

## Brainstorm (NASDAQ/BCLI)

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### BUY ALS Remains an Unmet Medical Need

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Brainstorm reported 1Q19 and announced that enrollment of the n=200 patients in the Phase 3 trial could be completed by August 2019. The 1Q19 period closed with just \$6M in cash but remember that the trial is supported by several grants.

### Investment Highlights

**Clinical progress towards a result.** Management highlighted the enrollment progress of the pivotal ALS trial. Management now anticipates approximately 150 patients will be enrolled in the ALS trial by the end of this month and hopes to finalize the enrollment of all 200 patients by 3Q19. We see this as a great milestone for the company and the patients who desperately need a viable therapy that can impact disease progression.

**Brainstorm reported 1Q19.** The company spent \$5M in the quarter and ending the period with just \$6M in cash. Management did note that with both CIRM and Israel based grants the effective cash balance is closer to \$10M. Our model does assume multiple raises and our valuation is based on a fully diluted share count. With that said, the results of the current Phase 3 trial could be transformative for the company, shareholders and patients.

**MS is Progressing too.** Management highlighted the “active” enrollment in the company’s Phase 2 trial of NurOwn in Progressive MS (Multiple Sclerosis) in several “preeminent U.S. medical institutions” and on April 30, 2019, the Company announced that it has expanded its proprietary cellular technology platform to include NurOwn-derived exosomes for potential development across a broad range of CNS disorders.

#### Other progress in the period included...

The presentation of two scientific abstracts at the 71<sup>st</sup> American Academy of Neurology (AAN) Annual Meeting in Philadelphia, PA. The abstracts selected provide a detailed molecular genetics characterization of neurotrophic factor production by NurOwn and further correlate cerebrospinal fluid biomarkers with clinical improvement in the completed Phase 2 ALS study. The company strengthened its intellectual property estate around NurOwn with patents in Israel and Europe.

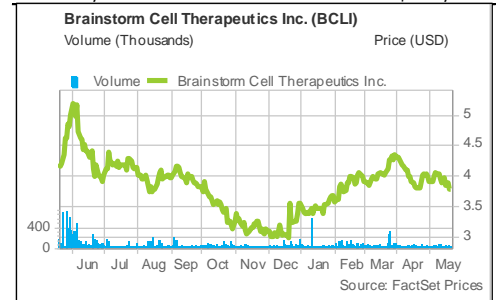
- In December 2018, the Israel Patent Office granted a patent titled “Methods of Generating Mesenchymal Stem Cells Which Secrete Neurotrophic Factors.”
- In March 2019, the European Patent Office (“EPO”) granted a European-wide patent titled ‘Mesenchymal Stem Cells for the treatment of CNS Diseases.’ The European Patent Application published in the European Patent Bulletin 19/13 on 27 March 2019, under Patent No. 2620493.

**Current Price** **\$3.77**  
**Price Target** **\$12.00**

Estimates	F2017A	F2018E	F2019E
Revenues (\$000s)	\$0	\$1,500	\$6,000
1Q March	\$0	\$0	\$1,500
2Q June	\$0	\$0	\$1,500
3Q September	\$0	\$0	\$1,500
4Q December	\$0	\$1,500	\$1,500

	F2017A	F2018E	F2019E
EPS (diluted)	(0.26)	(0.51)	(0.12)
1Q March	(0.10)	(0.12)	(0.04)
2Q June	(0.06)	(0.16)	(0.03)
3Q September	(0.13)	(0.15)	(0.03)
4Q December	0.01	(0.08)	(0.03)

EBITDA/Share	
EV/EBITDA (x)	
<b>Stock Data</b>	
52-Week Range	\$2.92 - \$5.35
Shares Outstanding (mil.)	21
Market Capitalization (mil.)	\$78
Enterprise Value (mil.)	\$67
Debt to Capital	0.0%
Book Value/Share	\$0.31
Price/Book	14.7
Average Three Months Trading Volume (M)	0.0
Insider Ownership	12.4%
Institutional Ownership	11.4%
Short interest (mil.)	4.5%
Dividend / Yield	\$0.00/0.0%



Update - May 23, 2019 - Buy - Price Target \$12

**What is NurOwn?** It is an autologous (your own cells) cell therapy which are modified to become potent drug like miniature factories to treat neural disorders. The company uses a proprietary growth media to induce these adult autologous mesenchymal stem cells (MSCs) to differentiate into specialized neuron-supporting cells that secrete neurotrophic, nerve-growth supporting factors, MSC-NTFS. The cells are then administered via intramuscular and, or intrathecal injection, which is painless and considered safe. The cells are believed to promote motor neuron growth, protect existing motor neurons and help re-establish nerve-muscle interaction. The ALS opportunity represents an unmet medical need, and while it is designated as an orphan disease, it does have significant market potential. ALS affects 30,000 people in the U.S. and 450,000 worldwide. 5,000 new cases are diagnosed annually in the U.S. The average life expectancy is 2-5 years, and care is almost exclusively palliative. Advanced-stage patient care can reach \$200,000 per year representing a \$6 billion cost to the healthcare system. Changes in regulations for the approval of cell therapy in the U.S., such as the 21<sup>st</sup> Century Act, and similar legislative changes in Europe and Japan should support the application for NurOwn, provided the pivotal trial demonstrates positive data. Brainstorm's initial focus will be on the U.S. and E.U. markets but has had early discussions with potential partners in Japan.

**Will the Phase 3 trial be successful?** The enrollment criteria for the pivotal trial is designed to include only the fast progressing patients who demonstrated superior outcomes in the prior Phase 2 trial. In this way, we view the trial as “enriched”. The trial itself is a 200 patient, randomized, placebo-controlled, double-blind, multi-dose trial conducted at six sites in the U.S. The primary outcome measure for the study will also use the ALSFR-S score responder analysis. We also note that these ALS patients in the current pivotal trial can now be treated with multiple doses. Once the patient’s cells are initially harvested, they will be sent to the lab where they can be processed and then cryopreserved. Brainstorm has already successfully demonstrated the equivalence of cryopreserved cells to fresh cells. We view cryopreservation as an important part of the Brainstorm fundamental story as it allows a high cost of goods to be spread out across multiple doses, improving manufacturing margins. The idea of multiple doses is consistent with our knowledge of how cell therapy works, as cells have a half-life, and doses will need to be refreshed over the course of treatment.

**Valuation.** With a market capitalization of just \$78M, we see the company as trading at a distressed valuation. Brainstorm today is now a pivotal company with a product that has orphan designation, in a market where the need is both desperate and unmet. The Phase 2 trial demonstrated a high safety margin, so if efficacy is demonstrated in the pivotal trial it creates a favorable risk-reward scenario. This combined with changes in legislation around the approval of cell therapy in the U.S., Europe, and Japan should create in our opinion a significant opportunity. In our model, we apply a 50% probability of success in our therapeutic models and a 30% discount rate in our valuation metrics. Using these metrics, we model the market potential and discount back in our FCFF, discounted EPS, and sum-of-the-parts models, rounded to the nearest whole number to arrive at a \$12.00 price target.

**Risk to our thesis, include the following:** (1) clinical; (2) regulatory; (3) commercial; (4) manufacturing; (5) financial; (6) liability; and (7) intellectual property.

**Valuation Analysis.** Given the fact that the company's market capitalization is approximately ~\$78 million we see the valuation as distressed. We see a company with a pivotal trial, orphan designation, in a market where the need is both desperate and unmet. The Phase 2 trial demonstrated an excellent safety profile, and the results helped to enrich the probability of a successful pivotal trial by identifying the importance of excluding slow progressing patients. If the pivotal trial shows statistically significant p-values combined with changes in legislation around the approval of cell therapy in the U.S., Europe, and Japan, we could see a large global market opportunity. We also take note that the Phase 3 trial is being supported with non-dilutive capital from CIRM and the Israeli Innovative Authority.

### Product Modeling Assumptions

1. We assume NurOwn's Phase 3 trial will demonstrate p-values on the primary and secondary endpoints and qualify for review and approval in the U.S. and Europe.
2. We assume pricing of \$151,000 per patient during the life of the patient, or duration of treatment in the U.S. and \$139,000 in Europe. Our price assumptions could prove to be too conservative as cell-based therapies typically charge multiples of our assumptions. We do this for conservatism.
3. We reduce the patient population pool by 25% to account for patients who may not have access to therapy or insurance.
4. We apply a 50% probability of success in our model, as NurOwn is not yet approved and we acknowledge the novel nature of both cell therapy, the variability of this disease and the complex nature of using Phase 2 data to predict a Phase 3 trial outcome.
5. We have not assumed revenues beyond the U.S. and Europe.

### Exhibit 1. Market Model for the U.S. and Europe for Brainstorm's NurOwn in ALS Patients

Amyotrophic Lateral Sclerosis (ALS)																
ALS revenues model (US)																
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
ALS Prevalance	30,000	30,300	30,603	30,909	31,218	31,530	31,846	32,164	32,486	32,811	33,139	33,470	33,805	34,143	34,484	34,829
Market Size Growth	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Eligible patients with insurance (75%)	22,500	22,725	22,952	23,182	23,414	23,648	23,884	24,123	24,364	24,608	24,854	25,103	25,354	25,607	25,863	26,122
Market Penetration	0%	0%	0%	0%	0%	0%	0%	0%	4%	10%	15%	20%	25%	30%	34%	40%
Treatable Patients	0	0	0	0	0	0	0	0	975	2461	3728	5021	6338	7682	8793	10449
Average Price of Therapy								\$151,000	\$154,020	\$157,100	\$160,242	\$163,447	\$166,716	\$170,051	\$173,452	\$176,921
Price Growth	0%	0%	0%	0%	0%	0%	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%
<b>Total Sales (\$M)</b>									\$ 150,103	\$ 386,591	\$ 597,400	\$ 820,588	\$ 1,056,712	\$ 1,306,350	\$ 1,525,242	\$ 1,848,594
Probability of Approval									50%	50%	50%	50%	50%	50%	50%	50%
<b>Total Sales (US) (\$M)</b>									\$ 75,052	\$ 193,296	\$ 298,700	\$ 410,294	\$ 528,356	\$ 653,175	\$ 762,621	\$ 924,297
Amyotrophic Lateral Sclerosis (ALS)																
ALS revenues model (Europe)																
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
ALS Prevalance	55,000	55,550	56,106	56,667	57,233	57,806	58,384	58,967	59,557	60,153	60,754	61,362	61,975	62,595	63,221	63,853
Market Size Growth	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Eligible patients with insurance (75%)	41,250	41,663	42,079	42,500	42,925	43,354	43,788	44,226	44,668	45,115	45,566	46,021	46,482	46,946	47,416	47,890
Market Penetration	0%	0%	0%	0%	0%	0%	0%	2%	5%	10%	15%	20%	25%	30%	34%	40%
Treatable Patients	0	0	0	0	0	0	0	885	2233	4511	6835	9204	11620	14084	16121	19156
Average Cost of Therapy	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$139,000	\$141,780	\$144,616	\$147,508	\$150,458	\$153,467	\$156,537	\$159,667	\$162,861
Price Growth	0%	0%	0%	0%	0%	0%	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%
<b>Total Sales (\$M)</b>								\$ 122,947	\$ 316,650	\$ 652,426	\$ 1,008,194	\$ 1,384,856	\$ 1,783,348	\$ 2,204,646	\$ 2,574,057	\$ 3,119,757
Probability of Approval					0%	0%	0%	50%	50%	50%	50%	50%	50%	50%	50%	50%
<b>Total Sales (Europe) (\$M)</b>								\$ 61,474	\$ 158,325	\$ 326,213	\$ 504,097	\$ 692,428	\$ 891,674	\$ 1,102,323	\$ 1,287,028	\$ 1,559,878
<b>Total sales (US and Europe) (\$M)</b>								\$ 61,474	\$ 233,377	\$ 519,509	\$ 802,797	\$ 1,102,722	\$ 1,420,030	\$ 1,755,498	\$ 2,049,649	\$ 2,484,175

Source: Dawson James estimates.

**Valuation.** Our product models feed into our income statement and allow us to apply valuation metrics. For conservatism, we apply a 50% probability of approval in our product models as NurOwn is a new and novel therapy in a variable disease. Our product model reflects our assumptions for the product launch dates, product attributes, and pricing, to determine the future revenue streams. Our valuation conclusion is an equally weighted average of our FCFE, EPS, and sum-of-the-parts analysis discounted at a rate of 30% to account for the risks of development stage products. For companies that are well established with mature products and revenues, we typically will use a 10% risk rate. For companies in the early stages of product commercialization, we typically choose a higher risk rate of 15%. For Brainstorm, we use our maximum risk rate of 30% as the company does not yet have an approved therapeutic product. Regarding the company's financials, we estimate that today Brainstorm has approximately \$6M in cash on the balance sheet. However, we note the company is receiving support from CIRM and the Israel Innovative Authority which brings the effective cash balance closer to \$10M. Our model does assume a capital raise, and our valuation is based on a fully-diluted out-year share forecast.

**Exhibit 2. Discounted Free-Cash-Flow Model**

Average	\$ 12.00
Price Target	\$ 10.00
Year	2019

**DCF Valuation Using FCF (mln):**

units ('000 - Cnd\$)	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBIT (Earnings before income tax)	(4,982)	(4,952)	(13,948)	(10,508)	(3,936)	54,191	153,787	252,377	356,779	467,254	584,072	686,418	837,883
Tax Rate	0%	0%	0%	0%	0%	5%	10%	15%	20%	25%	30%	35%	37%
EBIT(1-t) Earnings after income tax	(4,982)	(4,952)	(13,948)	(10,508)	(3,936)	51,482	138,409	214,521	285,423	350,440	408,851	446,172	527,866
CapEx (equipment)	(103)	(180)	(369)	(4)	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	44	-	-	-	-	-	-	-	-	-
Change in NWC	-	-	-	-	-	-	-	-	-	-	-	-	-
FCF	(5,085)	(5,132)	(14,317)	(10,468)	(3,936)	51,482	138,409	214,521	285,423	350,440	408,851	446,172	527,866
PV of FCF	(11,172)	(8,673)	(18,612)	(10,468)	(3,028)	30,462	62,999	75,110	76,873	72,603	65,157	54,696	49,778
Discount Rate	30%												
Long Term Growth Rate	1%												
Terminal Cash Flow	1,838,431												
Terminal Value YE2023	173,363												
NPV	647,545												
NPV-Debt	-												
Shares out ('000)	63,109 2023E												
NPV Per Share	\$ 10.26												

Source: Dawson James Securities

Source: Dawson James estimates.

**Exhibit 3. EPS Model**

Current Year	2019
Year of EPS	2023
Earnings Multiple	10
Discount Factor	30%
Selected Year EPS	\$ 3.47
NPV	\$ 12.14

Discount Rate and Earnings Multiple Varies, Year is Constant							
2023 EPS							
Earnings Multiple	12.1	5%	10%	15%	20%	25%	30%
0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5	\$20.22	\$16.78	\$14.05	\$11.85	\$10.06	\$8.60	\$8.60
10	\$40.43	\$33.57	\$28.10	\$23.70	\$20.13	\$17.21	\$17.21
15	\$60.65	\$50.35	\$42.15	\$35.55	\$30.19	\$25.81	\$25.81
20	\$80.86	\$67.13	\$56.20	\$47.40	\$40.26	\$34.41	\$34.41
25	\$101.08	\$83.91	\$70.24	\$59.25	\$50.32	\$43.02	\$43.02
30	\$121.29	\$100.70	\$84.29	\$71.10	\$60.39	\$51.62	\$51.62
35	\$141.51	\$117.48	\$98.34	\$82.95	\$70.45	\$60.22	\$60.22

Source: Dawson James estimates.

**Exhibit 4. Sum-of-the-Parts Model**

Brainstorm Cell Therapeutics, Inc (BCLI)	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MMs	Term Val
Nurown	1%	30%	2	70%	\$750	\$2,586
ALS						\$11.88
Nurown	1%	50%	5	50%	\$500	\$1,020
Pre-Clinical Pipeline						\$0.75
Net Margin						70%
MM Shrs OS						63
<b>Total</b>						<b>\$12.63</b>

Source: Dawson James estimates.

**Exhibit 5. Income Statement**

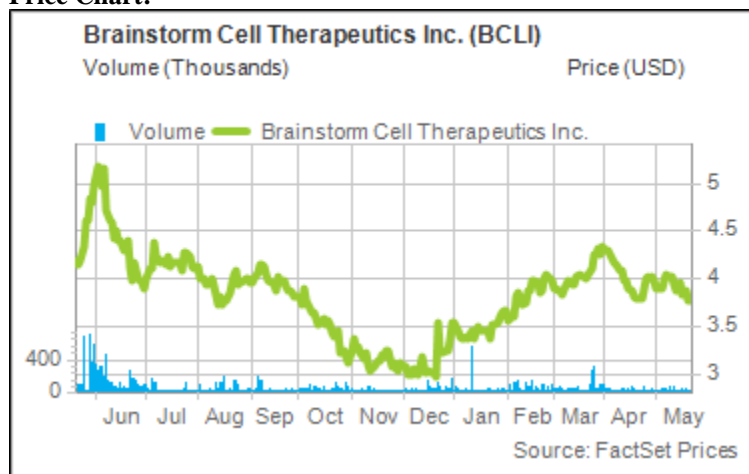
Brainstorm Cell Therapeutics, Inc.: Income Statement (\$000)																				
Brainstorm Cell Therapeutics: YE Dec. 31	2017A	2018A	1Q19A	2Q19E	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Nurown™ (U.S. sales)								-	-	-	-	-	75,052	193,296	298,700	410,294	528,356	653,175	762,621	924,297
Nurown™ (EU sales)								15,368	15,368	15,368	15,368	61,474	158,325	326,213	504,097	692,428	891,674	1,102,323	1,287,028	1,559,878
Supportive Development Grant Revenue		-		1,500	1,500	1,500	4,500													
<b>Total Product Sales</b>		-	-	1,500	1,500	1,500	4,500	15,368	15,368	15,368	15,368	61,474	233,377	519,509	802,797	1,102,722	1,420,030	1,755,498	2,049,649	2,484,175
<b>Expenses</b>																				
Cost of goods sold								11,526	11,526	11,526	11,526	46,105	151,695	337,681	521,818	716,769	923,020	1,141,074	1,332,272	1,614,714
COGS % of Revenue								75%	75%	75%	75%	75%	65%	65%	65%	65%	65%	65%	65%	65%
Research and development	977	8,293	3,456	2,281	2,189	2,554	9,122	2,140	2,326	2,233	2,605	9,305	9,491	9,681	9,874	10,072	10,273	10,479	10,688	10,902
R&D % of Revenue																				
SG&A	4,022	5,770	1,472	1,412	1,471	1,530	5,885	2,300	2,400	2,500	2,800	10,000	18,000	18,360	18,727	19,102	19,484	19,873	20,271	20,676
SG&A % of Revenue																				
<b>Total expenses</b>	4,999	14,063	4,928	3,693	3,661	4,084	15,008	15,966	16,252	16,259	16,932	65,410	179,186	365,721	550,420	745,943	952,777	1,171,426	1,363,231	1,646,292
Oper. Inc. (Loss)	(4,999)	(14,063)	(4,928)	(2,193)	(2,161)	(2,584)	(10,508)	(598)	(884)	(891)	(1,563)	(3,936)	54,191	153,787	252,377	356,779	467,254	584,072	686,418	837,883
Financial income expenses, net	47	115	(99)																	
Taxes on income																				
Other income																				
<b>Pre-tax income</b>	(4,952)	(13,948)	(5,027)	(2,193)	(2,161)	(2,584)	(10,508)	(598)	(884)	(891)	(1,563)	(3,936)	54,191	153,787	252,377	356,779	467,254	584,072	686,418	837,883
Income Tax Benefit (Provision)	-	-	-	-	-	-	-	-	-	-	-	-	2,710	15,379	37,857	71,356	116,813	175,222	240,246	310,017
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	10%	15%	20%	25%	30%	35%	37%
<b>GAAP Net Income (loss)</b>	(4,952)	(13,948)	(5,027)	(2,193)	(2,161)	(2,584)	(11,965)	(598)	(884)	(891)	(1,563)	(3,936)	51,482	138,409	214,521	285,423	350,440	408,851	446,172	527,866
<b>GAAP-EPS</b>	(0.26)	(0.70)	(0.24)	(0.07)	(0.07)	(0.08)	(0.46)	(0.01)	(0.01)	(0.01)	(0.03)	(0.06)	0.84	2.25	3.47	4.60	5.62	6.53	7.10	8.36
Non GAAP EPS (dil)	(0.26)	(0.70)	(0.24)	(0.07)	(0.07)	(0.08)	(0.46)	(0.01)	(0.01)	(0.01)	(0.03)	(0.06)	0.84	2.25	3.47	4.60	5.62	6.53	7.10	8.36
Wgtd Avg Shrs (Bas) - '000s	18,777	19,977	20,917	25,919	25,922	25,925	24,671	40,927	40,931	40,935	40,939	40,933	40,950	40,966	40,982	40,999	41,015	41,032	41,048	41,065
Wgtd Avg Shrs (Dil) - '000s	18,777	19,977	20,917	30,938	30,969	31,000	24,671	61,031	61,092	61,153	61,214	61,123	61,368	61,613	61,860	62,108	62,357	62,607	62,858	63,109

Source: Dawson James estimates.

Companies mentioned in this report:

**Important Disclosures:**

**Price Chart:**



Price target and ratings changes over the past 3 years:

Initiated – Buy – December 20, 2018 – Price Target \$12

Update – Buy – May 23, 2019 – Price Target \$12

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- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	37	86%	10	27%
Market Perform (Neutral)	6	14%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>43</b>	<b>100%</b>	<b>10</b>	<b>23%</b>

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