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INDEPENDENT EQUITY RESEARCH

Q1-2018 Update

10 June, 2018

Brainsway

The Company continues to generate consistent growth based on the rental model with sufficient cash available for 2018, without the need for further capital raising; target price unchanged.

Primary Exchange: TASE

Ticker: TLV: BRIN

Sector: Biotechnology

Industry: Medical Devices

Data as at 10 June, 2018
(Source: TASE)

Closing price: NIS 18.8

Market cap: NIS 312.3M

# of shares: 16,640,446

Stock performance (12 mos.): -6.5%

Daily-trading-vol. (12 mos.): NIS 458K

Stock target price: NIS 27.5

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Company Overview

Brainsway Ltd. (Brainsway or "the Company") is an Israeli medical device firm 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 & Analysis

In the first quarter of 2018, the Company reported the following major developments:

During the quarter, the company recorded revenues of $3.6 million, of which 58% stemmed from rental agreements for its devices and the remainder from sales of devices.

- Sales were similar to Q4-2017, however, compared to the corresponding quarter in 2017 revenues grew significantly. Revenues from rental agreements grew 45%, whilst revenues from sales grew 113%.
- The Company's operating loss decreased slightly to $1.4 million; Cash used for current operations also reduced to about $600,000 in the quarter.
- The company's available cash balance is $15.4 million, meaning that the company can complete its strategic plans without the need to raise additional capital in the coming year.

The company received FDA approval to market the company's system in the US with the new stimulator.

- On May 3, 2018, the company announced that it had received approval from the FDA for marketing in the US of the TMS Deep system with the new stimulator developed by the company
- The new stimulator is an upgrade of the company's system capabilities from several aspects, including: improved energy efficiency, user-friendly software, storage and retrieval of therapeutic information throughout the therapeutic program, and technical monitoring of the functioning of the system – e.g. the company will be able to verify payments required by the therapists for its systems. The company estimates that the new stimulator will be delivered to US customers in the coming months after completion of the beta site.

In view of all these considerations, we maintain our previous valuation of the company's value of $129.5 million / NIS 453 million; target price of NIS 26.3 – NIS 28.6, and on average NIS 27.5.

- On December 11, 2017, the Company entered into a private placement agreement with leading investment parties in Israel led by HaPhoenix.
- The significant capital raised by the Company strengthens its financial stability and enables it to continue supporting clinical development and regulatory submissions, whilst also expanding its presence in the US by recruiting marketing and sales personnel to further establish the rental model.

Revenue forecast for the coming years:

Parameters	2016A	2017A	2018E	2019E	2020E
# of installed systems	160	260	400	560	740
Revenues ($000s)	11,524	11,145	15,688	22,875	30,650
Operating profit ($000s)	-2,069	-7,057	-5,283	-1,985	1,932
E.P.S. ($)	-0.17	-0.48	-0.36	-0.16	0.07

Updates for Q1-2018

Business Models and Forecast

The Company's revenues are derived from sales and rentals of the medical devices it markets. In order to produce a consistent and long-term revenue model that will also reflect the Company's expected increased market penetration, the Company has chosen to focus its operations on leasing systems to its customers, rather than making one-time sales. In 2017, the company recorded revenues of $11.2 million, of which 60% derives from rent and the rest from sales. In the first quarter of 2018, the percentage of rentals remained higher than the percentage of sales, with growth of about 45% in the first quarter of 2018 compared to the corresponding period in 2017, and more than 100% growth in system sales.

Based on the Company's various sales and rental models, we estimate the average price under the rental model to be approximately $52,000 for either a model-dependent model or an unlimited model (see Initiation of Coverage Report dated August 6, 2017). We estimate that the Company has leased approx. 200 systems so far since 2014, and that in 2017 the Company sold ten systems on average each quarter, and will maintain a similar sales record in 2018. Under these assumptions, the minimal rental yields that are expected to be received from agreements signed up until and including March 31, 2018 are approx. $8.5M, and approx. $7.6M for the year 2019, meaning that, the growth in rental income is expected to continue. According to the Company, each rental period is 3 to 5 years, during which there are no 'exit periods'.

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

$000s	2014	2015	2016	2017	Q1-2017	Q1- 2018
Rent	**2,708**	**4,299**	**5,327**	**6,654**	**1,430**	**2,076**
%	80%	63%	46%	60%	67%	58%
Sales	**672**	**2,501**	**6,197**	**4,491**	**718**	**1,529**
%	20%	37%	54%	40%	33%	42%
Total Revenues	**3,380**	**6,800**	**11,524**	**11,145**	**2,148**	**3,605**

Q1-2018 Financial Results

Revenues for the quarterly period ending 31 March 2018 totaled $3.6 million compared with revenues of $2.1 million in the corresponding quarter for 2017. The increase in revenues was due to the consistent growth in the Company's rental income. Rental income for the quarter was $2.1 million, compared with $1.4 million in the corresponding quarter last year.

Gross profit margin for the quarterly period ending 31 March 2018 was 81%, slightly higher than the 77% for the corresponding quarter in 2017.

Research and development expenses totaled $1.7 million for the quarterly period ending 31 March 2018, compared with $1.2 million in the corresponding quarter of 2017. The increase was mainly due to the acceleration and increase in R&D activity for clinical trials, hardware and software development.

Marketing and sales expenses totaled $1.9 million for the quarterly period ending 31 March 2018, compared to $1.4 million in the corresponding quarter last year. The increase in marketing expenses from 2017 stems mainly from expanded sales, marketing and support operations in the United States, including the recruitment of salespeople and various marketing activities.

General and administrative expenses increased by approximately $140,000, mainly due to options granted to the incoming CEO.

Operating loss for the quarterly period ending 31 March 2018, operating loss decreased slightly in the first quarter of 2018, amounting to $1.4 million, mainly due to growth in sales and gross profitability, and despite growth in operating expenses.

Cash used in operating activities in the first quarter totaled $600,000, compared to $1.7 million in the corresponding quarter last year. A decrease in the cash flows used in operating activities is mainly due to a decrease in the loss for the period, due in part to the focus on the rental model and a decrease in receivables. The company's total cash as at March 31, 2018 was $15.4 million, meaning that the company has sufficient cash to support all its activities into 2019.

Analysis

FDA approval for marketing its system with the new stimulator was expected and constitutes as part of the Company's strategic plans to improve and streamline its product range and penetrate, firstly the US market, followed by additional markets. As we elaborated in our Initiation of Coverage Report dated August 6, 2017, the company continued to invest most of its R&D efforts in three multicenter trials for approval by the FDA for its systems in the areas of smoking cessation, posttraumatic stress disorder (PTSD) and bipolar disorder (manic depression).

Brainsway reported positive results in a Deep-TMS obsessive-compulsive disorder (OCD) trial using the company's systems. According to the company, its treatment significantly improved symptoms compared to the control group. We estimate FDA approval for the OCD indication in Q3-2018.

We believe that the Company has a strong cash base to support its operations both during 2018 and even in 2019 without the need to raise additional capital, given the continued pace of sales. Also, the framework of the loan taken by the Company in 2017 along with the substantial capital raised by the Company strengthens its financial stability and in particular 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, as well as continued support for clinical development and regulatory directives. The raising of capital from the group of investors led by Phoenix, as well as the relatively low discount it took several months ago, are also testimony to the trust the institutional investors receive from the company's operations and the successful implementation of its clinical and business strategy.

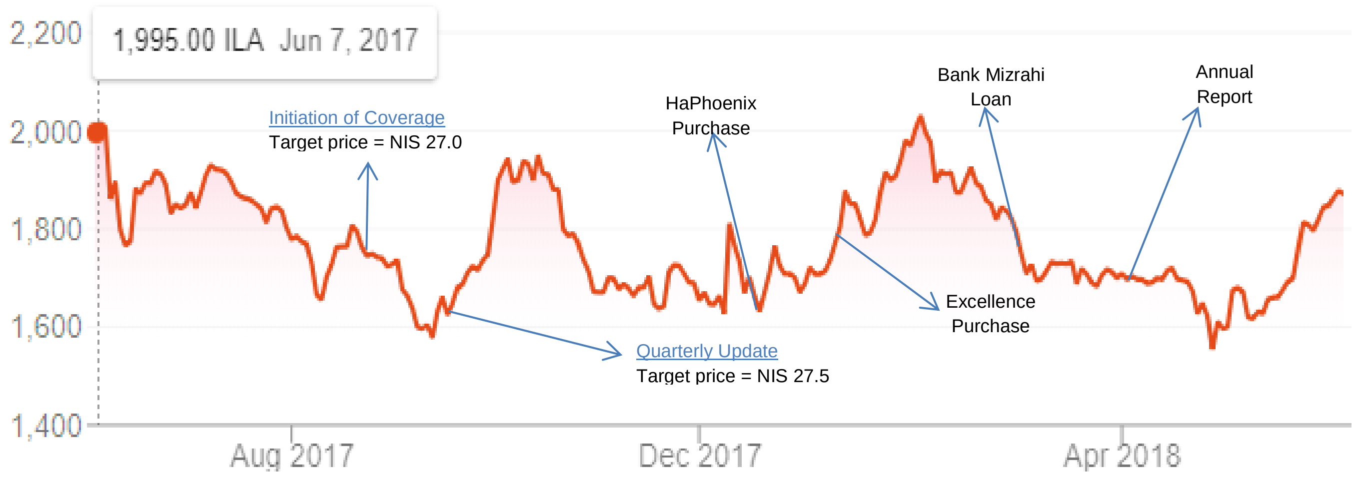
In view of all these considerations, we maintain our target price and the value of the company. We estimate the value of the company at $129.5 million / NIS 453 million, the target price in the range of NIS 26.3 - NIS 28.6 and on average NIS 27.5.

Upcoming Potential Catalysts

Program	Event	Significance	Timeline
Obsessive Compulsive Disorder (OCD)	Successful completion of a multicenter clinical trial Market approval in the US for OCD	High High	**Achieved** **Q3-2018**
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**

Sources: Brainsway; Frost & Sullivan; FDA

Stock Performance – 12 months



Competitive Landscape - Update

Neuronetics Inc. Brainsway's main competitor filed an IPO on 31 May 2018.

Neuronetics Inc. is a commercial stage medical technology company focused on designing, developing and marketing products that improve the quality of life for patients who suffer from psychiatric disorders. Neuronetics, to date, has no public valuation; however the company has 781 installed systems and runs solely under a lease-based business model, generating $40.4M in 2017, i.e. $52,000 per system leased similar Briansway's lease prices.

Appendix - Financial Reports for Q1-2018

Balance Sheet ($000s)	31.12.2015	31.12.2016	31.12.2017	31.03.2018
Cash and cash equivalents	11,355	9,174	14,509	13,310
Short-term deposits	585	585	50	1,109
Net Customers	2,009	2,492	2,419	2,218
Accounts receivable	915	859	909	733
Total Current Assets	**14,864**	**13,110**	**17,887**	**17,370**
Secured deposit	-	-	2,009	1,009
Long term leasing expenses	34	24	25	27
Net fixed assets	7,329	6,821	7,091	7,261
Intangible assets	16	9	18	16
Total Non-Current Assets	**7,379**	**6,854**	**9,143**	**8,313**
Total Assets	**22,243**	**19,964**	**27,030**	**25,683**
Liabilities to suppliers and service providers	944	810	1,631	1,676
Accounts payable	1,228	1,436	1,803	1,824
Revenues in advance	2,526	1,861	2,448	2,333
Liabilities for ST R&D funding	198	288	251	414
Total Current Liabilities	**4,896**	**4,395**	**6,133**	**6,247**
Loans	-	-	2,727	2,753
Revenues in advance and other liabilities	193	374	309	281
Liabilities for LT R&D funding	4,204	4,908	5,028	4,361
Liabilities from Investor options	55	-	112	112
Total Non-Current Liabilities	**4,452**	**5,282**	**8,176**	**7,507**
Total Liabilities	**9,348**	**9,677**	**14,309**	**13,754**
Total Equity	**12,895**	**10,287**	**12,721**	**11,929**
Total Liabilities and Equity	**22,243**	**19,964**	**27,030**	**25,683**

Profit and Loss Statement ($000s)	31.12.2015	31.12.2016	31.12.2017	31.3.2017	31.3.2018
Total Revenues	**6,800**	**11,524**	**11,145**	**2,148**	**3,605**
Cost of Revenues	1,466	2,427	2,595	447	697
Net Profit	**5,334**	**9,097**	**8,550**	**1,701**	**2,908**
R&D Expenses	4,103	3,792	5,343	1,161	1,711
S&M Expenses	3,281	5,180	6,331	1,436	1,881
G&A Expenses	2,455	2,194	3,487	586	733
Operating Loss (EBITDA)	**4,505**	**2,069**	**6,611**	**1,482**	**1,417**
Financial income	636	186	186	65	513
Financial expenses	218	514	460	509	98
EBIT (Loss before Tax)	**4,087**	**2,397**	**6,885**	**1,926**	**1,002**
Tax	0	0	169	0	25
Comprehensive Loss	**4,087**	**2,397**	**7,054**	**1,926**	**1,027**

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