

Quarterly Update, Q3

December 25, 2017

Brainsway Ltd.: The Company continues to generate consistent growth based on the rental model; we assume operating balance in 2018; Capital raising reflects the confidence of institutional investors. Price target remains within the forecast range.

Primary exchange: TASE

Symbol: TASE: BRIN

Sector: Healthcare

Sub-sector: Medical Devices

Stock target price: NIS 27.5

Data as of December 24, 2017

(Source: TASE website):

Closing price: NIS 17.7

Market cap: NIS 260.2 million

of shares: 14.7 million

Stock performance (YTD): 9%

Daily-trading-vol. (12 months):
NIS 741.1 K

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Company overview

Brainsway Ltd. (Brainsway or "the company") is an Israeli medical device company focused on the development and commercialization of an H-coil helmet device for Deep Transcranial Magnetic Stimulation (dTMS). dTMS enables non-invasive activation of deep brain structures that can cover a broad range of brain disorders. The company has FDA market approval for Major Depressive Disorder, and wide reimbursement coverage for this indication. The company has recently received positive results in Obsessive Compulsive Disorder (OCD) patients, and will apply for market approval in the US for this indication. Approximately 15,000 patients were treated to date with Brainsway's device.

Highlights

The company published its third quarter report for 2017 that included the following developments:

- Revenues for the first nine months of 2017 amounted to \$ 7,543 thousand compared with the corresponding period in which revenues amounted to approximately \$ 8,648 thousand. The decrease is due to the change in Brainsway's business model to a rental model, in which the Company focuses on leasing new systems and establishes a consistent and long-term revenue model. We see an increase in income from the rental model, which constitutes approximately 63% of total revenues. According to the company, backlog increased significantly to \$ 23.2 million.
- On December 11, 2017, the Company entered into a private placement agreement with leading investment parties in Israel led by Phoenix, whereby the Company will allocate to investors 11.57% of the issued share capital of the Company after the allotment in exchange for NIS 15.55 per ordinary share. After completion of the allotment, the Phoenix Group will hold about 7.3% of the Company's issued share capital.
- On October 3, 2017, the Company announced positive final results in a multi-center trial for the treatment of Deep TMS in compulsive obsessive-compulsive disorder using the Company's device. Brainsway submitted to the FDA, a request for the K510 De Novo route for approval of marketing and sale of the Deep TMS. to treat OCD.

Analysis

- The Company continues to develop its clinical plans as planned, and as we discussed in detail in the Company's initiation analysis report of August 6, 2017.
- The significant capital raised by the Company strengthens its financial stability and enables it, in accordance with its plans, to continue to establish the rental model by recruiting marketing and sales personnel and establishing its presence in the US, alongside continuing support for clinical development and regulatory submissions. The capital raising from the group of investors led by the Phoenix reflects the institutional investors' confidence in the company's activity.
- In view of all of these considerations, our expectation that the Company will make a more significant transition to the leasing model during 2018, and especially based on our assessment that the capital raising will be approved, we raise the price target and the company's value. We estimate the value of the company at \$ 129.5 million / NIS 457.0 million (our previous estimate was \$ 112 million / NIS 397 million), the price target in the range of NIS 26.3 - NIS 28.6 and on average NIS 27.5.

Parameters	2016A	2017E	2018E	2019E	2020E
# of installed systems	160	209	295	427	568
Revenues (\$000s)	11,524	11,427	17,264	19,838	29,204
Operating profit (\$000s)	-2,069	-4,274	-80	844	7,966
EPS (\$)	-0.17	-0.30	-0.05	0.01	0.44

Quarterly Updates

Financial updates

The Company's revenues derive from sales and rentals of the systems it leases or sells directly. In the past year, the company decided to focus its operations on leasing systems to its customers, rather than a one-time sale. In the first half of 2017, the company's revenues totaled \$ 3 million from rent, compared to \$ 2.4 million in the corresponding period and \$ 1.5 million from direct sales, compared to \$ 2.8 million in the corresponding period. In the last nine months, the Company's revenues in the rental model continued to grow, amounting to \$ 4.7 million and an additional \$ 2.8 million in income from sales.

Based on the Company's various sales and rental models, we estimate that the average price in the rental model is approximately \$ 45,000 for a minimal use model or unlimited model (see our comprehensive report in English) .We therefore estimate that the company rented about 60 Systems in the first half of 2017 and another 30 systems in the third quarter, placing it with about 90 leased systems in the first nine months of 2017. This figure is consistent with the assumptions laid down in our economic model.

The following is a breakdown of the Company's sales between 2014 and the reporting period:

\$000s	2014	2015	2016	31.3.2017	30.6.2017	30.9.2017
Rent	2,708	4,299	5,327	1,430	3,023	4,745
%	80%	63%	46%	34%	67%	63%
Sales	672	2,501	6,197	2,819	1,504	2,798
%	20%	37%	54%	66%	33%	37%
Total revenues	3,380	6,800	11,524	4,249	4,527	7,543

Financial updates based on quarterly report, 2017

Revenues for the first nine months of 2017 amounted to \$7,543 thousand compared with the corresponding period in which revenues amounted to approximately \$8,648 thousand. The decrease in revenues is mainly due to the change in the Company's business model, in which the Company focuses on leasing new systems, as opposed to a decrease in the direct sales of systems, as well as a one-time income of approximately \$475,000.

The gross profit rate in the nine months of 2017 is 78%, compared with 81% in the corresponding period in 2016. Research and development expenses increased by approximately \$1.5 million compared to the same period last year. The increase in research and development expenses, net, in the first nine months of 2017 derives mainly from an increase in the volume of R&D activity and from a decrease in the participation of grants Compared to the fourth quarter of 2016. Marketing expenses increased by \$1.1 million compared with the corresponding period in 2016, including a decrease in expenses of \$119 thousand in respect of forfeiture of options to the former CEO. The increase stems mainly from an increase in the activity of the USA Brainsway Inc and recruitment of sales.

General and administrative expenses also increased by approximately \$600 thousand compared to the same period last year. Administrative expenses and general expenses, net of this decrease, amounted to \$1,950 thousand, compared with approximately \$1,400 thousand in the corresponding period in 2007. The increase in administrative expenses And general expenses in the nine months of 2017 derives mainly from expenses in respect of options granted to the incoming CEO.

The Company's operating loss for the first nine months of 2017 amounted to approximately \$4,536 thousand compared to the corresponding period in which the loss amounted to approximately \$674 thousand.

The Company's cash position as of September 30, 2017 is approximately \$5,882 thousand, and its shareholders' equity is approximately \$6,792 thousand, compared with approximately \$10,287 thousand on December 31, 2016, a decrease deriving mainly from a decrease in cash volume based on the cash burning rate of the Company.

Cash flow from operating activities for the first nine months of 2017 amounted to \$2,958 thousand, compared with approximately \$1,293 thousand in the corresponding period last year. The increase in cash flows derives mainly from the operating loss, a decrease in accounts payable and credit balances; And offsetting an increase in revenues in advance. This is due mainly, to our understanding ,of the Company's transition to the rental model over a sales model.

Private placement agreement

On December 11, 2017, the Company entered into a private placement agreement with a group of institutional investors led by HaPhoenix, according to which the Company will allot to investors 1,924,662 ordinary shares of the Company of NIS 0.04 par value each ("Ordinary Shares") constituting 11.57% of the issued share capital of After the allotment, the company paid NIS 15.55 per ordinary share for a total consideration of NIS 30 million. The price per share constitutes a discount of 4.43% compared to the last closing price of the share (published on December 10, 2017).

The allocation is subject to the approval of the Tel Aviv Stock Exchange Ltd. to the listing of the offered shares, after which the Phoenix Group will hold approximately 7.3% of the issued share capital of the Company.

Receipt of bank credit line

On August 17, 2017, the Company entered into an agreement to receive a bank credit facility from Mizrahi Bank Ltd. in the amount of up to \$6 million, to be granted in two parts. The interest will be a quarterly LIBOR plus 6% and the balance of the credit facility will be a quarterly LIBOR plus 6.75%. In addition, the Company will grant the Bank non-marketable options for the purchase of its shares with a total exercise of up to \$600 thousand, exercisable for a period of 5 years from the date of allotment at an exercise price of \$ 5.20 per share (NIS 18.5 per share) Shares up to \$300,000 as a condition for the first frame. The withdrawal of the loan and the credit facility are conditional on the Company meeting financial covenants:

- Total customer debt and cash balance will not be less than US \$ 4 million and total cash will not be less than US \$ 2 million.
- The total minimum rental fees expected to be received from all signed lease contracts of the Company during a period of 4 years, starting from the calendar year in which the test date is not less than \$ 15 million.
- The minimum rent expected to be received from all signed lease contracts of the Company over a period of 4 years, offset by the amounts that may not be received from customers for early termination of the lease agreement, will not be less than \$ 7.5 million.
- Total short-term and long-term financial credit will not exceed \$ 6 million.

On October 8, 2017, the Company announced that it had realized part of the credit facility granted to it, in the amount of \$3 million, out of the total credit facility of up to \$6 million provided to it by the Bank. The bottom line is that at the time of writing the quarterly update, the company has \$17 million (on the basis of the capital raising, the granting of credit and the volume of customers in the fund).

Analysis:

The company continues to develop its clinical plans as planned and as discussed in detail in the company's first analysis report dated August 6, 2017. Brainsway reported positive results in a large-scale TMS-Deep trial of obsessive-compulsive disorder (OCD) The company has significantly improved its symptoms compared with the control group, and we believe FDA approval is expected in the first quarter of 2018, which will have a positive impact on the company's operations.

In addition, the company is continuing clinical development of PTSD as well as in the area of smoking cessation as described below in the events expected to be evaluated. The financial results of the company indicate that the transition from a model of direct sales to the rental model will continue, which in the short term harms its revenues in 2017, however, in our view, it will prove to be a positive step in the coming years with the establishment of medical systems in clinical and medical institutions. Also, even if the company will not succeed in all its plans, it still has enough significant cash volume until the end of 2018.

The significant capital raised by the Company strengthens its financial stability, and in particular enables it, in accordance with its plans, to continue to base the rental model by recruiting marketing and sales personnel and establishing its presence in the US, alongside continuing support for clinical development and regulatory submissions. Which is also relatively low, is also evidence of institutional investors confidence in the company's and the successful implementation of the clinical and business strategy of the company.

In view of all of these considerations, our expectation that the Company will make a more significant transition to the leasing model during 2018, and especially based on our assessment that the capital raising will be approved, we raise the price target and the company's value. We estimate the value of the company at \$ 129.5 million / NIS 457.0 million (our previous estimate was \$ 112 million / NIS 397 million), the price target in the range of NIS 26.3 - NIS 28.6 and on average NIS 27.5.

Upcoming Potential Catalysts

Program	Event	Significance	Timeline
Obsessive Compulsive Disorder (OCD)	Successful completion of a multicenter clinical trial	High	Achieved
	Market approval in the US for OCD	High	Q1 2018
Smoking cessation	Final results of large multicenter trial	Medium	Q4 2018
Post-Traumatic Stress Disorder (PTSD)	Final results of large multicenter trial	High	Q2 2019
Bipolar Depression	Final results of large multicenter trial	Medium	2020
H7/H1 for Major Depressive Disorder (MDD)	Final results of a multicentre trial	Medium	Q3 2018
Neurologic Disorders (Stroke rehabilitation and Chronic pain)	Initiation of multicenter trial	High	Q1 2018

Source: Frost & Sullivan analysis

Appendix Financial Reports

Profit and Loss Statement (in thousands \$)

	<u>31.12.2014</u>	<u>31.12.2015</u>	<u>31.12.2016</u>	<u>30.9.2016</u>	<u>30.9.2017</u>
Total Revenues	3,380	6,800	11,524	8,648	7,543
Cost of Revenues	656	1,466	2,427	1,660	1,684
Gross Profit	2,724	5,334	9,097	6,988	5,859
R&D Expenses	6,438	4,103	3,792	2,540	3,836
Marketing Expenses	1,896	3,281	5,180	3,720	4,571
General and Administrative Expenses	1,667	2,455	2,194	1,402	1,988
Other Revenues	0	0	0	0	0
Operating Loss	7,277	4,505	2,069	674	4,536
Financial income	3,195	636	186	434	1,481
Financial expenses	2,463	218	514	650	1,170
Loss before Tax	6,545	4,087	2,397	890	4,225

Source: Brainsway

Balance Sheet (in thousands \$)

Current assets	31.12.2014	31.12.2015	31.12.2016	30.9.2017
Cash and cash equivalents	17,201	11,355	9,174	5,857
Short-term deposits	1,075	585	585	25
Net Customers	972	2,009	2,492	2,587
Accounts receivable	510	915	859	798
Total current assets	19,759	14,864	13,110	9,267
Non-current assets				
Long term leasing expenses	30	34	24	25
Net fixed assets	5,868	7,329	6,821	7,009
Intangible assets	25	16	9	18
Total non-current assets	5,923	7,379	6,854	7,052
Total assets	25,682	22,243	19,964	16,319
Current liabilities				
Liabilities to suppliers and service providers	1,522	944	810	943
Accounts payable	1,180	1,228	1,436	1,307
Revenues in advance	2,650	2,526	1,861	2,328
Liabilities for ST R&D funding	99	198	288	250
Total current liabilities	5,451	4,896	4,395	4,828
Noncurrent liabilities				
Revenues in advance and other liabilities	218	193	374	262
Liabilities for LT R&D funding	3,817	4,204	4,908	4,437
Liabilities from Investor options	671	55	-	0
Total non-current liabilities	4,706	4,452	5,282	4,699
Total Liabilities	10,157	9,348	9,677	9,527
Equity	15,525	12,895	10,287	6,792
Total liabilities and equity	25,682	22,243	19,964	16,319

Source: Brainsway

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