



FLASH NOTE

Nexstim OYJ (NXTMH-FI)

Reverse stock split to improve trading conditions

OUTPERFORM

Target Price €8.40
(from €0.28)
Current Price €1.24

KEY TAKEAWAY

Nexstim announced the completion of a reverse stock split at a ratio of 1:30 in order to improve trading conditions. We therefore adjust our target price in line with the share consolidation and continue to believe that the shares represent an asymmetric risk profile considering current trading levels. In our view, the diagnostics segment represents a solid valuation floor with limited downside risk and potential for market expansion. The recent signing of the distribution agreement with Ampere Medical Limited in Hong Kong and the fact that both product lines are well-differentiated from the competition leaves limited commercial execution risk and minimal regulatory risk. Hence, we reiterate and maintain our OUTPERFORM recommendation and adjust our target price on a purely technical basis to €8.40 (from €0.28) to reflect the share consolidation.

1:30 reverse stock split to improve trading conditions

Nexstim announced the completion of the reduction of the quantity of its shares resolved at the Extraordinary General Meeting on 21st November 2018. The share consolidation was carried out so that each 30 shares of the company prior to completion of the reverse stock split corresponds to one new share. 42,721 new shares were issued in order to make the number of shares held by individual investors divisible by 30, bringing the total number of outstanding shares in the market to 3,261,475 following the annulment (including the issuance of 9,000 new shares to the company). We highlight to investors that this is solely a technical adjustment with the purpose of making the shares more marketable, however, this could have minor effects on liquidity as the number of shares in the open market decreases. As a result of the adjustment, the price of each share increased proportionally from €0.05 (CoB 23rd Nov) to €1.58 (as at market opening 26th Nov).

First NBT system for applications in depression already installed in Hong Kong

Nexstim recently announced the signing of a distribution agreement with Ampere Medical Limited, a Hong Kong-based specialist neuromodulation distributor, thus opening avenues for Nexstim to tap into a market of over 200,000 patients suffering from depression in Hong Kong. Ampere Medical Limited has already received its first order from a TMS Centre under the Smile and Face Medical Group in Hong Kong, which validates both Nexstim's technology as well as the distribution agreement and could pave the way for further deals providing access to the Mainland China market.

Development of wireless EMG devices funded by Business Finland

Nexstim recently secured €342k of R&D loans from Business Finland, a public funding agency for research funding in Finland. The development project is part of ELASTRONICS, Finland's largest research project for the development of wireless Electromyography ("EMG") devices. Nexstim uses EMG to measure muscle responses in patients in order to determine the intensity of therapy and to establish input intensity in patients undergoing functional brain mapping before neurosurgery. A wireless system would provide an easier and more comfortable alternative to the wire-based systems Nexstim currently uses. The funding provides the company with an invaluable opportunity to optimise its system while creating momentum by taking part in the ELASTRONICS research project.

We adjust our target price to €8.40 (from €0.28) to account for share consolidation

We value Nexstim using a DCF approach using a WACC of 14%, which yields a fair value of €8.40 per share. We also determined the fair value of the diagnostics business using an EV / Sales analysis, which yields an NPV of €7.0m and a valuation floor of €17.3m including €10.3m cash (June 2018). NBT represents additional upside, bringing the total equity value to €27.7m. We reiterate and maintain our OUTPERFORM recommendation and adjust our target price to €8.40 (from €0.28) in line with the 1:30 share consolidation.

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COMPANY DESCRIPTION

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

Peer Group Analysis

SWOT

Strengths - Validated technology. Existing NBS business with potential to grow. Very profitable NBT business model in lucrative market.

Weakness - High cost base compared to existing sales level. Lack of financial resources to fully commercialise the technology.

Opportunities - Strategic co-operations and sales partnerships outside Europe and US. New therapeutic indications for NBT (pain) and use of the technology as a platform. M&A could lead to faster commercialisation and sales growth.

Threats - New emerging competition with bigger financial resources. Due to the company history and low share price, the company may end up being acquired at below fair value.

Important Disclosures: Non-Independent Research

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

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Companies Mentioned in this report

- (AMPERE MEDICAL LIMITED (PRIVATE COMPANY))
- (SMILE AND FACE MEDICAL GROUP (PRIVATE COMPANY))
- Medical Technology (MT)
- Nexstim OYJ (NXTMH-FI)

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Nexstim OYJ Rating History as of 28/11/2018

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Compensation

GPSL has received compensation from Nexstim OYJ for the provision of research and advisory services within the previous twelve months.

NXTMH-FI

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