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Quarterly Update September 17th 2017

Brainsway Ltd.: The company continues with its lease-based model; we expect an operational balance by 2018; Credit line granted will support rapid growth. Target price unchanged.

Primary exchange: TASE

Symbol: TASE: BRIN

Sector: Healthcare

Sub-sector: Medical Devices

Stock target price: NIS 27.0

Data as of September 14th, 2017

(Source: TASE website):

Closing price: NIS 16.3

Market cap: NIS 239.1 million

# of shares: 14.7 million

Stock performance (YTD): -1.6%

Daily-trading-vol. (12 months):
NIS 770 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 second quarter report for 2017 that included the following developments:

- Revenues for H1- 2017 totaled $4.5 million, compared to $5.2 million for the corresponding period last year. The decrease is due to a change in Brainsway's business model to a rental based structure.
- Final positive results in a TMS-Deep multicenter trial of obsessive-compulsive disorder (OCD) using the company's instruments. Brainsway said the company's treatment had significantly improved symptoms.
- In accordance with trial results, it intends to submit an application to the FDA for licensing the company's OCD instrument in the *"de novo"* classification by Q3-2017 (*"de novo"* classification is as an alternate pathway to classify novel devices of low to moderate risk).
- The company entered into a framework agreement with "Mizrahi Tefahot" Bank for the provision of credit to "Moah Research and Development Services Ltd.",a subsidiary of Brainsway) for a total amount of up to $6 million.

Analysis:

- The company continues to develop its clinical campaigns as planned and as we discussed extensively in our initiation of coverage report dated August 6th , 2017.
- Brainsway reported that it intends to apply to the FDA for licensing the OCD instrument *de novo* during 3Q-2017. We expect the approval to be received during H1-2018.
- The company's financial performance is indicative of a transition from a direct sales model to a rental-based model, that decreases the revenues in the short term. We believe the transition will drive revnues in coming years. **We also believe that by 2018 the company can reach an operating balance, if it succeeds in installing and selling systems in the US.**
- The company continues to establish its rental model in the United States by recruiting marketing and sales personnel and by securing ample credit, which is intended to support the company's growing working capital needs as it moves to the rental model.
- **In view of all these considerations, we the target price of the company's stock is unchanged. We estimate the value of the company at $112 million / NIS 397 million, with its target price in the range of NIS 28.1 - NIS 26.0, NIS 27.0 on average.**

Below is our estimation for next coming years*:

Parameters	2016A	2017E	2018E	2019E	2020E
# of installed systems	160	220	332	464	610
Revenues ($000s) *	11,524	11,427	18,541	23,054	31,250
Operating profit ($000s)	-2,069	-4,624	370	2,627	7,979
EPS ($)	-0.2	-0.4	0.0	0.1	0.5

companyBrainsway revenues derive from direct sales and rentals of their systems. The company has recently decided to focus its operations on leasing systems to its customers, rather than one-time sales. In H1-2017, the company's revenues amounted to $3 million from rental, compared with $2.4 million in the corresponding period and $1.5 million from direct sales, compared with $ 2.8 million in the corresponding period.

The company's revenue recognition policy varies between the rental of the systems model (according to the straight-line method) and the direct sales model (according to the risks held by the customer). In light of this policy, and in accordance with the strategic change in revenue models, we have updated the company's revenue forecast, but not in the number of systems that are expected to be sold.We assume the company will sell additional 60 systems in H2-2017 - 200 systems sold via the rental model and 20 systems by direct sale; a total of 220 systems.

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

$000s	2014	2015	2016	30.6.2016	30.6.2017
Rent	2,708	4,299	5,327	2,422	3,023
%	80%	63%	46%	46%	67%
Sales	672	2,501	6,197	2,819	1,504
%	20%	37%	54%	54%	33%
Total revenues	3,380	6,800	11,524	5,241	4,527

The company has options granted to the former CEO affecting 2016 results, consequently we present the 2016 results with and without this variable, in order to use 2016 results as a valid benchmark for H1-2017 results.

The gross margin in H1-2017 was 78%, compared with 81% for the same period last year. R&D expenses grew relative to the corresponding period last year because of increased net research expenses and the foreclosure of options granted to the former CEO in the corresponding period ($445,000), which reduced expenses in 2016.

Marketing expenses in H1-2017 totaled $3 million, compared to $2.3 million a year earlier. The marketing expenses in 2016 included a decrease of $119,000 given the forfeiture of options under the former CEO’s severance package, which were reclassified. Increased expenses were due to the recruitment of personnel in the United States to support sales and marketing.

General and administrative expenses in 2016 include a decrease in expenses, totaling $548,0000 net (expenses of $514,000 in Q1-2016 and forfeiture of $1.26 million in Q2-2016). Regarding forfeiture of options upon termination of service that the company allocated to the former CEO, these were classified as management expenses and general expenses. After neutralization, the latter totaled $1.326 million. The decrease in administrative expenses and general expenses in the first half of 2017 is mainly due to a decrease in the provision for doubtful debts.

At the end of the first half of 2017, the company recorded a loss of $2.4 million, compared with a profit of $250,000. The increased losses in the reporting period derive mainly from operating loss, the increase in revenues and financing expenses are due to liabilities from government grants.

On the company's balance sheet as of June 30, 2017, cash and equivalents held totals $6.7 million, compared with $9.7 million at December 31, 2016. Equity as of June 30, 2017 totals $8.3 million (48% of the balance sheet) compared to $10.3 million (52% of the balance sheet) at the end of 2016.

The company has negative cash flow from operating activities totaling $2.4 and $2.5 million for the year ending December 31, 2016 and for the six months ending June 30, 2017, respectively. The company also has an operating loss of $2.1 million and $3.3 million for the year ending December 31, 2016 and for the six months ending June 30, 2017, respectively.

Receipt of bank credit line

Subsequent to the balance sheet date, on August 17th, 2017, the company entered into an agreement to receive a bank credit facility from Mizrahi Bank Ltd. in the amount of up to US $6 million to be granted in two stages. 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, for a total exercise of up to $600,000, exercisable for a period of five years from the date of allotment, at an exercise price of $5.20 per share. The company has undertaken to allocate to the banking corporation options for the purchase of shares in the amount of up to $300,000 as a condition for granting the first frame.

The withdrawal of the loan and the credit facility are conditional upon the company meeting financial covenants:

- Total customer debt and cash balance will not be less than $4 million and total cash will not be less than $2 million.
- The minimum rental fees expected to be received from all signed lease contracts of the company during a period of four years, starting from the calendar year of the test date are not less than $15 million.
- The minimum rental fees expected to be received from all signed lease contracts of the company over a period of four years, offset by the amounts that may not be received from customers for the 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.

Analysis:

The company recently changed its sales strategy and is now focusing on systems leasing, as well as continuing their sales to psychiatrists. We see the relatively new strategy as the right way to become a leader in brain disorders. Successful implementation of this strategy will lead the company to create a steady revenue stream that grows with the growth in number of systems leased.

It should be emphasized that as part of the company's revenue forecast, we believe that Brainsway will successfully transition towards the lease model. Furthermore, given its clinical successes in neurology, smoking cessation, and OCD, we also include forecasted income from helmets to be added to existing company's systems. On the other hand, because of the uncertainty therein, we estimate a relatively conservative growth in volume with respect to clinical fields beyond depression.

The company continues to develop its clinical plans as planned and as discussed in detail in our initiation of coverage report dated August 6th, 2017. Brainsway reported that on the basis of successful OCD trial results, it intends to apply to the FDA for the 510K licensing of the OCD instrument in Q3-2017. In our opinion, the approval is expected to be received during H1-2018. At the same time, the company continues clinical development of PTSD and in the area of smoking cessation, as detailed below.

The company's financial results indicate a continued transition from a direct sale to a rental model, which affects short term revenues in 2017. Yet, the installments of systems in clinical and medical institutions will drive revenues in coming years. It should be noted that even if the company does not succeed in all its plans, it still has sufficient significant cash volume until the end of 2018.

The company continues to build and establish the rental model in the US by recruiting, marketing and sales personnel and by obtaining credit from Mizrahi Bank, which is designed to support the company's growing working capital needs as it moves to the rental model (i.e. the systems remain under their ownership).

In view of all of these considerations and given the expectation that the company will predominately operate under a rental model, we leave the target price of the company's shares unchanged. We estimate the value of the company at $112 million / NIS 397 million, and we estimate the target price between NIS 26.0 and NIS 28.1, an average of NIS 27.0.

Upcoming Potential Catalysts

Program	Event	Significance	Timeline
Obsessive Compulsive Disorder (OCD)	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 $)

	31.12.2014	31.12.2015	31.12.2016	30.6.2016	30.6.2017
Total Revenues	3,380	6,800	11,524	5,241	4,527
Cost of Revenues	656	1,466	2,427	1,011	1,003
Net Profit	**2,724**	**5,334**	**9,097**	**4,230**	**3,524**
R&D Expenses	6,438	4,103	3,792	1,237	2,500
Marketing Expenses	1,896	3,281	5,180	2,323	3,048
General and Administrative Expenses	1,667	2,455	2,194	814	1,246
Other Revenues	0	0	0	0	0
Operating Loss	7,277	4,505	2,069	144	3,270
Financial income	3,195	636	186	383	1,471
Financial expenses	2,463	218	514	487	638
Loss before Tax	6,545	4,087	2,397	248	2,437

Source: Brainsway

Balance Sheet (in thousands $)

Current assets	31.12.2014	31.12.2015	31.12.2016	30.6.2017
Cash and cash equivalents	17,201	11,355	9,174	6,638
Short-term deposits	1,075	585	585	25
Net Customers	972	2,009	2,492	2,544
Accounts receivable	510	915	859	1,015
Total current assets	19,759	14,864	13,110	10,222
Non-current assets				
Long term leasing expenses	30	34	24	22
Net fixed assets	5,868	7,329	6,821	7,177
Intangible assets	25	16	9	16
Total non-current assets	5,923	7,379	6,854	7,215
Total assets	**25,682**	**22,243**	**19,964**	**17,437**
Current liabilities				
Liabilities to suppliers and service providers	1,522	944	810	1,109
Accounts payable	1,180	1,228	1,436	1,459
Revenues in advance	2,650	2,526	1,861	2,131
Liabilities for ST R&D funding	99	198	288	101
Total current liabilities	5,451	4,896	4,395	4,800
Noncurrent liabilities				
Revenues in advance and other liabilities	218	193	374	252
Liabilites for LT R&D funding	3,817	4,204	4,908	4,046
Liabilities from Investor options	671	55	-	0
Total non-current liabilities	4,706	4,452	5,282	4,298
Total Liabilities	**10,157**	**9,348**	**9,677**	**9,098**
Equity	**15,525**	**12,895**	**10,287**	**8,339**
Total liabilities and equity	**25,682**	**22,243**	**19,964**	**17,437**

Source: Brainsway

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