

Nexstim

Company report

6/13/2024



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✓ Inderes corporate customer

This report is a summary translation of the report “Erimielisyyksiä lisensointisopimuksesta” published on 6/12/2024 at 7.32 pm EEST

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Disagreements over license agreement

Nexstim [announced](#) on Wednesday that it had disagreements regarding a license agreement with Magnus Medical. We understand that the issue relates to differences of opinion as to whether or not Magnus Medical has used technology licensed from Nexstim in its new TMS system. As a result of the increased uncertainty regarding license fees, we halve our forecast for revenues for the five-year license period. Reflecting our estimate changes, we lower our target price to EUR 3.40 (previous EUR 4.00) and our recommendation to Reduce (previous Accumulate), as our estimate of the stock's return potential remains insufficient in relation to the risks.

Disagreements over technology licensing

Nexstim announced a technology licensing agreement with Magnus Medical in February 2022. According to the announcement, the companies expect total license fees of approximately 17 MEUR, of which approximately 3.5 MEUR have already been paid in advance. Thus, depending on exchange rates, an estimated amount of about 13.5 MEUR is still remaining, which was expected to be realized during the 5-year royalty period. The technology licensed is related to Nexstim's therapy system (NBT), with certain restrictions. Nexstim e-field modeling and application software are not included in the license. According to the press release, Magnus Medical has informed Nexstim that it uses a third-party solution in its product, which would not be covered by the contract. This has led to a disagreement over the use of the licensed technology. We believe that the third-party solution mentioned may possibly be related to the news about Magnus Medical's collaboration with two other TMS providers (news [here](#) and [here](#)). Nexstim will continue to collect information on the system launched by Magnus Medical. Nexstim also said it is planning next steps to protect its financial interests and intellectual property rights according to the agreement.

We halve our royalty forecast due to increased uncertainty

In our view, the disagreement raises risks to the realization of royalty income. We have applied a safety margin to the modeling of license income, as described in our [extensive report](#). In our forecasts, the royalty fee level has been 11 MEUR. We now assume that half of our estimated licensing income will be achieved, which means a total decrease in revenue of 5.5 MEUR during the license period (our forecast for the license period has been 2025-2029). We also estimate that it will take time to resolve the issue, so we are moving the start of royalty income forward by a year to 2026. There may also be costs associated with resolving the issue, but due to the lack of visibility, we are not modeling the potential costs at this time. The biggest impact of the reduced forecasts is in 2028-2029, as we have expected payments to be concentrated towards the end of the period. On the positive side, we estimate that a possible termination of the agreement would also lead to the removal of the business restrictions defined in the agreement, which could open up new markets for Nexstim in the US.

Return potential remains unsatisfactory in an uncertain situation

Our valuation is based on EV/S multiples and the DCF model. Nexstim's 2024e EV/S is 2.8x and decreases to 2.1x in 2025. The multiples are moderate relative to the profitability potential. On the other hand, the medium-term growth outlook has taken a hit, lowering the acceptable multiples. The visibility for the materialization of growth remains low. Based on our DCF model, the share's value is EUR 3.4 after the forecast downgrade. In our view, the stock is broadly priced correctly and we do not see any significant upside for the stock at this point in time. The return potential is therefore insufficient in relation to the risks.

Recommendation

Reduce

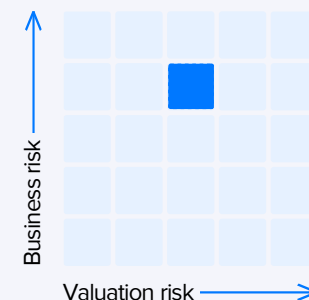
(previous Accumulate)

EUR 3.40

(previous EUR 4.00)

Share price:

3.38



Key figures

	2023	2024e	2025e	2026e
Revenue	7.2	9.3	11.7	13.7
growth-%	-24%	29%	26%	17%
EBIT adj.	-1.2	0.0	1.0	1.8
EBIT-% adj.	-16.9 %	0.0 %	8.7 %	13.2 %
Net Income	-1.3	-0.1	0.9	1.6
EPS (adj.)	-0.18	-0.01	0.13	0.22

P/E (adj.)	neg.	neg.	26.8	15.6
P/B	6.9	9.0	6.8	4.7
Dividend yield-%	0.0 %	0.0 %	0.0 %	1.6 %
EV/EBIT (adj.)	neg.	neg.	24.4	12.9
EV/EBITDA	neg.	31.8	14.9	9.9
EV/S	3.1	2.8	2.1	1.7

Source: Inderes

Guidance

(Unchanged)

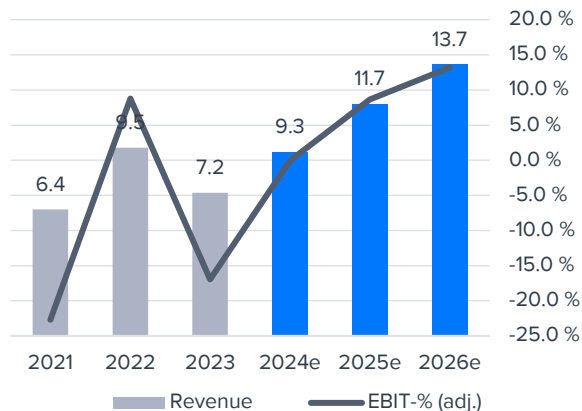
Based on business forecasts, the company expects that in 2024 the company's comparable revenue will grow and EBIT will improve in 2024.

Share price



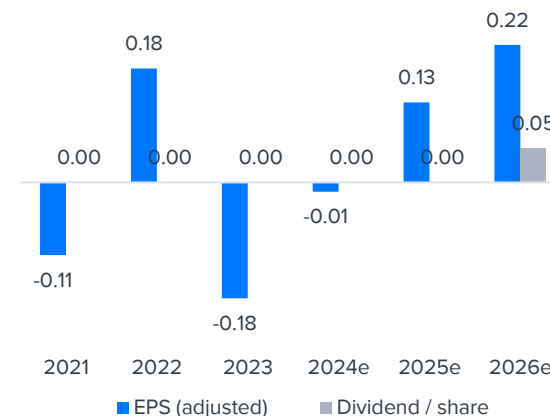
Source: Millstream Market Data AB

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 revenue
- 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	2024e	2025e	2026e
Share price	3.38	3.38	3.38
Number of shares, millions	7.27	7.27	7.27
Market cap	25	25	25
EV	26	25	23
P/E (adj.)	neg.	26.8	15.6
P/E	neg.	26.8	15.6
P/B	9.0	6.8	4.7
P/S	2.6	2.1	1.8
EV/Sales	2.8	2.1	1.7
EV/EBITDA	31.8	14.9	9.9
EV/EBIT (adj.)	neg.	24.4	12.9
Payout ratio (%)	0.0 %	0.0 %	25.0 %
Dividend yield-%	0.0 %	0.0 %	1.6 %

Source: Inderes

Forecasts down as royalty fees halve

Forecast changes 2024e-2026e

- Our forecasts for the current year remain unchanged, as we had not modeled royalty fees for 2024.
- Between 2025 and 2026, revenue will decline by 5-10% due to the halving of royalty fees.
- The royalty fees we expect for 2027-2029 are also halved.
- The total impact of the forecast downgrades on revenue in 2025-2029 is 5.5 MEUR, half of the 11 MEUR in our models.
- Cuts in high-margin revenue also have a significant downward impact on the bottom line. From 2025 to 2026, the impact on earnings will be negative by about 25-35%.
- We expect a similar impact on cash flow.
- In terms of cash adequacy, the execution of the upcoming Alzheimer's project is critical. There is now a letter of intent for the project.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	9.3	9.3	0%	12.3	11.7	-5%	14.6	13.7	-6%
EBITDA	0.8	0.8	0%	2.1	1.7	-23%	2.9	2.4	-19%
EBIT	0.0	0.0	0%	1.5	1.0	-32%	2.4	1.8	-23%
PTP	-0.1	-0.1	0%	1.4	0.9	-35%	2.2	1.6	-27%
EPS (excl. NRIs)	-0.01	-0.01	0%	0.19	0.13	-35%	0.30	0.22	-27%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	0.12	0.10	4.78	4.00	2.69	3.38	3.38	3.38	3.38
Number of shares, millions	62.8	439.6	7.27	7.27	7.27	7.27	7.27	7.27	7.27
Market cap	7.5	43	35	29	20	25	25	25	25
EV	9.5	45	33	28	23	26	25	23	23
P/E (adj.)	neg.	neg.	neg.	22.2	neg.	neg.	26.8	15.6	16.9
P/E	neg.	neg.	neg.	22.2	neg.	neg.	26.8	15.6	16.9
P/B	neg.	neg.	10.9	7.1	6.9	9.0	6.8	4.7	3.9
P/S	2.3	10.5	5.4	3.1	2.7	2.6	2.1	1.8	1.7
EV/Sales	2.9	10.9	5.2	3.0	3.1	2.8	2.1	1.7	1.6
EV/EBITDA	neg.	neg.	neg.	21.4	neg.	31.8	14.9	9.9	10.3
EV/EBIT (adj.)	neg.	neg.	neg.	33.6	neg.	neg.	24.4	12.9	14.0
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	25.0 %	50.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	1.6 %	3.0 %

Source: Inderes

Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Brainsway	99	57		49.3			2.0	1.6		214.2			
Ambu	4982	5014	130.9	59.3	60.9	37.6	7.8	7.0	237.9	79.2	0.1		6.9
C Rad	125	112	21.8	15.8	19.2	14.1	3.1	2.6	36.3	20.9			5.1
Elekta	2183	2580	17.7	12.7	10.4	8.5	1.7	1.6	21.8	16.2	3.4	3.9	2.8
Optomed	111	110					7.0	6.7					5.3
Vitrolife	2110	2210	34.8	31.7	21.8	20.7	7.1	6.8	52.1	43.6	0.6	0.7	1.5
Xvivo Perfusion	1267	1224	305.7	128.1	141.5	81.6	22.5	17.3	394.4	165.3			7.3
Nexstim (Inderes)	25	26		24.4	31.8	14.9	2.8	2.1	-236.3	26.8	0.0	0.0	9.0
Average			78.2	41.4	40.4	27.2	6.0	5.2	113.0	73.4	1.8	2.4	4.5
Median			22.2	26.6	19.4	19.0	4.6	4.2	36.3	37.0	2.2	2.6	5.2
Diff-% to median				-8%	64%	-21%	-40%	-50%	-751%	-28%	-100%	-100%	73%

Source: Refinitiv / Inderes

Income statement

Income statement	H1'23	H2'23	2023	H1'24e	H2'24e	2024e	H1'25e	H2'25e	2025e	2026e	2027e
Revenue	2.5	4.7	7.2	3.4	5.9	9.3	4.8	7.0	11.7	13.7	14.2
Nexstim	2.5	4.7	7.2	3.4	5.9	9.3	4.8	7.0	11.7	13.7	14.2
EBITDA	-1.1	0.6	-0.5	-0.5	1.3	0.8	-0.3	1.3	1.7	2.4	2.2
Depreciation	-0.3	-0.4	-0.7	-0.4	-0.4	-0.8	0.0	0.0	-0.6	-0.5	-0.6
EBIT (excl. NRI)	-1.4	0.2	-1.2	-0.9	0.9	0.0	-0.3	1.3	1.0	1.8	1.7
EBIT	-1.4	0.2	-1.2	-0.9	0.9	0.0	-0.3	1.3	1.0	1.8	1.7
Nexstim	-1.4	0.2	-1.2	-0.9	0.9	0.0	-0.3	1.3	1.0	1.8	1.7
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	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.2	-0.2
PTP	-1.4	0.1	-1.3	-1.0	0.9	-0.1	-0.3	1.3	0.9	1.6	1.5
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	-1.4	0.1	-1.3	-1.0	0.9	-0.1	-0.3	1.3	0.9	1.6	1.5
EPS (adj.)	-0.20	0.02	-0.18	-0.14	0.12	-0.01	-0.04	0.18	0.13	0.22	0.20
EPS (rep.)	-0.20	0.02	-0.18	-0.14	0.12	-0.01	-0.04	0.18	0.13	0.22	0.20

Key figures	H1'23	H2'23	2023	H1'24e	H2'24e	2024e	H1'25e	H2'25e	2025e	2026e	2027e
Revenue growth-%	-63.1 %	73.5 %	-23.9 %	34.9 %	25.3 %	28.6 %	41.5 %	17.2 %	26.0 %	16.9 %	3.6 %
Adjusted EBIT growth-%	-159.5 %	-110.6 %	-246.7 %	-32.6 %	485.3 %	-99.7 %	-66.1 %	43.4 %	-25392.1 %	78.3 %	-9.0 %
EBITDA-%	-43.0 %	11.6 %	-7.3 %	-15.8 %	22.6 %	8.7 %	-6.6 %	19.2 %	14.2 %	17.2 %	15.7 %
Adjusted EBIT-%	-55.4 %	3.4 %	-16.9 %	-27.7 %	15.7 %	0.0 %	-6.6 %	19.2 %	8.7 %	13.2 %	11.6 %
Net earnings-%	-57.6 %	2.4 %	-18.3 %	-29.1 %	14.8 %	-1.1 %	-6.6 %	19.2 %	7.8 %	11.5 %	10.2 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	3.0	3.9	3.6	3.6	3.8
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	2.1	2.9	2.9	2.8	2.9
Tangible assets	0.4	0.3	0.2	0.3	0.4
Associated companies	0.5	0.7	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	7.3	5.9	8.8	10.4	11.1
Inventories	0.9	1.0	1.3	1.6	1.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	1.9	3.4	2.8	3.5	4.1
Cash and equivalents	4.4	1.5	4.7	5.2	5.2
Balance sheet total	10.2	9.9	12.3	14.0	14.9

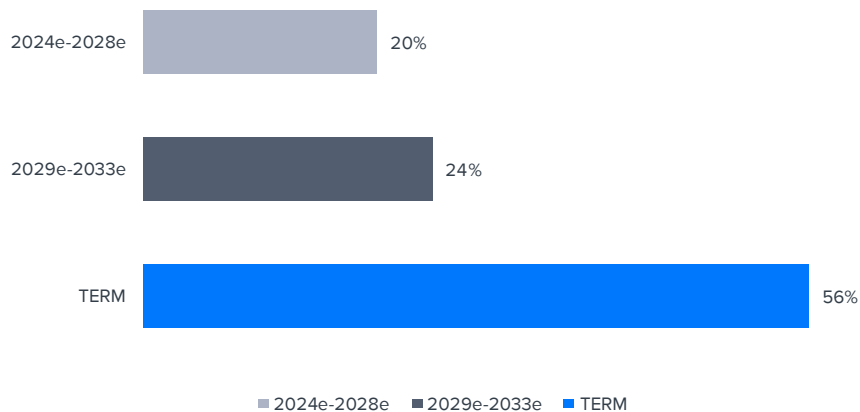
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	4.1	2.8	2.7	3.6	5.2
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-51.0	-52.3	-52.4	-51.5	-49.9
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	55.0	55.0	55.0	55.0	55.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	2.6	3.6	4.3	4.1	3.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	2.6	3.6	4.3	4.1	3.0
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	3.5	3.4	5.3	6.2	6.7
Interest bearing debt	0.9	0.8	1.4	1.4	1.0
Payables	2.7	2.6	3.9	4.9	5.7
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	10.2	9.9	12.3	14.0	14.9

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-23.9 %	28.6 %	26.0 %	16.9 %	3.6 %	12.0 %	10.0 %	8.0 %	6.0 %	3.0 %	2.5 %	2.5 %
EBIT-%	-16.9 %	0.0 %	8.7 %	13.2 %	11.6 %	13.0 %	16.0 %	18.0 %	20.0 %	20.0 %	20.0 %	20.0 %
EBIT (operating profit)	-1.2	0.0	1.0	1.8	1.7	2.1	2.8	3.4	4.0	4.1	4.2	
+ Depreciation	0.7	0.8	0.6	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.6	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	-0.2	-0.5	-0.7	-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	-1.7	1.6	-0.1	0.1	-0.6	-0.1	-0.1	-0.1	-0.1	0.0	0.0	
Operating cash flow	-2.2	2.4	1.6	2.4	1.6	2.4	2.8	3.2	3.7	3.8	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	-1.5	-0.6	-0.7	-0.7	-0.8	-0.9	-0.9	-0.4	-0.5	-0.5	-0.5	
Free operating cash flow	-3.7	1.8	0.9	1.7	0.9	1.5	2.0	2.8	3.2	3.4	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	-3.7	1.8	0.9	1.7	0.9	1.5	2.0	2.8	3.2	3.4	3.4	41.4
Discounted FCFF		1.7	0.8	1.3	0.6	1.0	1.1	1.4	1.5	1.4	1.3	15.3
Sum of FCFF present value		27.3	25.6	24.8	23.5	22.9	22.0	20.9	19.4	18.0	16.6	15.3
Enterprise value DCF		27.3										
- Interest bearing debt		-4.4										
+ Cash and cash equivalents		1.5										
- Minorities		0.0										
- Dividend/capital return		0.0										
Equity value DCF		24.4										
Equity value DCF per share		3.4										

Cash flow distribution

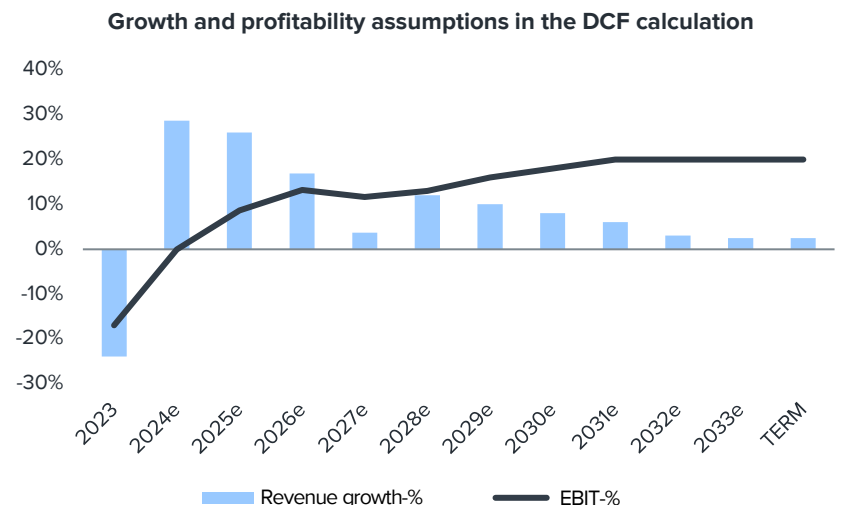
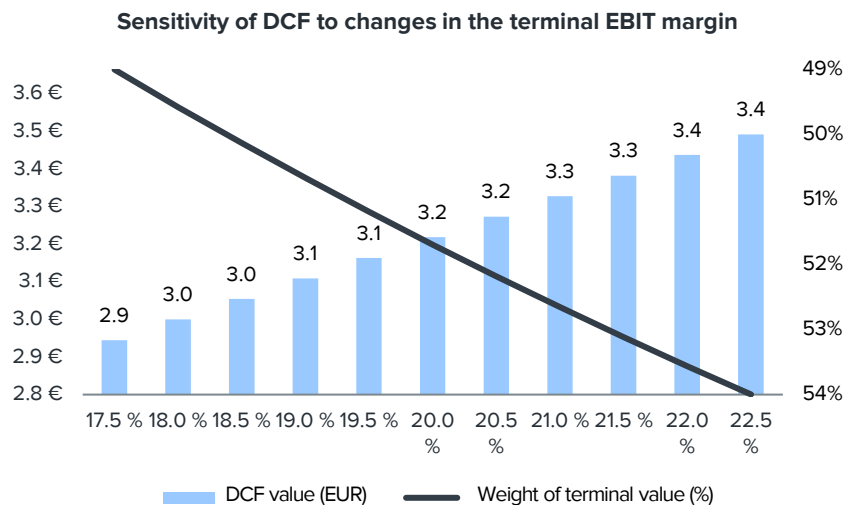
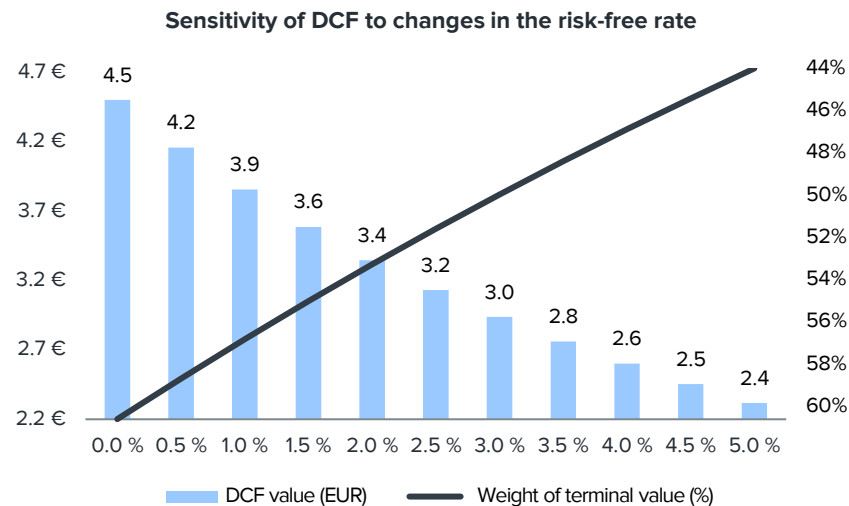
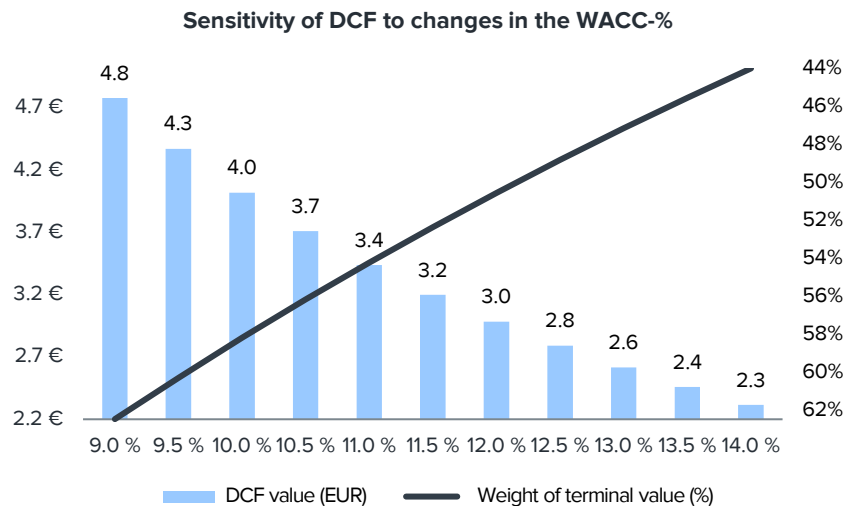


WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.63
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	11.7 %
Weighted average cost of capital (WACC)	11.0 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	6.4	9.5	7.2	9.3	11.7	EPS (reported)	-0.11	0.18	-0.18	-0.01	0.13
EBITDA	-1.0	1.3	-0.5	0.8	1.7	EPS (adj.)	-0.11	0.18	-0.18	-0.01	0.13
EBIT	-1.5	0.8	-1.2	0.0	1.0	OCF / share	-0.25	0.14	-0.31	0.33	0.22
PTP	-0.7	1.3	-1.3	-0.1	0.9	FCF / share	-0.41	-0.05	-0.51	0.25	0.12
Net Income	-0.8	1.3	-1.3	-0.1	0.9	Book value / share	0.44	0.56	0.39	0.37	0.50
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	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	10.0	10.2	9.9	12.3	14.0	Revenue growth-%	56%	49%	-24%	29%	26%
Equity capital	3.2	4.1	2.8	2.7	3.6	EBITDA growth-%	-66%	-230%	-140%	-254%	106%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-56%	-158%	-247%	-100%	-25392%
Net debt	-1.3	-1.0	3.0	1.1	0.3	EPS (adj.) growth-%	1121%	-257%	-201%	-92%	-982%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	-15.8 %	13.8 %	-7.3 %	8.7 %	14.2 %
EBITDA	-1.0	1.3	-0.5	0.8	1.7	EBIT (adj.)-%	-22.7 %	8.8 %	-16.9 %	0.0 %	8.7 %
Change in working capital	-0.6	-0.3	-1.7	1.6	-0.1	EBIT-%	-22.7 %	8.8 %	-16.9 %	0.0 %	8.7 %
Operating cash flow	-1.8	1.0	-2.2	2.4	1.6	ROE-%	-96.0 %	36.0 %	-38.5 %	-3.8 %	28.9 %
CAPEX	-1.2	-1.4	-1.5	-0.6	-0.7	ROI-%	-27.2 %	11.4 %	-16.6 %	-0.1 %	11.6 %
Free cash flow	-3.0	-0.4	-3.7	1.8	0.9	Equity ratio	31.9 %	39.8 %	28.6 %	22.1 %	26.0 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	-40.6 %	-23.4 %	105.6 %	39.8 %	7.8 %
EV/S	5.2	3.0	3.1	2.8	2.1						
EV/EBITDA	neg.	21.4	neg.	31.8	14.9						
EV/EBIT (adj.)	neg.	33.6	neg.	neg.	24.4						
P/E (adj.)	neg.	22.2	neg.	neg.	26.8						
P/B	10.9	7.1	6.9	9.0	6.8						
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 €
9/26/2023	Reduce	3.00 €	2.89 €
1/3/2024	Accumulate	3.00 €	2.69 €
2/28/2024	Accumulate	3.00 €	2.40 €
4/28/2024	Accumulate	3.00 €	2.26 €
6/10/2024	Accumulate	4.00 €	3.64 €
6/12/2024	Reduce	3.40 €	3.38 €



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