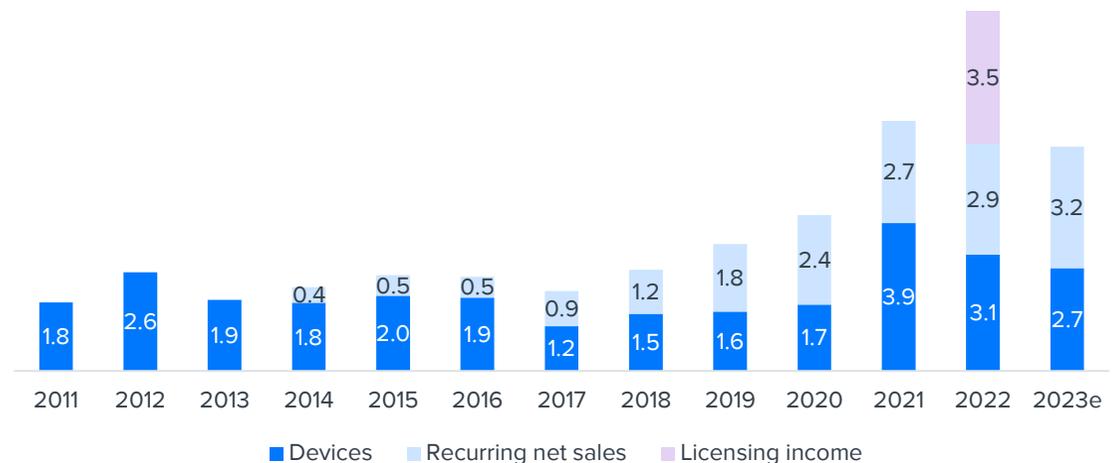
Personnel at the end of 2022

2000-2019

- 2000 Nexstim is established
- 2009 FDA approval for diagnostic system for mapping motor cortex
- 2012 FDA approval for mapping of speech cortex.
- 2014 IPO EUR 15 million
- 2016-2018 Study results do not support the use of the therapy system for rehabilitating stroke patients. Commercialization for this indication is discontinued.
- 2017 FDA approval for therapy system for Major Depressive Disorder
- 2018 Sale of therapy system begins. The company focuses on major depressive disorder and chronic pain

2020-2023

- 2020 Nexstim revises its strategy for 2020-2024
- 2021 Strengthening of the balance sheet with a share issue of EUR 6.6 million and the first profitable six-month period
- 2021 Launching the partner clinic network and establishing a venture capital company related to network investments
- 2022 Nexstim licensed its technology in the US therapy market to Magnus Medical
- 2023 FDA approval and CE marking for the new generation NBS6 equipment to treat major depressive disorder. Approval for diagnostic applications is expected in 2024.



Company description

Turnaround health technology company building growth through systems, licensing and services

Nexstim is a Finnish medical technology company operating in the international market, whose products enable mapping of functional areas of the cerebral cortex and precise stimulation of a spot in the brain using an E-field. The company was founded in 2000 and was listed on Nasdaq First North in 2014. Nexstim's mission is to enable personalized and effective therapies and diagnostics for challenging brain diseases and disorders.

The business of Nexstim is divided into the diagnostics (Navigated Brain Stimulation NBS) and therapy (Navigated Brain Therapy NBT) businesses. Diagnostic systems received marketing authorization in Europe and the US in the late 2000s and early 2010s for mapping speech and motor cortices. A therapy system was launched in 2018, which can be used to treat major depressive disorder and chronic pain. In recent years, combined systems capable of all applications have increasingly dominated sales. The company's latest system version, NBS6, launched in spring 2023, enables different applications to be carried out with the same modular system. We expect that NBS6 will in the long term become the company's key and possibly only system. Nexstim ranks in the highest price and quality category on the market, based on the accuracy of the system and combination systems of diagnostics and therapy.

The company's value creation is generated by one-off system sales, recurring service-type invoicing and technology licensing income. Licensing income is based on Nexstim's 2022 contract with Magnus Medical. The contract includes a signing fee paid in 2022 and a five-year licensing period estimated by

the companies to be worth EUR 13.5 million that according to Inderes' estimate will start in H2'24. Licensing income constitute a significant share of Nexstim's cash flow during the licensing period.

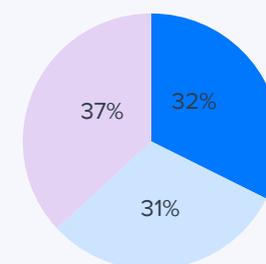
In addition to the system and licensing business, the third business area is formed by a network of partner clinics, which Nexstim supports through service companies. So far, the network is very small but Nexstim has announced that it will invest in the business in the future.

Historically, the company's business operations have been loss-making, except for 2022 that was supported by non-recurring licensing income. We estimate that the company's result will turn more permanently profitable in the next few years supported by licensing income. We believe Nexstim is a growth and turnaround company. The high sales margin system business generates potential for Nexstim, which improves the scalability of the result if the company succeeds in increasing its system sales from the current level. We believe the clinic network model has the potential to produce defensive and cash flow positive but less scalable business. In terms of risks, the company's cost structure is so far high compared to the net sales level and key competitors. We also see some unhealthy features in the system market when larger competitors aggressively acquire market shares at the expense of profitability.

Nexstim's business areas

Systems	Previously selling of separate diagnostic and therapy systems. Current trend toward combined systems.
Continuing business	High-margin and defensive business consisting of system consumables, service contracts and software.
Licensing	Technology licensing agreement worth an estimated EUR 17 million signed with Magnus Medical.
Clinic network	The service business of clinics offering treatments is currently small but Nexstim seeks to expand the operations

Net sales distribution 2022¹



■ Devices ■ Recurring net sales ■ Licensing

1): In 2022, the company recognized a non-recurring licensing contract signing fee of EUR 3.5 million.

Business model in brief

	 Customers	 Operating model	 Monetization	 Growth opportunities
 Systems and recurring net sales	<p>Hospitals, research institutes and private clinics globally. Main markets in the US and the EU area.</p> <p>Market size around EUR 800-1,200 million p.a.</p>	<p>System sales using a combination model of the own organization and distributors.</p> <p>Recurring net sales from maintenance contracts, operating licenses and consumables.</p>	<p>Non-recurring net sales from system sales.</p> <p>Recurring net sales from leasing and maintenance contracts and consumables.</p>	<p>Increasing the system base.</p> <p>Increasing recurring net sales by increasing utilization rates and a bigger system base.</p>
 Licensing business	<p>Hospitals and clinics that treat patients with major depressive disorder using accelerated TMS protocol. Geographical focus initially on the US.</p>	<p>Partnership with Magnus Medical that owns the accelerated treatment protocol for depression. The licensing period based on five-year sales begins when system sales begin.</p>	<p>Nexstim has received a licensing signing fee of EUR 3.5 million in 2022. The companies estimate that the final contract will be worth EUR 13.5 million. We expect sales to start in H2'24 when the five-year licensing period would also begin.</p>	<p>Nexstim has also alluded to opportunities of new technology licensing contracts.</p>
 Network of partner clinics	<p>Private clinics, especially in the US and Europe.</p>	<p>Nexstim is an owner or shareholder in a service company supporting the clinic's daily operations and expert services. Direct investments in a clinic may be possible in Europe. We find this to be a defensive and quickly cash-flow positive operating model.</p>	<p>The service company charges the clinic for the services.</p>	<p>Investments in new service companies.</p>

Technology and products (1/3)

Transcranial Magnetic Simulation (TMS)

Transcranial Magnetic Simulation (TMS) is a method developed in the 1980s, in which the E-field produced by a magnetic coil outside the skull causes a change in the electrical function of the brain. The technology has proven useful in treating, e.g., major depressive disorder. The treatment restores the electrical activity of the brain and reduces the symptoms of depression. There is also strong evidence of the benefits of the method in the treatment of, e.g., chronic neuropathic pain. The advantages of TMS compared to other treatments is that it is drug-free, non-invasive (no surgery required), has minimal side effects and is easy on the patient. The disadvantage, in our view, is a long and expensive treatment period that reduces the use of the treatment and the number of potential patients.

Nexstim has further developed the TMS method, in particular to improve its targetability, accuracy and repeatability.

To use of Nexstim technology first requires an accurate 3D image of the patient's brain using magnetic resonance imaging (MRI). The cost of imaging is typically around EUR 300-800. After imaging, the cerebral cortex can be activated with TMS.

The strength of Nexstim's technology is the navigability of the E-field. The company's system allows you to determine the position, direction and intensity of the electrical field in real time. By combining a 3D MRI image of the brain with E-field measurement data, the treating personnel can direct

the treatment accurately and stimulate or inhibit the intended brain area. Nexstim's equipment also enables real-time visualization of TMS and E-field changes as the treating person changes the position of the magnetic coil. Accurate information about the location and direction of the E-field also helps to repeat treatment as exactly the same from one treatment to the next. High accuracy supports the effectiveness of therapy applications and good surgical results in diagnostic applications.

Nexstim's system is approved for treatment of major depressive disorder and chronic pain

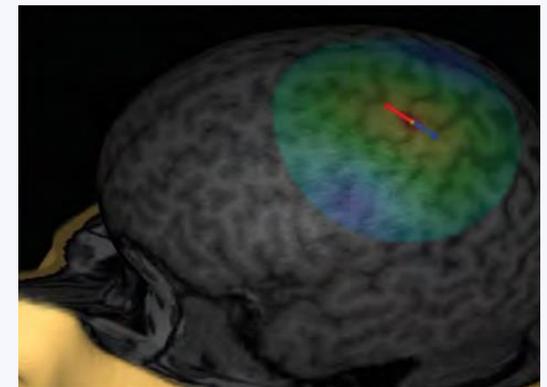
Nexstim has authorizations for the treatment of major depressive disorder in Europe and the US and for the treatment of chronic pain in Europe. TMS technology is also used for other indications such as treatment of obsessive compulsive disorder or addictions. To our knowledge, Nexstim has not applied for authorizations for other indications, but we see no obstacles to extending the indications in the future.

Severely depressed patients typically have an electrically less active left prefrontal cortex. In TMS treatment, this region is activated once a day for 4-6 weeks. Treatment is proven to reduce depression symptoms. In addition, treatment can be combined with psychotherapy and/or pharmacological therapies to potentially achieve better results. In addition, TMS also achieves results in chronic pain treatment in certain patient groups. So far, we estimate that pain treatment is a small business compared to depression treatment.

The coil is controlled next to the head and changes in the E-field are seen on the screen



Visualized E-field on a 3D model of the brain



Images: Nexstim

Technology and products (2/3)

Diagnostic applications are based on mapping speech and motor cortices

Nexstim's diagnostic applications are based on the company's Navigated Brain Stimulation (NBS) technology. NBS enables accurate mapping of the speech and motor cortices, which can be utilized in planning brain surgery or radiotherapy. The system has authorizations in the US (FDA) and European (CE marking) for these indications as the only TMS system supplier, which creates a strong position for Nexstim in this niche market. Mapping will primarily be used in hospitals for pre-operative mapping of demanding brain surgeries, where the operating surgeon or radiotherapy physician receive important information about the relationship between these cortices and the brain tumor or key regions in terms of epilepsy in case of surgery. The technology is proven to lead to better treatment results. The system is also used for research purposes at universities and research institutes, where we believe Nexstim has a strong position based on the high accuracy of the system.

NBS6 – Modular combined system

Nexstim's newest product, NBS6, is a modular system suited for both diagnostic and therapeutic applications. Different applications can be added to the system as software updates, for which the customer pays licensing fees to Nexstim. Thus, the system provides flexibility to customers and scalability to Nexstim's business through recurring high-margin net sales. NBS6 differs from previous system versions, especially in terms of ease of use.

Nexstim received CE marking and FDA authorization for NBS6 for therapeutic use. The company has announced it is expecting authorization for diagnostics applications during 2024. Customers who want both functionalities in the same system before these authorizations must choose the older generation NBS5+ combination system. On the other hand, diagnostic applications can be added to the NBS6 device later if the customer does not need them immediately. The company has sold over 220 diagnostics systems since 2010 worldwide. Currently, the most popular system is NBS5+, but we expect NBS6 to replace it pretty quickly.

We believe the combined system is used in hospitals and research institutes jointly between several units, thereby lowering the threshold for purchasing the system and increasing utilization rates. Combined systems can also be used in clinics to diagnose and treat patients.

NBT therapy system

In 2017, Nexstim received FDA authorization for its Navigated Brain Therapy (NBT) for treatment of major depressive disorder and started selling it in 2018. In addition, the company has CE marking for the system in Europe for the treatment of major depressive disorder and chronic neuropathic pain. The key customers of the system are private clinics in the US and hospitals in the EU providing TMS treatment. We expect NBS5+ and NBS6 systems to replace pure diagnostic systems in the future.

TMS treatments are likely to slowly move toward using accelerated protocols

According to a recently published [study](#), an accelerated treatment protocol for major depressive disorder that provides several sessions per day over one week produces results similar to the current 4–6-week treatment period. We believe accelerated protocols can be used to increase the number of TMS treatments, as it is easier for patients to commit to more intensive treatment for a week instead of a month. Productivity also increases as the system can be efficiently used to treat 1-2 patients throughout the day at a high utilization rate.

The accelerated SAINT depression treatment protocol developed by Stanford University was licensed by the young US company Magnus Medical. We estimate that Magnus Medical is launching its own system on the market in H2'24. Nexstim licensed its technology to Magnus Medical in 2022 and gets its share of the value creation of accelerated protocols through license fees.

Nexstim was also involved in a pilot study at Kuopio University Hospital to investigate the use of an accelerated protocol with Nexstim's system. However, the results of the pilot study did not indicate clear benefits of the accelerated protocol, except for a shorter treatment period. New protocol development is slow and clinical trials are expensive. We expect Nexstim to benefit from accelerated protocols through the Magnus Medical partnership. We do not expect the company to invest significantly in own protocol development because it is slow and expensive.

Technology and products (3/3) – Applications

	Need/problem 	Nexstim's solution 	Nexstim's strengths 	Other 
 <p>Diagnostic applications</p>	Demanding brain tumor surgery or radiotherapy can damage important speech and motor cortices of the brain.	The technology allows mapping areas of the cerebral cortex so that important areas are not damaged.	Only technology provider with both FDA and CE approval. The solution delivers better clinical outcomes.	Authorities have granted both FDA approval (US) and CE marking (Europe) for speech and motor cortices.
	Conventional mapping during surgery increases the risk of complications.	Mapping is done outside the skull using a magnetic field without incisions.	The non-invasive method improves the results of surgery or radiotherapy and is safer for the patient, as well as more pleasant compared to surgical mapping.	Over 220 systems sold. We estimate the system base to be over 100 units.
	Pre-screening suitable for children not available.	This method is also suitable for pediatric patients.		The sale price of the system is approximately EUR 200,000.
 <p>Therapy applications</p>	A significant share of patients suffering from major depressive disorder or chronic pain do not benefit from existing treatments.	The technology allows symptoms to be mitigated by changing the functions of the brain regions associated with the disease.	Better accuracy than competitors in treatment targeting.	FDA approval and CE marking for treatment. CE marking for chronic neuropathic pain treatment.
	Pharmacological therapies can cause harmful side effect.	NBT is drug-free, safe and has minor drawbacks.	Accuracy and repeatability of the treatment.	System base of approximately 70 systems including combination systems capable of therapeutic applications. Sales price around EUR 120,000.

Treatment pathways with Nexstim systems

Pre-operative mapping with diagnostic system

-  A 3D model is built from the patient's brain using magnetic resonance imaging and Nexstim software.
-  The person providing the treatment aligns the E-field created with the diagnostic system to the desired speech and motor cortices of the brain. As a result, the cortex in question is activated.
- 
 The region of the cerebral cortex that controls movement can be mapped by measuring muscle activity, e.g., in the hands .
In speech cortex mapping, the patient names the images they see while speech cortices of the brain are stimulated. The speech cortex can be identified when the patient has difficulty naming the images they see due to stimulation.
-  After the mapping, surgery can be performed or radiation treatment provided. Mapping with the diagnostics system is proven to lead to better clinical outcomes.

Treatment of depression and pain with therapy system

-  A 3D model is built from the patient's brain using magnetic resonance imaging and Nexstim software. Treatment is adapted to the patient's brain structure.
-  The person providing the treatment uses the 3D model to direct the E-field generated by the therapy system to the correct region.
-  The treatment is repeated according to the treatment protocol. For example, major depressive disorder is treated once a day every weekday for 4-6 weeks.

During treatment

- The patient is conscious and can move
- Treatment is almost painless and side effects rare
- Duration
 - Mapping of motor cortices around 1 hour
 - Mapping of speech cortices several hours
 - Treatment of depression and pain 15-45 minutes per treatment depending on the treatment protocol

Business model (1/4)

System customers are hospitals, clinics and research institutes

Diagnostic business' customers are typically hospitals and private clinics that perform demanding brain surgeries and provide radiotherapy. The system is also used for research purposes, e.g., in universities and psychiatric units at hospitals. The potential customer base for diagnostic systems is limited and relatively easily defined: It comprises some 1,200 hospital units or clinics in the EU and the US. We believe, the company is well aware of and familiar with this potential customer base. We estimate that Nexstim does not have many large individual customers who would purchase significant system volumes, but rather the customer base consists of small clinics, hospitals and research institutes that purchase individual systems.

The main customers for therapy systems are psychiatric hospitals and private clinics. The insurance coverability of TMS treatment in the US makes the price of treatment more attractive and makes the US the most important market for the industry and the company. In Europe, the customer landscape is more fragmented due to varying national practices and differences in insurance coverability. In treatment of depression and pain, customers can select between several companies that provide TMS technology.

The sales price for diagnostic systems is approximately EUR 200,000 and for therapy systems approximately EUR 120,000. We believe systems constitute a significant investment for

customers that includes discretion. The change in the operating environment due to inflation and interest rates, seems to have slowed down customers' decision-making to some extent during 2022-2023. However, we expect this slowdown to be temporary.

Manufacturing, sales and distribution

Nexstim does not manufacture its systems itself but uses a Finnish subcontractor in manufacturing. This is a long-term cooperation that we believe has worked well. We suspect contract manufacturing could also be transferred relatively easily to another manufacturer if a need would arise.

In early 2023, Nexstim upgraded its organization to a global process organization that is centrally responsible for, e.g., global sales. Previously, Nexstim's subsidiaries were responsible for sales on the German-speaking markets in Europe and in the US more independently. The own sales organization enables a close contact with customers in key markets and an excellent sales margin. On the other hand, the own organization raises the company's fixed costs.

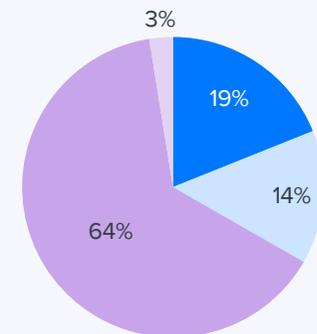
Outside the key markets, Nexstim is sold through distributors. We estimate that sales through distributors have lower margins than own sales as the margin for the distributors is an estimated 40%.

Nexstim has customers in some 30 countries



Image: Nexstim

Geographical net sales distribution (2022: 9.5 MEUR)¹



■ Finland ■ Rest of Europe ■ US ■ Rest of world

Business model (2/4)

On the other hand, the use of distributors enables Nexstim to have a global sales network with relatively low fixed costs. Nexstim's systems are used in some 30 countries around the world. We also believe the company has good preconditions to carry out sales and training virtually from Finland.

The system business relies on systems sales and recurring net sales

The company's net sales in both diagnostic and therapy areas consist of system sales and recurring net sales. We feel recurring net sales are more important for Nexstim's long-term success, and comprises, e.g., equipment rental, consumables, repair and maintenance agreements, as well as training and support services. We believe system sales is seasonal as sales focuses on the end of reporting periods. We estimate that both system sales and recurring net sales are defensive and high-margin operations.

As a TMS manufacturer Nexstim is a relatively small company and has sold some 20 systems annually in recent years. The company's system sales are moderately concentrated, and the periodicity of individual system sales may affect results between reporting periods. According to our estimate, the change rate in the system business is relatively slow. However, technological development brings changes to the competitive field, the most obvious example of which we believe is accelerated treatment protocols becoming more common in the future, where the new player Magnus Medical appears strong.

In diagnostics, system sales (2022: 2.2 MEUR) is clearly more important to the company than recurring business (1.2 MEUR). This is due to the relatively small need for consumables. The opposite is true in the therapy area where system sales (2022: 0.8 MEUR) is clearly below recurring net sales (1.7 MEUR). In terms of recurring net sales the latest H1'23 report showed pressure from price competition in the profitability of recurring net sales.

Nexstim also occasionally has project-like business through tailored system sales. For example, in H2'21, the company delivered two tailored prototype systems to its customers whose combined net sales were EUR 0.9 million. We believe tailored products are profitable for the company, but rare business.

Technology licensing will generate high-margin net sales in the coming years

In early 2022, Nexstim announced it had licensed its technology to a new industry player Magnus Medical. In 2021, Magnus Medical licensed an accelerated treatment protocol for major depressive disorder from Stanford University and is currently developing its own TMS system for which they licensed technology developed by Nexstim. Considering the size of the company, Nexstim received a significant signing fee of EUR 3.5 million, which was recognized in 2022. The company estimates that the value of the entire license agreement is EUR 17 million, based on Magnus Medical's business plan and its implementation. The sales-based licensing period is five years, and we believe it will begin when system sales start. We expect net sales-based income to materialize in 2024-2029.

We estimate that licensing income will be translated into EBIT almost as is. The cash flow from licensing income is particularly important for Nexstim, as the system business is still loss-making.

The flip side of the agreement is the restrictions on competition in the US market for treatment of major depressive disorder, where we believe Nexstim will focus on other indications than depression and building a network of exclusive partner clinics when the sales of Magnus Medical's system and the agreement's licensing period start.

Growth through partner clinic network

At the end of 2021, Nexstim made the first strategic investment (0.5 MEUR) in the service company of a TMS clinic operating in San Francisco. We feel that this is a typical approach in the US market, where the clinic personnel are freed up to focus on treating patients with the help of a partner. The service company is responsible for the clinic's activities that are not related to patient care, such as admitting and billing patients, and receives a corresponding share of the value creation of the clinic. In our opinion, a service company can also perform more demanding expert tasks, e.g., related to the insurance coverage of treatments. This is a new operating model for the company to seek closer strategic cooperation with its customers. We expect this to be an important growth model for the company especially in the US going forward.

Business model 3/4

In early 2022, Nexstim announced it had established a venture capital company in the US. In our opinion, the purpose of the venture capital company is to accelerate the establishment of new partner clinics, especially in the US, but possibly also in Europe. Nexstim has partnered in the venture capital company with the founder of the same clinic, in whose service company it invested in 2021. By the time this report is written, Nexstim has not announced any new investments in service companies, although the model has been the focus of the company's strategy since 2022. In August 2023, Nexstim announced loan financing of EUR 1.5 million, which we estimate could be related to service company investments in the near future.

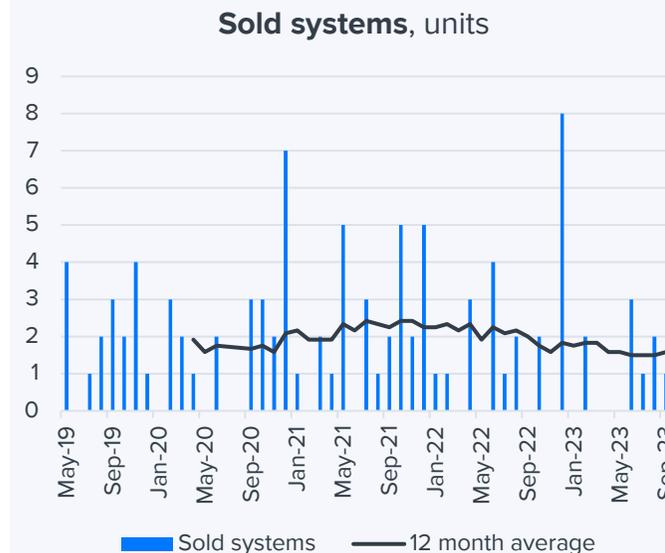
The business has scalability potential but the cost structure is currently heavy

Nexstim's fixed costs are relatively high as sales, R&D investments and administrative work (including applying for marketing authorizations) require resources. We believe these costs should scale well if the company succeeds in increasing its system sales and recurring net sales. The excellent sales margin of around 80% in the system business also brings scalability potential. We note that potential future growth in clinics' service business will be clearly less scalable as growth requires investments. Overall, Nexstim's profitability potential is high as is typical in the sector, but achieving it requires a clear increase in net sales to reduce the relative share of fixed costs.

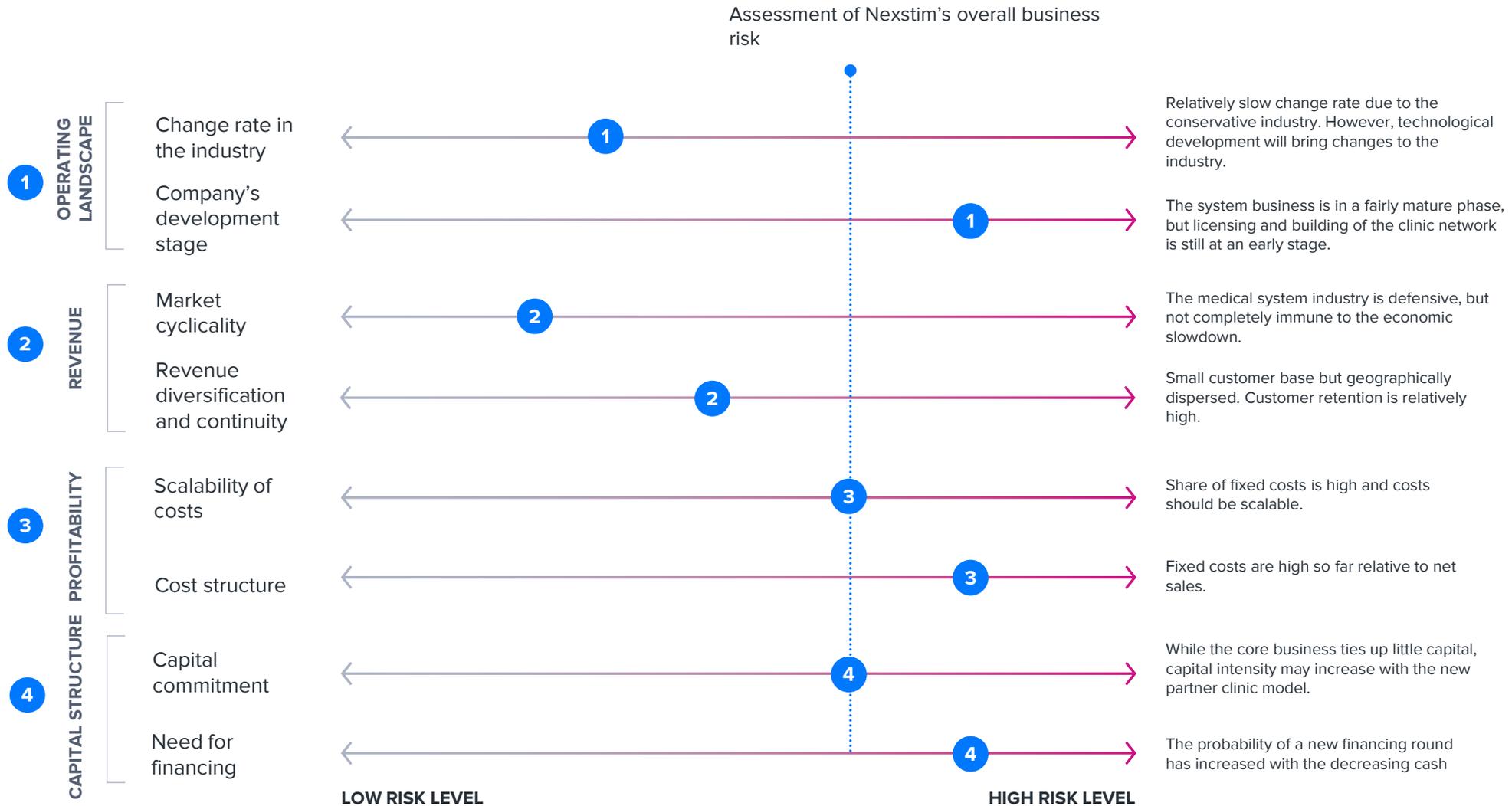
We estimate that the system business does not significantly commit capital, although R&D costs are necessary to maintain long-term competitiveness. Nexstim's R&D expenses have been around EUR 1-2 million in recent years. At this stage, the capital intensity of the clinics' service network business is still unclear. If the model means acquiring existing service companies, we expect it will commit significant capital relative to Nexstim's size. On the other hand, we believe building new service companies by recruiting experts is a light way to operate from the capital perspective.

Financial risk has increased recently

According to the latest H1'23 report, Nexstim's cash reserves had fallen to EUR 2.1 million from EUR 4.4 million at the end of 2022. Cash has been spent faster than we expected, and we believe that the likelihood of a new financing round has increased recently. In its strategy, Nexstim has stated that it will try to minimize financing needs and in connection with the H1'23 report, the company had no ongoing plans to raise additional funding. Our estimate is that avoiding a financing round will require clearly faster system sales starting in H2'23. The anticipated start of licensing income in H2'24 should begin to improve the company's cash flow.



Business model (4/4) – risk profile



Industry and competitive landscape (1/4)

Market for Diagnostics business

The company estimates that the total market of NBS systems in the US and the EU is about 1,200 units corresponding to sales of EUR 240 million using EUR 200,000 as the average price. We estimate that the average economic life of an NBS unit is 8-10 years, so the annual market value would be EUR 24-30 million. In addition, the company estimates the potential of equipment-related consumables and services to be EUR 24 million annually.

We estimate that the total potential of the diagnostics business is EUR 45-55 million p.a. based on the 8-10-year economic life and the annual potential of consumables and services. The net sales of the diagnostic business were EUR 3.4 million in 2022, representing 6.2-7.6% of the total potential market. We expect the annual growth rate of the NBS market to be 6-10%. The estimate is based on the increase in the popularity of TMS mapping compared to other methods and a slight increase in sales prices. We estimate that awareness of the benefits of the NBS system is increasing among users, which supports system sales. Increased awareness is supported by constant publication of new studies with NBS systems and key opinion leaders such as doctors at top hospitals using the systems.

Competitive factors of the diagnostics market

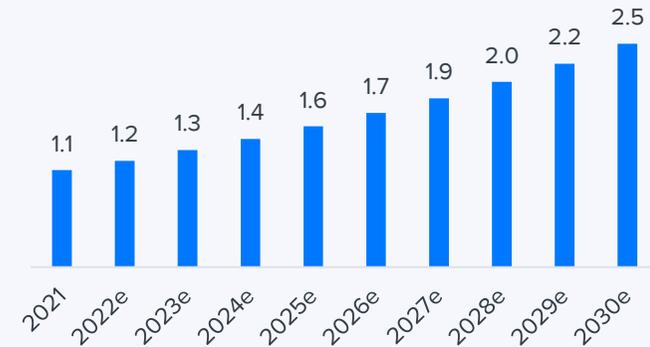
We believe that Nexstim is currently the leading supplier of TMS technology suitable for mapping of speech and motor cortices. We believe that the use of NBS diagnostics is increasing compared to alternative methods such as mapping during surgery.

The increase in popularity is based on the method's accuracy, safety, non-invasiveness (no surgery required) and ease from the patient's viewpoint. NBS systems are used to diagnose patients with severe illnesses who are subjected to demanding surgery. Our understanding is that the customer base primarily seeks high-end features like accuracy and reliability of targeting. We feel that Nexstim meets these requirements well.

In our view, after quality and reliability factors, the price of the system is a smaller factor in customer decisions. However, we do not believe that Nexstim has the potential to make significant price increases. We believe that in its customer field, Nexstim has found the right balance between the price of the system and recurring net sales during the relatively long sales history of NBS systems.

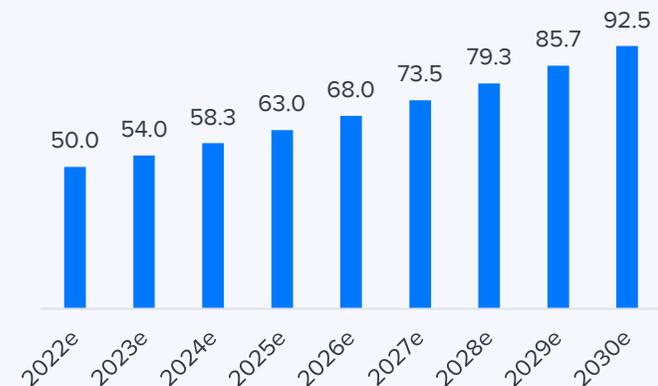
Nexstim has recently started to offer its customers the possibility to use NBS systems for therapy applications as well. This is done through new system sales or with a therapy software update for already sold NBS systems. We believe this has increased the attractiveness of the system, as hospitals and research institutes are better placed to gain more internal users from their organizations. A larger user base will lower the threshold for purchase because the cost burden is more widely distributed.

TMS system market, USD bn



Source: Biospace – Transcranial Magnetic Stimulation System Market Size, Growth, Trends, Report 2022 to 2030

Diagnostics market, MEUR



Source: Nexstim, Inderes' estimate

Industry and competitive landscape (2/4)

Nexstim's position in the diagnostic market is strong. We believe that success in this business depends on the company's ability to increase the attractiveness of TMS technology compared to other solutions.

Therapy business – major depressive disorder

In the therapy business, Nexstim focuses especially on treatment applications for major depressive disorder and chronic neuropathic pain. The key to long-term growth on the TMS therapy market is the implementation of possible accelerated protocols that would increase the relative attractiveness of TMS technology.

The company estimates that there are 5.9 million people suffering from major depressive disorder in the US and the EU who would be entitled to TMS treatment. The company estimates the market to be EUR 40 billion. Inderes estimates that the share of TMS systems and services currently account for some 1-2% of the total market. Based on this assumption, the TMS market for major depressive disorder treatment is worth EUR 400-800 million. The annual growth of the TMS system market (CAGR) is estimated to be 9-10 % during the ongoing decade (Biospace).

Therapy business – chronic pain

In the US and the EU, some 9.6 million people suffer from chronic neuropathic pain. More than half of the patients do not receive satisfactory relief from available treatments. We estimate that TMS technology is still marginal in chronic pain treatment.

In the long term, we believe that relatively strong clinical evidence will support this treatment becoming more widespread. Globally, pain is treated relatively rarely with TMS systems. Finland is a pioneer in this area and Nexstim's system is used to treat pain in all the university hospitals in the country. The company currently only has CE marking for the application, so the system cannot yet be marketed for pain treatment in the US. We follow the market development but believe that the importance of pain treatment for Nexstim is still limited in the next few years.

Competitive factors of the therapy business

Nexstim's aim to become the leader TMS rehabilitation of stroke patients broken down with unfavorable study results in 2018. The company then turned the focus of the therapy business to depression where clinical evidence of TMS' effect is strong, but where, on the other hand, there are several competitors. Among the competitors, Nexstim is profiled with good targetability, accuracy, ability to visualize treatment delivery and treatment results. As a result of these competitive factors, we feel Nexstim is among the premium players in the market in terms of quality and pricing. We believe there are several players in the treatment market for major depressive disorder and price competition is relatively tight. On the other hand, we believe competition in pain treatment is lower at this time.

NBS market potential



1,200 potential hospitals and clinics in the EU and the US.



One system per customer at an average price of EUR 200,000.
system's economic life 8-10 years



Consumables and services EUR 24 million p.a.



Total market potential is EUR 45-55 million p.a.

Growth 6-10%

Chronic pain treatment market



Some 6-7 million patients in the US and Europe do not receive sufficient help from current treatments.



The share of TMS treatments in the total market is still marginal.

Source: Nexstim and Inderes

Industry and competitive landscape (3/4)

We expect some TMS customers choose less expensive and simpler competitors than Nexstim's system, which enable faster treatment of large patient volumes at lower costs, but potentially reduces the quality of care. We believe that Nexstim will invest in customers demanding top quality and is positioned in the upper segment.

Competitors on the TMS market

The key competitors are the listed US-based Neuronetics and US-Israeli-based Brainsway. In addition there is a number of smaller unlisted companies on the market. We estimate that Neuronetics is the biggest player on the market (2022 net sales 65 MUSD). We estimate that Nexstim has a technological advantage over Neuronetics, as the competitor's product seems to lack navigability of the E-field. Brainsway's technology differs to some extent from other TMS companies by enabling stimulation of deeper parts of the cerebral cortex. Nexstim's competitive position relative to Brainsway is, in our opinion, less direct.

The business of both listed competitors is highly loss-making. The loss-making is partly due to large sales and marketing investments. We believe that competitors seek market shares at the expense of profitability, especially in depression treatment. In terms of financial resources, Nexstim's ability to challenge these competitors in sales and marketing is limited. However, we estimate that in the future Neuronetics and Brainsway will have to start

focusing more on profitability, which may change the current market dynamics to be more favorable for Nexstim.

Some of the unlisted competitors, such as MagStim and Magventure can technologically target treatment accurately with MRI technology. These companies also have the technology to map motor cortices. In addition, Ant Neuro's visor2 neuronavigation product enables adding a neuronavigation feature to other manufacturers' TMS systems. The product is compatible with most coils and stimulation systems. Visor2 also enables mapping of speech cortices, enabling TMS companies to expand the capabilities of their systems. We believe Nexstim still has an advantage over its competitors, as its system is integrated with therapy and mapping applications in one package. The modular design of the NBS6 system also enables flexible updating of different applications to one system. However, we believe the competition has intensified and several TMS manufacturers are in a position to offer neuronavigation and mapping of speech and motor cortices. We estimate that Nexstim thus faces more competition in diagnostic applications than before.

The recently established Magnus Medical is entering the market as a new player and we believe it has the preconditions to become a strong player in the TMS market of depression treatment in the US within a few years. Magnus Medical has recently licensed an accelerated protocol for depression treatment developed by Stanford University. The

company is also developing its own system and licensed technology from Nexstim in early 2022 for this. The contract makes Nexstim part of the value creation of accelerated protocols but with the restrictions on competition arising from the licensing it also loses opportunities in the US market for treatment of major depressive disorder. However, the competition restrictions do not apply to the partner clinic network through which Nexstim can still create value on the depression treatment market in the US and elsewhere in the market.

In addition to the treatment of major depressive disorder, TMS technology is used in several other indications (see figure on the next page), the most common being obsessive compulsive disorder. Nexstim's second authorized (CE marking) therapeutic indication chronic pain distinguishes the company from its competitors at the moment. We estimate that pain management is still a small part of Nexstim's whole but we believe that it offers the company a less competitive niche for growth. Nexstim has not announced any plans to expand into new indications, but we believe that the company is constantly evaluating new opportunities.

Industry and competition 4/4 – key players in the TMS market

Company 	System 	Indications ¹ 	Navigability 	Mapping 
 Nexstim	NBS6	Diagnostics: mapping speech and motor cortices (CE&FDA); therapy: MDD ¹ (CE&FDA), neuropathic pain (CE)	MRI & E-field	speech and motor cortices
 ant+neuro <small>inspiring technology</small>	Visor2™	mapping speech and motor cortices (CE&FDA) Can be linked to the systems of most other manufacturers.	MRI & E-field cortices	speech and motor module
 BrainsWay	Deep TMS™ system	MDD, anxiety associated with depression, obsessive compulsive disorder, tobacco dependence (FDA); bipolar disorder, trauma-induced stress reaction, schizophrenia, Alzheimer, autism (CE)	No	No
 CLOUDTMS	CloudTMS Machine	MDD, obsessive compulsive disorder.	No	No
 MAG & more	Apollo TMS, PowerMag	MDD	MRI	No
 magnusmedical	Not launched yet.	MDD, accelerated protocol	Presumably MRI & E-field	-
 magstim	Horizon 3.0 clinical TMS	MDD, obsessive compulsive disorder, anxiety associated with depression.	MRI	Motor cortex
 MagVenture	MagPro	MDD, obsessive compulsive disorder (FDA&CE); substance dependence, anxiety associated with depression; diagnostics	MRI	Motor cortex
 Neuronetics	Neurostar	MDD, obsessive compulsive disorder, anxiety associated with depression (FDA).	No	No
 SEBERS Medical <small>Because we care</small>	Blossom TMS	MDD (FDA).	No	No

1) MDD = Major Depressive Disorder
Source: Inderes

Strategy and financial objectives (1/4)

Main objectives of Strategy 2020-2024

Nexstim's aim is to increase recurring net sales through the existing system base and new sales based on strategic partnerships. In the therapy business, the company's aim is profitable growth in treatment of major depressive disorder and chronic pain. Nexstim also works to enable an accelerated treatment protocol for depression, which we feel was achieved through the licensing agreement with Magnus Medical. At the heart of the strategy is focus on profitable growth and increasing recurring business.

The strategy relies on increasing net sales and profitable growth

Nexstim's strategy is based on using its navigated TMS technology in several new applications. The company focuses on diagnostic and therapy areas where its technology has measurable benefits for patients and customers' businesses. In its strategy, the company positions itself as a premium player in the TMS market, based on strengths in technology and system usage as a technology platform that enables multiple applications. Geographically, the company focuses in particular on the US and the EU.

The special strength in our eyes is the excellent accuracy enabled by Nexstim's technology and the company's strong position as a TMS supplier in the diagnostic area, although competition in this area seems to have increased. The lack of resources associated with the small size of the company, visible, e.g., in the smaller sales and marketing resources than among competitors, will in our opinion slow down strategy implementation.

Strategy of the diagnostics business

Nexstim's strategy in the diagnostic area is to increase the recurring net sales from using NBS systems. Growth is promoted by increasing the utilization rates of installed systems and by increasing the system base through new sales. The company aims to further develop its technology in mapping of speech and motor cortices. Nexstim focuses in particular on developing solutions in pre-operative mapping for difficult brain tumor and epilepsy patients. In addition, the company aims to enable the planning and targeting of radiotherapy related to brain tumor treatment. In terms of future research, the company tries to partner with leading hospitals and universities.

Strategy of the therapy business

Nexstim focuses in particular on treatment of major depressive disorder and chronic neuropathic (or nerve damage) pain. The company's objective is to optimize the high-margin recurring net sales associated with the use of therapy systems. We believe that when it comes to the objectives of the accelerated protocol, the company has abandoned the development of its own protocol for the time being. The benefits of the accelerated protocol will come through the licensing agreement in the near future. The company also aims at new indications in treatment of chronic pain by supporting research in the field. We believe that these projects are important for the long-term success of the company, but we have to wait for concrete results for a long time.

Strategy 2020-2024 business objectives

Business goal in diagnostic applications: generating a recurring revenue stream through the existing strong installation base and developing sales mainly through strategic partnerships.

Business goal in treatment applications: optimizing the recurring revenue stream through the existing installation base and profitable growth in new system sales for treatment of MDD and chronic neuropathic pain. Establishing a new business to treat major depressive disorder based on an accelerated treatment.

Main strategy objectives 2023

Profitable growth in comparable net sales, resulting in positive EBITDA (operating profit before depreciation) while minimizing future capital needs.

Launch of the new NBS6 product, enabling easy-to-use systems and future use of additional modules in the same system (realized).

Expansion of Nexstim's network of exclusive partner clinics primarily in the US and Europe (not realized).

Source: Nexstim

Strategy and financial objectives (2/4)

Objectives in 2023 strategy implementation are profitability and expanding the network

Nexstim's strategic main objectives for 2023 are comparable net sales growth (2022: 6 MEUR), profitability at EBITDA level and minimizing capital needs. The company's goal of launching the NBS6 system in 2023 has already been realized. We consider this focus sensible on the road towards more sustained profitability and creating shareholder value. In our opinion, the growth target for net sales is not very demanding and the company should meet the target. In the longer term, the company would need clear growth to achieve healthy profitability. The profitability target for 2023 of positive EBITDA is, in our opinion, more challenging, and to achieve it, we believe that sales have to accelerate significantly in H2'23 compared to H1'23.

Objectives for 2023 also include expanding the partner clinic network. Building the network is still in its infancy. In early 2022, Nexstim announced it had established a venture capital company with the aim of investing in the network. In August 2023, Nexstim signed a EUR 1.5 million loan agreement with Nordea, which is planned to be used for strategic investments. We believe the most likely investment is to expand the clinic network. According to the company, growth opportunities are found especially in the US and Europe. At the time of writing, the only partner clinic service company is based in California, USA.

Increasing recurring business

We estimate that the diagnostic system base will grow during the strategy period supported by increasing customer demand. In addition, the company can promote the average utilization rate of the system base. Both factors contribute to the increase of high-margin recurring net sales in the diagnostics business. However, recurring net sales plays a relatively small role in diagnostics, because system use involves fewer lease agreements and consumables.

In the therapy business, growth of recurring business is particularly supported by combined systems becoming more common while the demand for pure therapy systems plays a smaller part. Combined systems thus increase the number of devices suitable for therapeutic use. We estimate that combined systems also enable increasing recurring net sales in the therapy business and play an important role in the implementation of the company's strategy. However, there has been pressure in recurring net sales in recent earnings reports, and the company has reported on the effects of increased competition in, e.g., the pricing of disposable parts.

The limiting factor in increasing recurring business is the restrictions on competition arising from the licensing agreement with Magnus Medical. We expect Nexstim's activity in the US market for major depressive disorder to decline over a few years and its activities will focus on Europe and, to a lesser extent, the rest of the world.

Summary of the strategy (3/4)



Key elements for strategy implementation

Actualized

- Successful rapid transition to depression treatment
- Operating losses have decreased clearly
- Growth of the system base supports recurring net sales
- Launch of combined systems
- Start of the partner clinic model
- Technology licensing

Near future, 1-2 years

- Continuing profitable growth by increasing the system base and recurring business by investing in therapy in particular
- Strategic partnerships to grow the diagnostics business
- Focus areas for expanding the partner clinic network are the US and Europe
- Possible new licensing partnerships in the therapy market

Next 5 years

- Expanding the partner clinic network
- New indications
- New licensing agreements

Strategy and financial targets (4/4) - SWOT



Strengths

- Pursuit of profitable growth, though some competitors try to grow at the expense of profitability.
- Increasing recurring net sales will further increase defensiveness.
- We believe that minimizing capital needs is important for shareholder value development.
- Pain treatment is a less competed niche in the TMS market.



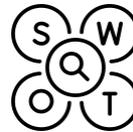
Weaknesses

- Small resources relative to competitors.
- Visibility on the development of net sales and earnings.
- Competitive situation in treating depression and larger competitors seeking growth at the expense of profitability.
- Still continuing loss in the system business.



Opportunities

- In the medium term, the possibility of achieving sustainable stable profitability.
- Successful investments in the clinic network would bring stable and defensive cash flow.
- There may be new opportunities in technology licensing.
- The new NBS6 system offers opportunities for increasing recurring net sales through software licenses.



Threats

- Increased competition with technological development.
- Delays in authorizations of the NBS6 system's diagnostic applications.
- Licensing income from Magnus Medical falling short of expectations
- Delays in expanding the clinic network or failed investments.

Financial position (1/2)

Business has been loss-making except for last year

Since its inception, Nexstim's business has been loss-making, with the exception of 2022 supported by the EUR 3.5 million signing fee from licensing. We do not feel that the historical figures reflect the company's future particularly well due to its growth in recent years and technology licensing contract. In the future, we expect the expansion of the clinic network to also change the company's profile.

Cost structure

In 2022, 12% of the company's operating costs were materials and services related to the manufacturing of products. Nexstim does not manufacture its systems itself but uses a Finnish subcontractor in manufacturing. In recent years, sales margins have fluctuated around 80%.

The largest expense item in the company's operational business has in recent years been personnel expenses (2019-2022 some 48%), which we expect to scale relatively well with net sales growth. As growth materializes, the company must invest some additional resources in sales which will slow down scalability. We do not believe the company needs significant additional R&D personnel even if volumes would grow.

On average, about 35% of operating expenses have been other operating expenses, whose share has decreased slightly in relative terms in recent years. This item includes sales and marketing related expenses, costs arising from external product development communities and normal administrative

expenses. We estimate that these expenses are mainly fixed and therefore scale well with net sales. Depreciation and impairment comprise about 5% of expenses, reflecting low tangible assets and the business profile. The 2023 cost saving program will reduce costs this year.

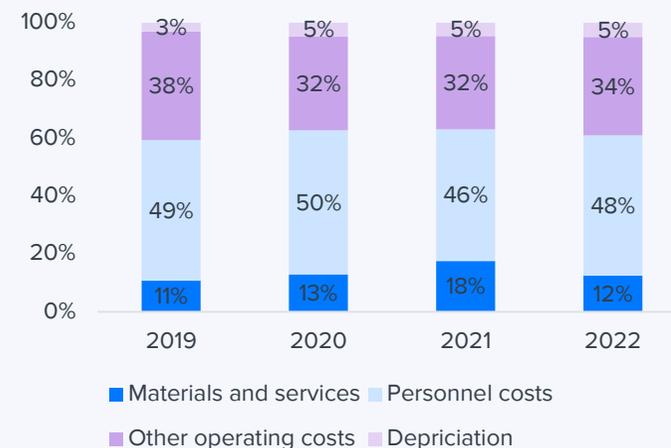
Cash flow fluctuates with license fees

Nexstim's operating cash flow has been negative in recent years but turned positive in 2022 with the signing fee. Investments have depressed free cash flow to some extent. The company has had to offset its operational cash flow through various financing solutions (subscription rights issues, product development loans). Cash flow should be supported in the future by a five-year licensing period, which we expect to start in H2'24. The licensing period begins when selling of Magnus Medical 'ssystem starts.

Balance sheet suits the company's profile

The balance sheet structure of Nexstim at the end of H1'23 is as expected considering the company profile (balance sheet structure on the next page). Intangible assets, consisting of capitalized development costs and intangible rights, amounted to EUR 2.1 million. Capitalized development costs have increased and are, in our opinion, related to the commercialization of the new NBS6 system.

Cost structure (% of operating costs)



Cash flow development (MEUR)



Financial position (2/2)

Similarly, the amount of tangible assets is limited by the nature of the business (0.4 MEUR) and consist mainly of the therapy systems used by the business. The company's balance sheet had EUR 0.4 million in investments in associates, consisting of a strategic investment in a service company of a partner clinic in California.

The company had some EUR 0.4 million in inventories, EUR 0.4 million in accounts receivable and on the other side of the balance sheet EUR 0.2 million in accounts payable. We believe inventories have decreased as the company has destocked elevated inventories caused by the COVID pandemic and logistics challenges. Receivables have decreased as the company has delivered the order book of sold systems. In recent history, the company's working capital has been positive.

Cash position may require bolstering

Due to the company's loss-making history and frontloaded product development investments, Nexstim has carried out several financing rounds, the latest of which in 2021. The cash situation has been improved with decreased losses and the 2022 signing fee, which strengthened the cash position by EUR 3.5 million.

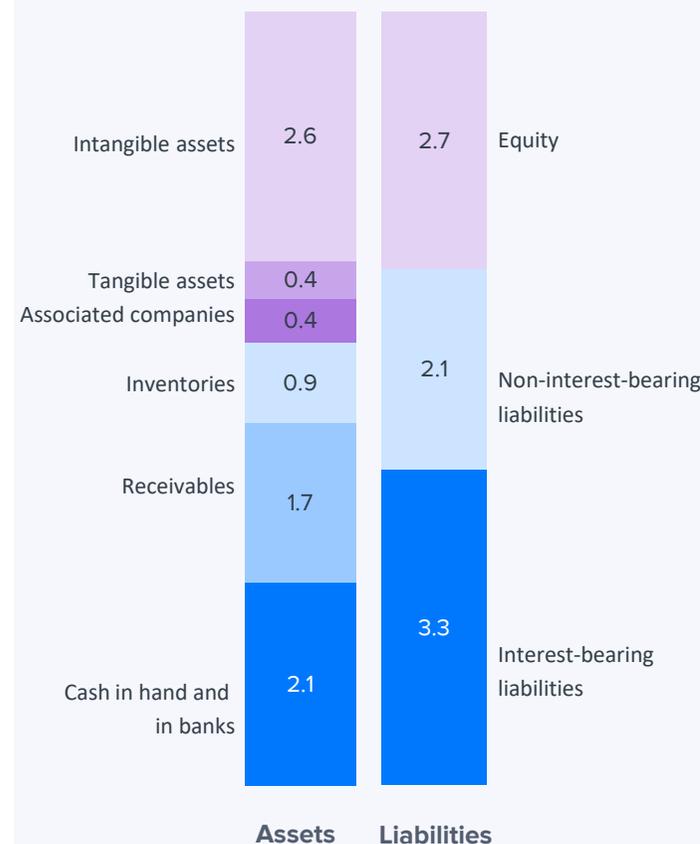
However, due to negative cash flow, the cash position has deteriorated and Nexstim's cash reserves were EUR 2.1 million in the H1'23 report. The company's guidance indicates positive EBITDA for 2023, which would mean a clear pick-up in the business toward the end of the year. We believe that the probability of a new financing round has increased this year and consider the possibility of a new issue moderate. In the slightly longer term, cash flows are supported by

licensing income, which we expect to start during H2'24. The cash position is partly affected by the EUR 1.5 million investment loan granted in August 2023, which, as far as we know, has not yet been raised at the time of writing. According to the release, the loan can also be partly used for working capital.

At the end of the financial year 2021, the company had some EUR 3.2 million in long-term interest-bearing debt, consisting of product development loans from Business Finland. Short-term liabilities amounted to some EUR 3.6 million in the balance sheet.

In addition to a possible issue, the share capital may be diluted to some extent through stock option plans. If the option schemes currently approved by the company fully dilute the share capital it will according to our estimate grow by some 8% by 2029.

Balance sheet structure at the end of 2021



Investment profile (1/2)

Nexstim is a growth seeking medical technology company

For investors, Nexstim is clearly profiled as a growth company in the defensive medical technology sector, where it is positioned in the segment of challenging brain diseases. The industry is supported by attractive longer-term fundamentals and trends, and the company has high market potential. Commercially, Nexstim is still at a relatively early stage, as net sales have been limited thus far and the result and cash flow have been negative in the past. However, the company's result is turning profitable in the coming years with licensing income. Despite the turnaround, the company is still a high-risk investment due to the low predictability of different business areas. Later, the company's risk profile has prerequisites to decrease with increasing defensive and scalable businesses. However, the company will not mature into a lower-risk phase until some years have passed.

As typical for a growth company, Nexstim needs capital to generate growth (incl. investments in expense structure and intangible assets), so no dividend is expected from the company in the coming years. Thus, the potential return for investors will be generated by changes in Nexstim's share price. In addition, historically, the company has also needed external capital from its owners to finance growth and we still feel that the need for additional funding cannot be completely ruled out. Thus, we feel investors should be prepared to continue to finance the company or alternatively accept the risk of share series dilution.

Positive value drivers and opportunities

Nexstim's target business is considerable compared to the company's net sales and includes significant growth opportunities. In addition, TMS treatments are expected to slowly take over from other treatments, which supports the company's growth potential.

Nexstim's system base is growing, especially supported by the sales of combined systems. This will pave the way for future growth in highly scalable and profitable recurring net sales. The company's specific potential is created by growth in recurring net sales related to the therapy business. Nexstim has also demonstrated that licensing of its technology involves business opportunities that can generate additional cash flow in the future.

Nexstim is building a new business model in the US, based on a share of value creation in partner clinics. The new model offers opportunities, but its functionality has not yet been fully proven.

In the long term, the company can expand to new indications, e.g., severely depressed hospitalized patients. In addition to expanding applications, success in developing accelerated protocols can increase the target market available to Nexstim.

Risks and threats

Competition in therapy systems is fierce and the company's growth may be below expectations. This would result in weaker recurring net sales growth than expected and slow down the company's profitability turnaround. Nexstim also has small resources relative to its competitors,

especially in terms of sales and marketing. We feel there are some unhealthy features in the market situation as larger competitors seek growth at the expense of profitability.

Nexstim can fail to create a new business model based on partner clinics. We estimate that growing the clinic network also requires relatively large investments compared to the company size if successful. Investments in turn increase the likelihood of a new share issue.

Research into new indications is key to the long-term success of Nexstim, but these require long-term and uncertain research. A possible failure would undermine the long-term potential of the therapy business.

Investment profile (2/2)

- 1. Growth seeking company in a defensive industry**
- 2. Business model of systems, expansion of partner clinic network and licensing income**
- 3. Focus on challenging brain diseases and disorders, and their treatment and therapy**
- 4. Large, defensive industry supported by strong trends**
- 5. Some uncertainty related to the financing of growth**

Potential



- Large target market supported by megatrends.
- Growing popularity of TMS treatments compared to pharmacological treatments.
- Licensing income provides cash flow.
- Strong position in diagnostic business.
- Net sales and profitability have developed in the right direction since 2019.
- The clinic network can generate cash flow-positive defensive business

Risks



- The competitive situation in the therapy market is challenging.
- Competition in diagnostics has increased.
- The company is small compared to the cost structure and investment needs.
- Development of new indications requires long-term and uncertain research. A possible failure would undermine the long-term potential of the therapy business.
- Potential issues weaken the investor's expected return.

Estimates (1/4)

Background of the model

Nexstim's long-term financial success depends most on net sales growth. The company's cost structure is heavy compared to the current net sales level, which means that, despite the high sales margin, EBIT has remained clearly in red thus far. Our net sales estimate for 2023-2026 is based on modeling system sales, recurring net sales and the growth of the clinic network. In the longer term, the estimate is based on expected market growth, market drivers and Nexstim's competitive factors. In terms of licensing income, we estimate a five-year licensing period, which we expect to start in H2'24 and end in H2'29.

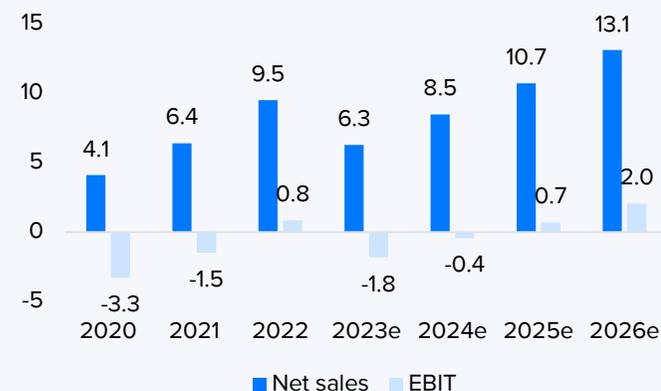
In our opinion, the visibility of system sales and recurring net sales is moderate, even though the company does not provide guidance on expected sales development. Predictability is complicated by technological development. Crucial for Nexstim is the future demand for the new NBS6 system. On the other hand, competitors' technological development and innovations may significantly change the competitive landscape in the medium term. Visibility of clinic network growth is low as it essentially depends on inorganic growth. When estimating licensing income, we have to rely heavily on Nexstim's and Magnus Medical's joint EUR 17 million estimate of the total value of the contract. We believe licensing income depends on future system sales, which is challenging to assess. We also do not know the details of the contract.

Net sales growth from various sources

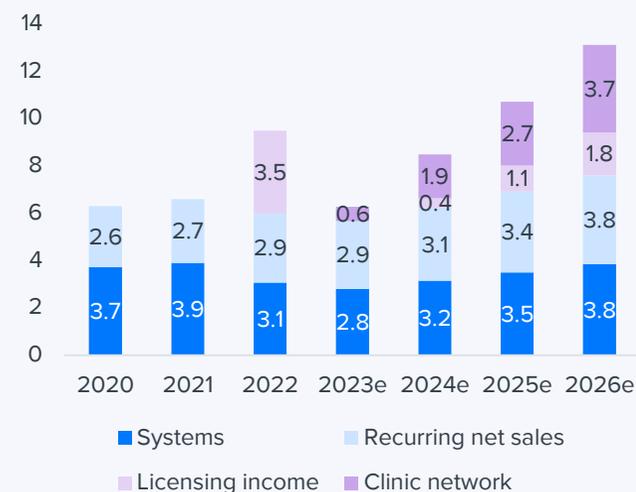
We expect EUR 6.3 million in net sales this year mainly from system sales and recurring net sales, as well as to a small extent from our expectation of clinic network expansion. Nexstim's guidance is that comparable net sales will grow from the previous year adjusted from the non-recurring EUR 3.5 million licensing income. This would mean net sales of over EUR 6 million, which means that our estimate barely reaches the company guidance. Achieving this guidance would mean accelerating system sales toward the end of the year, which we expect the company to achieve through selling the new NBS6 system. System sales are typically more active at the end of the year.

In the coming years, we expect strong net sales growth driven especially by the growth in licensing income and the clinic network. In terms of system sales, we expect moderate progress due to the competitive situation. In 2020-2021, we believe system sales was supported by sales activity related to the launch of the therapy system and EUR 0.9 million delivery of tailored systems in 2021. System sales has stabilized since then, but we expect the system base is still growing. We expect recurring net sales to grow supported by the growth of the systems base.

Net sales and EBIT, MEUR



Net sales distribution, MEUR



Estimates 2/4

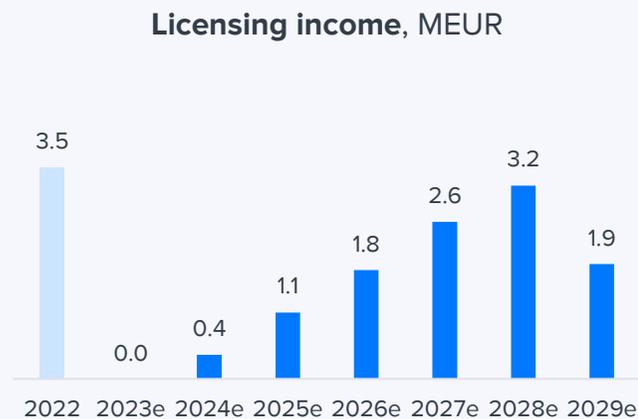
The use of the system base generates recurring net sales through consumables and maintenance agreements that enable carefree use of the system. Maintenance agreements are now sold for almost all systems. System leasing contracts also bring recurring net sales. Therapy applications bring higher recurring net sales than diagnostics due to higher consumption of consumables. We believe the growth in recurring net sales should be supported by the licensing-based usage model of the new NBS6 system.

For licensing income, we expect a total income of EUR 14.5 million, which includes a safety margin for Nexstim's and Magnus Medical's EUR 17 million estimate. EUR 3.5 million licensing income materialized already in 2022, so we expect the total amount of licensing income from Magnus Medical's business development to be EUR 11 million. According to the companies, the licensing period is five years and we expect the period to start in H2'24 based on Magnus Medical's public [assessment](#). We believe that caution is justified in our licensing income estimate, as Magnus Medical is only developing its system and has no sales yet. The system already has FDA 510(k) authorization, which means that there is no risk related to market entry in our opinion. We expect licensing income to start to a small extent in H2'24 and grow gradually to a peak of EUR 3.2 million in 2028. We estimate that Nexstim will invest cash flow from licensing income to grow the clinic network.

Our longer-term growth estimate relies heavily on partly inorganic growth of the clinic network, which we expect to grow already during H2'23. Nexstim has agreed on loan financing of EUR 1.5 million for strategic investments that we expect to target the clinic network in the coming months. However, visibility of clinic network growth is weak.

We expect a turn in 2025

Nexstim has indicated that it will achieve a positive EBITDA in 2023. Nexstim provides no EBIT or longer-term guidance. We feel the guidance is relatively ambitious and requires clear net sales growth and strict cost control in H2, as H1's EBITDA was EUR -1.1 million. Our own H2'23 EBITDA estimate is EUR 0.1 million and EBIT EUR -0.4 million. We note that these reported figures are boosted by balance sheet capitalization of R&D expenses that the company has made and will make in connection with the commercialization of the new NBS6 system. We believe that balance sheet capitalization is justified and appropriate, but make the reported result look more positive even if they have no cash flow effect. Correspondingly, in the longer term, depreciation increases, decreasing reported EBIT. We expect the EBIT to turn profitable in 2025. In 2023-2024, the result is still depressed by the high cost structure relative to net sales.



Estimates (3/4)

We expect costs to develop moderately

Nexstim has been able to defend its sales margin well in the recent inflationary environment and we expect the margin to remain at an excellent level of around 80% in the future. We expect the number of personnel to grow moderately from the current level. The company had 37 employees at the end of H1'23 and we expect the number of employees to grow to 44 by the end of 2026. This growth reflects our assumption especially of the growth in the clinic network. We estimate that Nexstim's number of personnel is in other respects in line with the company's needs, and see no significant recruitment needs on the horizon. We estimate that the personnel costs for 2023 will be lower than normal due in part to non-recurring savings measures that we do not expect to repeat in full in the future. Other operating expenses have decreased due to the cost saving program. We expect these costs to grow moderately from the current level, as we believe that some the achieved cost savings are permanent. We estimate that depreciation will be higher than in previous years due to capitalization of R&D costs and their depreciation once NBS6 system sales starts.

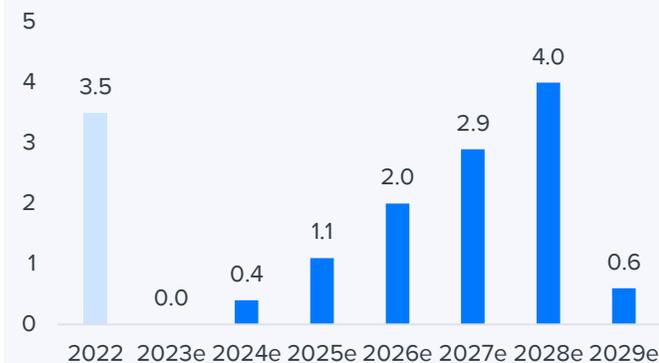
We do not expect the company to pay taxes in the next few years due to the deductibility of historical losses. Financial expenses will continue at a stable level of EUR -0.1 million in our estimates.

Cash may require bolstering with bridge funding

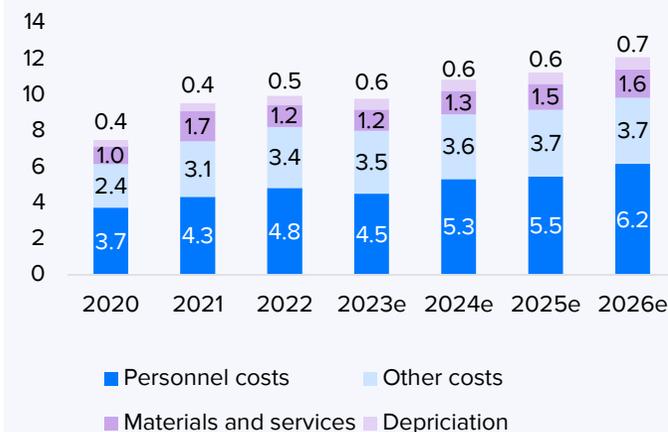
We expect operating cash flow to turn positive starting from 2024 (+0.4 MEUR). In our estimates, operating cash flow is supported by high-margin NBS6 system sales and recurring net sales. We expect the clinic service network to generate positive cash flow quickly and licensing income should start to generate cash flow from H2'24.

We estimate that the 2023 operating cash flow is still clearly in the red (-0.9 MEUR). At the end of H1'23, Nexstim's cash and cash equivalents amounted to EUR 2.1 million. The cash situation may, therefore, require bridge financing until licensing income start to generate significant cash flows. We feel that well-performing system sales in H2 plays a crucial role for the company's financial situation. So far, Nexstim has announced four system deals, which we find to be relatively good achievement considering seasonality. However, accelerating sales are needed toward the end of the year, which is seasonally the best sales period for the company. In terms of investments we believe that Nexstim should have the preconditions to make necessary investments with the agreed on EUR 1.5 million loan financing.

Licensing income, MEUR



Costs, MEUR



Income statement

Income statement	H1'22	H2'22	2022	H1'23	H2'23e	2023e	H1'24e	H2'24e	2024e	2025e	2026e
Revenue	6.8	2.7	9.5	2.5	3.8	6.3	3.6	4.8	8.5	10.7	13.3
Nexstim	6.8	2.7	9.5	2.5	3.8	6.3	3.6	4.8	8.5	10.7	13.3
EBITDA	2.5	-1.2	1.3	-1.2	-0.2	-1.4	-0.3	0.5	0.2	1.2	2.7
Depreciation	-0.2	-0.3	-0.5	-0.2	-0.2	-0.5	-0.3	-0.3	-0.6	-0.5	-0.5
EBIT (excl. NRI)	2.3	-1.5	0.8	-1.4	-0.4	-1.8	-0.6	0.2	-0.4	0.7	2.2
EBIT	2.3	-1.5	0.8	-1.4	-0.4	-1.8	-0.6	0.2	-0.4	0.7	2.2
Nexstim	2.3	-1.5	0.8	-1.4	-0.4	-1.8	-0.6	0.2	-0.4	0.7	2.2
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	-1.4	-0.5	-1.9	-0.7	0.2	-0.5	0.6	2.0
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	-1.4	-0.5	-1.9	-0.7	0.2	-0.5	0.6	2.0
EPS (adj.)	0.44	-0.26	0.18	-0.20	-0.07	-0.26	-0.10	0.02	-0.07	0.08	0.28
EPS (rep.)	0.44	-0.26	0.18	-0.20	-0.07	-0.26	-0.10	0.02	-0.07	0.08	0.28

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	6.2	6.3	2 %	8.3	8.5	2 %	10.5	10.7	3 %
EBIT	-1.8	-1.8	-1 %	-0.7	-0.4	-36 %	0.4	0.7	79 %
PTP	-1.9	-1.9	-1 %	-0.8	-0.5	-32 %	0.3	0.6	107 %
EPS (excl. NRI)	-0.27	-0.26	-1 %	-0.11	-0.07	-32 %	0.04	0.08	107 %
DPS	0.00	0.00	0 %	0.00	0.00	0 %	0.00	0.00	0 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	2.0	3.0	3.1	3.0	3.2
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	1.1	2.1	2.3	2.3	2.4
Tangible assets	0.4	0.4	0.3	0.2	0.3
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	8.0	8.9	9.8
Inventories	1.0	0.9	0.3	0.5	0.7
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	1.8	1.9	2.5	3.2	3.9
Cash and equivalents	5.2	4.4	5.2	5.2	5.2
Balance sheet total	10.0	10.2	11.1	12.0	13.0

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	3.2	4.1	2.1	1.6	2.2
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-51.8	-51.0	-52.9	-53.4	-52.8
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	4.7	5.0	4.5
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	4.7	5.0	4.5
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	5.4	6.3
Short term debt	0.6	0.9	1.2	1.3	1.2
Payables	2.9	2.7	3.0	4.1	5.1
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	10.0	10.2	11.1	12.0	13.0

Valuation (1/4)

Value creation from system sales, clinic network and licensing

Nexstim's value creation is based on three factors: 1) system sales and recurring business, 2) growing the clinic network, and 3) licensing income. System sales have developed slightly slower than we expected, and we suspect future growth will depend heavily on the success of the new NBS6 system. No deals have been announced for the NBS6 system that received FDA authorization and CE marking for therapeutic use in the spring. It is possible that sales of the new system will only start on a larger scale next year, when the system also has authorizations for diagnostic applications. Nexstim would need more system sales to achieve economies of scale through high sales margins and continuous business growth. At the current sales level, the business is still loss-making.

Growing the clinic network is an important source of growth for Nexstim in the coming years. The business has the potential to make overall business more defensive and generate low-risk positive cash flow. However, the visibility of this business is limited, as the growth is mainly of inorganic nature. We estimate that licensing income will bring significant cash flow for the company in 2024-2029, the size and timing of which involve uncertainties. According to Nexstim, there are also opportunities for new licensing agreements in the future.

Thus, we believe volume growth in the system base, successful investments in the clinic network and licensing income materializing at close to the levels expected by Nexstim and Magnus Medical during the five-year licensing period are required for the business to become clearly value creating.

Our valuation is based on sales-based multiples and DCF calculation

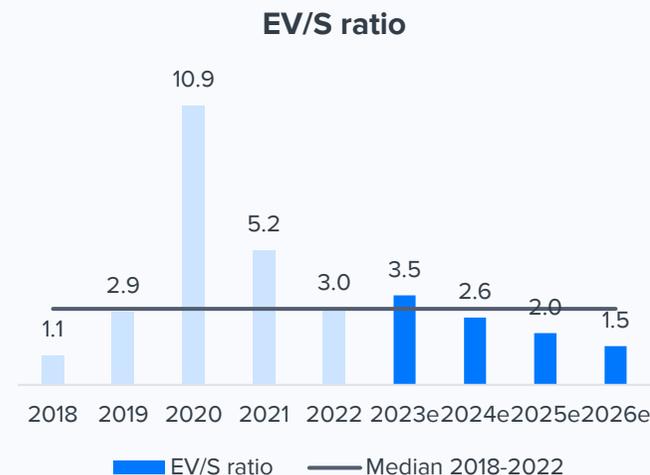
Due to Nexstim being loss-making, we cannot rely on earnings multiples in the valuation. On a sales basis, we can mirror the EV/S multiple to future growth prospects, profitability potential and the valuation of peers and the industry. In our view, the DCF calculation of the present value of projected cash flows is also a useful valuation method when pricing risk, unlike the EV/S multiple. However, the estimate risk of cash flows is high.

The EV/S ratio is neutral relative to the company's history

Nexstim's 2023 EV/S ratio with our estimates is 3.5x. Next year, the ratio will fall to 2.6x and will fall further in the future if the growth we forecast materializes. The median EV/S ratio for 2018-2022 has been 3.0x (range 1x-11x). Thus, the current ratio is roughly in line with the historical valuation. Historically, we find the share price to be neutral or slightly elevated given the strong rise in required returns on the market and the decrease in risk tolerance in 2022-2023.

Valuation	2023e	2024e	2025e
Share price	2.90	2.90	2.90
Number of shares, millions	7.27	7.27	7.27
Market cap	21	21	21
EV	22	22	22
P/E (adj.)	neg.	neg.	35.8
P/E	neg.	neg.	35.8
P/B	9.8	13.1	9.6
P/S	3.4	2.5	2.0
EV/Sales	3.5	2.6	2.0
EV/EBITDA	neg.	>100	17.4
EV/EBIT (adj.)	neg.	neg.	31.3
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes



Valuation (2/4)

Compared to peers, the EV/S ratio is high

Nexstim has two clear listed peers Neuronetics and Brainsway that are among the largest TMS system manufacturers. The EV/S ratios for these peers for 2023-2024 are Neuronetics 0.4x and 0.4x, and Brainsway 0.8x and 0.7x. The ratios of the peers have fluctuated strongly, and we estimate that the current absolute low ratios are explained by heavy losses combined with a general decrease in risk seeking on the market. We consider Nexstim's profitability outlook better than for the peers, based on which we accept a higher EV/S ratio for Nexstim than the peers. However, the valuation difference is quite high and we feel that Nexstim's share is expensive compared to these peers.

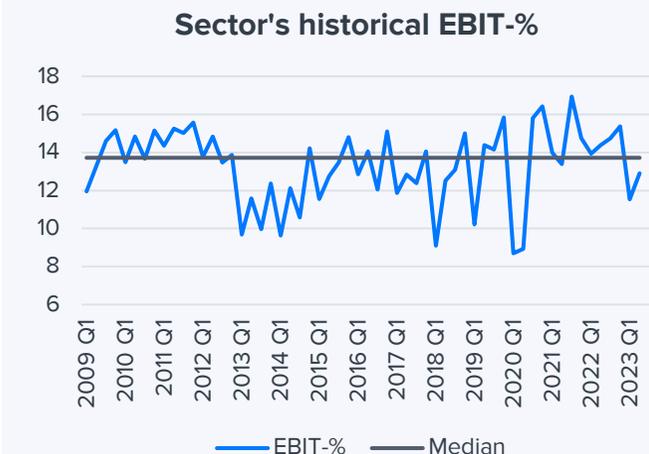
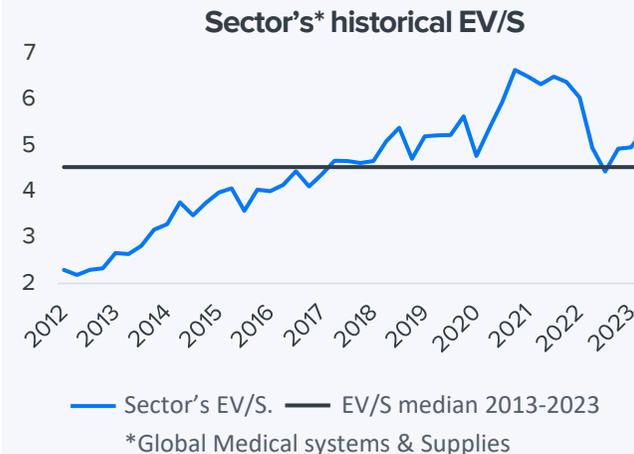
In addition, when examining the relative valuation, we use the general valuation of the sector. Global Medical Devices & Supplies index's long-term (2012-2022) backward-looking median EV/S ratio has been 4.5x. The sector index consists of large, global, high-quality, mainly US-based medical technology companies who we believe deserve a valuation premium compared to Nexstim. The companies in the sector are very profitable and the average EBIT has been 13.7%. Nexstim's 2023e EV/S ratio is 29% below the sector's historical median.

We feel that Nexstim is neutrally or slightly highly priced relative to the current sector level and overvalued relative to the historical valuation of the sector.

The acceptable EV/S ratios depend on expected net sales growth. Nexstim's net sales adjusted for non-recurring licensing income have been steady in recent years (2021: 6.4 MEUR; 2022: 6.0 MEUR; 2023e 6.3 MEUR). In the future, we expect strong growth (2023-2026 CAGR 21.6%), but visibility is limited. We estimate that the acceptable range for Nexstim's EV/S ratio is 2.5x-3.5x (was 3x-4x), considering the actual development in recent years, future growth estimates and a decrease in the risk tolerance of the market in recent years. The current valuation with this year's forecast is therefore at the top of the range. At this stage, we look at near term estimates as growth visibility is low. Our view of the current multiple range is depressed by the increased financial risk. In our view, the EV/S ratio turns clearly attractive only in 2025, when it reaches a level of around 2x. We are ready to accept higher multiples for Nexstim if more evidence of profitable scalable growth accumulates.

Earnings-based valuation looks far into the future

It is still difficult to use earnings-based multiples, as we only expect the operating result to turn positive in 2025. The P/E ratio will fall to a moderate level of 11x only in 2026. The estimates involve high uncertainty, so we do not think there is any meaningful earnings-based support available for the share valuation at this stage.



Source: Inderes/Bloomberg

Valuation (3/4)

DCF model also indicates a moderate upside in the share

The DCF calculation gives a current share value of EUR 3.3 (was EUR 3.8). We consider the DCF model useful in Nexstim's valuation but due to the sensitivity of the model, we encourage investors to compare the assumptions used in the model with their own estimates and required return.

In the model, we have used 12.3% as the cost of equity and WACC is 11.5% (was 10.4%). The increased WACC reflects our updated view on the increased risk level of the share and the clearly increased required return on the market after our initiation of coverage. The risk level is raised by the increased financial risk and a slower earnings turnaround than we expected. The visibility of business development is also low. On the other hand, expectations of achieving sustainable profitability and positive cash flows from license income limit the risk level to a degree. We believe that WACC is in line with other loss-making medical system manufacturers at the same development stage, such as Optomed (12.3%), Bioretec (13%) and Modulight (11%).

We have determined 2.5% as the terminal period growth reflecting the generally good growth outlook of the TMS market. We use 20% as the EBIT level, which is very high compared to the company's history. We justify the high terminal profitability with the company's potential for scalable profitability, high sales margins and historical profitability of the medical

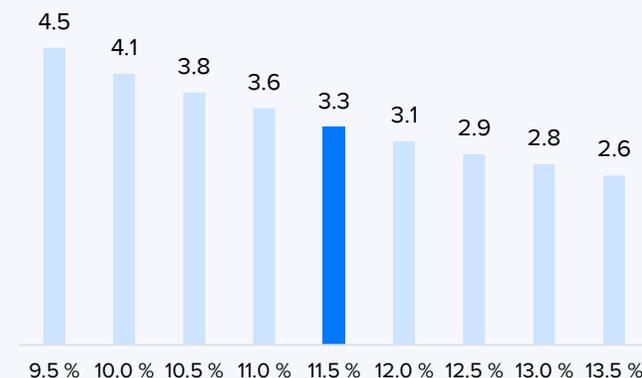
technology sector. The larger profitable companies in the sector typically reach an EBIT margin of 20-30% and we believe Nexstim can achieve very high profitability in a positive scenario.

Of the share's current value 60% is based on the terminal value of the calculation, i.e. free cash flows after 2032. This figure is relatively modest and is explained by license income that is fully realized before the start of the terminal period. It is noteworthy, however, that the share of terminal values has decreased across the board in 2022-2023 as risk seeking has decreased on the market. However, cash flows based on license income are not permanent, which is important to consider. In addition, their realization is subject to a lot of uncertainty which the company cannot influence itself.

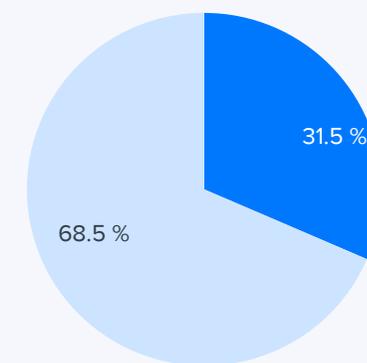
Share of licensing income in the whole

We expect that licensing income recognized in 2024-2029 will be EUR 11 million (Nexstim's estimate 13.5 MEUR) and recognition will focus on the end of the period. The discounted current value of the estimated license income is EUR 6.9 million, representing 32% of the company's current market value. In this case, the share of businesses outside licensing income will be 68%. Thus we expect estimated license income to generate a significant part of Nexstim's result and value.

Sensitivity of DCF value to used WACC



Share of licensing income in EV



■ Licensing income ■ Other business

Valuation (4/4)

Valuation summary

Share valuation is a challenging and partly contradictory exercise. Positive value drivers include significant expected licensing income relative to the company's size class, potentially good sales of the new NBS6 system, and the possibility of growing high-margin recurring net sales. In addition, the company can grow its defensive and cash flow-generating clinic network inorganically in the future. On the negative side, after the initiation of coverage, pressure has been created by system sales developing slower than we expected which in the current volume range continues to generate losses and which it is crucial for Nexstim to increase. Another valuation challenge is created by low visibility, especially regarding the level and timing of licensing income and expansion of the clinic network.

Cash consumption has exposed the company to financial risk, and our basic scenario expects a bridge-financing-type share issue or other financing so that the company can reach a more stable positive cash flow environment with licensing income in the coming years. Due to the cash position and cash flow estimates, we do not expect the company to pay dividends in the next few years, and we believe share return is based purely on changes in the share price.

In a positive scenario, system sales would rise to a new higher level, driven by the new NBS6 system and the company would avoid a diluting financing round. Cash flow would turn clearly positive as a result of licensing income and successful investments in the clinic network. In this scenario, we estimate that the share return could be quite good.

In a more pessimistic scenario, the NBS6 system does not increase the level of sales significantly, which means that continued loss-making consumes cash and drives the company to financing arrangements that dilute the share capital. Continued loss-making in the system business would offset the value generated by the licensing business in the medium term. In this scenario, we believe that the expected return can be clearly negative.

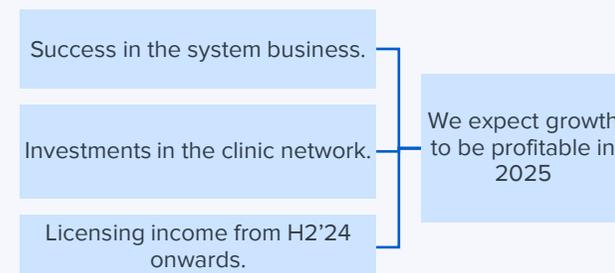
We estimate that the EV/S ratios of the share are fairly neutral. However, the ratios require growth and the company turning profitable. Compared to direct peers (Neuronetics and Brainsway), the share is currently priced at a highish EV/S, partly deservedly. The DCF value indicates moderate upside in the share.

Our view of the fair value of Nexstim's share is EUR 2.5-4.0 based on a number of methods. Given the high uncertainty surrounding estimates and the pricing environment, we consider a fairly broad range justified. We believe a significantly higher share valuation would require higher recognition of licensing income than the company expects (13.5 MEUR), as well as a faster increase in system net sales and EBIT than we anticipate. We feel the 12-month expected return of the share is at or slightly below the return requirement. Nexstim also has strengths and potential to exceed estimates. However, currently, we do not feel investors receive sufficient expected return to offset the risks.

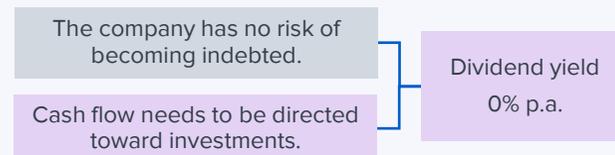
TSR drivers 2022-2025

■ Positive ■ Neutral ■ Negative

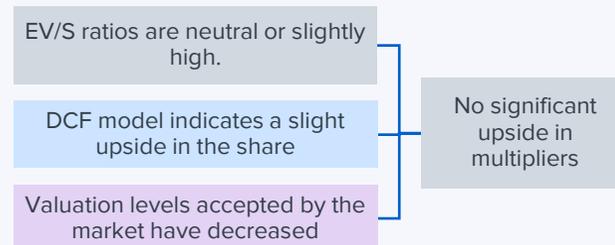
Profit drivers



Dividend yield drivers



Valuation multiple drivers



The share's expected return is on par with or slightly below the required return

Valuation table

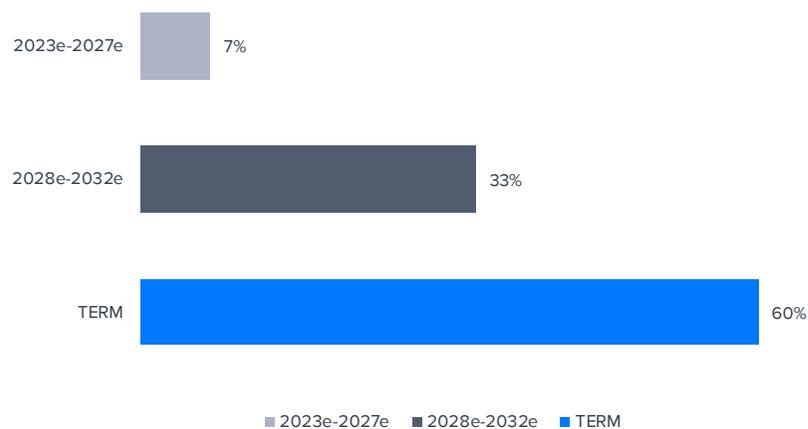
Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	0.60	0.12	0.10	4.78	4.00	2.90	2.90	2.90	2.90
Number of shares, millions	3.25	62.8	439.6	7.27	7.27	7.27	7.27	7.27	7.27
Market cap	2.0	7.5	43	35	29	21	21	21	21
EV	3.0	9.5	45	33	28	22	22	22	20
P/E (adj.)	neg.	neg.	neg.	neg.	22.2	neg.	neg.	35.8	11.7
P/E	neg.	neg.	neg.	neg.	22.2	neg.	neg.	35.8	11.7
P/B	neg.	neg.	neg.	10.9	7.1	9.8	13.1	9.6	5.3
P/S	0.7	2.3	10.5	5.4	3.1	3.4	2.5	2.0	1.6
EV/Sales	1.1	2.9	10.9	5.2	3.0	3.5	2.6	2.0	1.5
EV/EBITDA	neg.	neg.	neg.	neg.	21.4	neg.	>100	17.4	7.8
EV/EBIT (adj.)	neg.	neg.	neg.	neg.	33.6	neg.	neg.	31.3	9.7
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 %	2.1 %

Source: Inderes

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	48.9 %	-34.2 %	35.2 %	26.3 %	22.3 %	16.0 %	13.0 %	10.0 %	6.0 %	3.0 %	2.5 %	2.5 %
EBIT-%	8.8 %	-28.9 %	-5.2 %	6.4 %	15.6 %	24.0 %	25.0 %	26.0 %	20.0 %	20.0 %	20.0 %	20.0 %
EBIT (operating profit)	0.8	-1.8	-0.4	0.7	2.0	3.6	4.3	4.9	4.0	4.1	4.2	
+ Depreciation	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-1.0	-0.8	-0.8	-0.8	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-0.3	0.3	0.1	0.2	0.2	-1.4	-0.3	-0.1	-0.3	-0.2	0.0	
Operating cash flow	1.0	-0.9	0.3	1.4	2.8	2.8	4.2	4.5	3.5	3.6	3.9	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.4	-0.6	-0.6	-0.7	-0.7	-0.8	-0.9	-0.9	-0.5	-0.5	-0.5	
Free operating cash flow	-0.4	-1.5	-0.3	0.7	2.1	2.1	3.3	3.6	3.1	3.1	3.4	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-0.4	-1.5	-0.3	0.7	2.1	2.1	3.3	3.6	3.1	3.1	3.4	38.4
Discounted FCFF		-1.5	-0.2	0.6	1.5	1.3	1.9	1.8	1.4	1.3	1.2	14.0
Sum of FCFF present value		23.2	24.7	24.9	24.3	22.9	21.6	19.7	17.9	16.5	15.2	14.0
Enterprise value DCF		23.2										
- Interest bearing debt		-3.5										
+ Cash and cash equivalents		4.4										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		24.1										
Equity value DCF per share		3.3										

Cash flow distribution



WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.76
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	12.4 %
Weighted average cost of capital (WACC)	11.5 %

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	6.3	8.5	EPS (reported)	-0.01	-0.11	0.18	-0.26	-0.07
EBITDA	-3.0	-1.0	1.3	-1.3	0.2	EPS (adj.)	-0.01	-0.11	0.18	-0.26	-0.07
EBIT	-3.3	-1.5	0.8	-1.8	-0.4	OCF / share	0.00	-0.25	0.14	-0.13	0.04
PTP	-4.1	-0.7	1.3	-1.9	-0.5	FCF / share	0.00	-0.41	-0.05	-0.21	-0.04
Net Income	-4.1	-0.8	1.3	-1.9	-0.5	Book value / share	0.00	0.44	0.56	0.30	0.22
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	11.1	12.0	Revenue growth-%	23%	56%	49%	-34%	35%
Equity capital	-1.5	3.2	4.1	2.1	1.6	EBITDA growth-%	-52%	-66%	-230%	-197%	-114%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-49%	-56%	-158%	-317%	-76%
Net debt	1.6	-1.3	-1.0	0.7	1.1	EPS (adj.) growth-%	-91%	1121%	-257%	-247%	-72%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	-72.1 %	-15.8 %	13.8 %	-20.4 %	2.1 %
EBITDA	-3.0	-1.0	1.3	-1.3	0.2	EBIT (adj.)-%	-81.0 %	-22.7 %	8.8 %	-28.9 %	-5.2 %
Change in working capital	0.8	-0.6	-0.3	0.3	0.1	EBIT-%	-81.0 %	-22.7 %	8.8 %	-28.9 %	-5.2 %
Operating cash flow	-2.2	-1.8	1.0	-0.9	0.3	ROE-%	373.1 %	-96.0 %	36.0 %	-61.8 %	-28.8 %
CAPEX	0.0	-1.2	-1.4	-0.6	-0.6	ROI-%	-73.1 %	-27.2 %	11.4 %	-23.2 %	-5.5 %
Free cash flow	-2.2	-3.0	-0.4	-1.5	-0.3	Equity ratio	-23.5 %	31.9 %	39.8 %	19.4 %	13.4 %
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	-108.1 %	-40.6 %	-23.4 %	33.9 %	68.7 %
EV/S	10.9	5.2	3.0	3.5	2.6						
EV/EBITDA (adj.)	neg.	neg.	21.4	neg.	>100						
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	9.8	13.1						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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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 €
8/21/2023	Accumulate	3.60 €	3.05 €
9/28/2023	Reduce	3.00 €	2.90 €



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