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Check-Cap (NASDAQ/CHEK)

June 30, 2021

Neutral – Dilution: Raises Capital (at the low) 25+25 New Shares

We are surprised to see Check-Cap raise capital (\$29M) at the low point of the stock, \$1.35, which follows other recent raises (warrant holder exercises). This news follows delays in the start of the U.S. trial, which is not expected to begin until 2022. In March, we downgraded the stock (\$2.38) based on a combination of concerns (the stock price had reached our target valuation), and concerns about the timeline.

Investment Highlights

Deal Terms: Check-Cap announced that it has entered into definitive agreements with several institutional and accredited investors for the purchase and sale of 25,925,926 of the Company's ordinary shares and accompanying short-term warrants to purchase up to an aggregate of 25,925,926 of the Company's ordinary shares in a registered direct offering. Each ordinary share is being sold together with one short-term warrant to purchase one ordinary share at a combined offering price of \$1.35 per ordinary share and accompanying warrant. The short-term warrants will have a term of two and one-half years following the date of issuance, be exercisable immediately and have an exercise price of \$1.50 per ordinary share.

Recall that Check-Cap reported Q121 results, ending the period with \$34M in cash. The company raised capital, and as such, news of today's raise is a surprise. Previously, warrant holders exercised warrants to purchase an aggregate 24M shares for prices ranging from \$0.75 to \$0.80, generating total gross proceeds of approximately \$19.2M to the Company. We model losses of \$13.5M this year and \$12.4M next year.

We downgraded our rating on Check-Cap to Neutral on March 17, 2021 at \$2.38 and removed our price target. We wrote: *Check-Cap's stock price has exceeded our price target of \$2.00, so we must either raise our valuation or lower our rating. We see no good reason to raise our valuation at this time as the U.S. Pivotal study has not yet begun (today, we know the trial is delayed). We additionally expect that the company is likely to raise capital prior to C-Scan completing the pivotal program (which in fact, happened).*

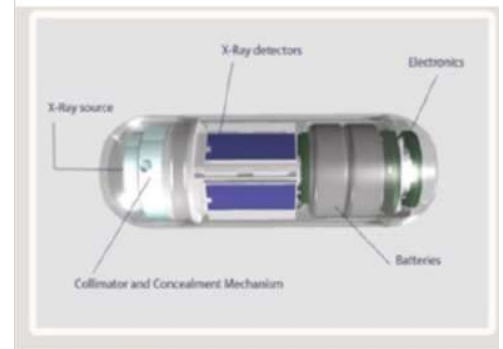
TikTok? We recently caught Ankon's NaviCam on TikTok. This is an optical-magnetic capsule (vs. Check-Cap, which uses X-ray). The company describes the unit as a "Magnetically Controlled Capsule Endoscope (MCCE) system which enables complete-real-time visualization of the stomach for the first time offering a non-invasive, patient-friendly alternative to traditional endoscopy. Proprietary system integrates advanced robotic technologies and innovative software."

Risk Factors: These include clinical, investment and financial, regulatory, intellectual property, and commercial risks.

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Current Price \$1.14
Price Target NA



Source: Check-Cap

Stock Data			
52-Week Range	\$0.24	-	\$4.49
Shares Outstanding (mil.)	70.5		
Market Capitalization (mil.)	\$80		
Enterprise Value (mil.)	\$80		
Debt to Capital	0%		
Book Value/Share	\$0.53		
Price/Book	1.3		
Average Three Months Trading Volume (K)	3,085		
Insider Ownership	3.4%		
Institutional Ownership	0.8%		
Short interest (mil.)	5.4%		
Dividend / Yield	\$0.00/0.0%		



Exhibit 1. Income Statement

Check-Cap: Income Statement (\$000)																	
YE December 31	2018A	2019A	2020A	1Q21A	2Q21E	3Q21E	4Q21E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Product sales																	
Imaging capsule EU	-	-	-	-	-	-	-	-	-	1,404	72,110	148,134	193,922	225,322	257,153	289,418	322,122
Imaging capsule US	-	-	-	-	-	-	-	-	-	738	3,904	8,256	16,793	42,700	86,859	176,682	269,548
Total Product Sales	-	-	-	-	-	-	-	-	-	2,143	76,014	156,390	210,715	268,023	344,011	466,100	591,670
Expenses																	
Cost of Goods Sold			0	0	0	0	0	0	0	0	19,003	39,097	52,679	67,006	86,003	116,525	147,917
%COGS			0%	0%	0%	0%	0%	0%	0%	0%	25%	25%	25%	25%	25%	25%	25%
Research and Development	7,618	10,474	10,008	2,406	2,072	2,342	2,188	9,007	8,106	7,296	6,566	5,910	5,969	6,028	6,089	6,150	6,211
%R&D																	
General and Administrative	3,445	3,595	3,924	1,151	1,038	1,173	1,150	4,513	4,964	5,212	5,473	5,746	6,091	6,457	6,844	7,255	7,690
%SG&A																	
Total expenses	11,063	14,069	13,932	3,557	3,110	3,515	3,338	13,520	13,070	12,508	31,042	50,753	64,739	79,491	98,935	129,929	161,818
Operating Income (Loss)	(11,063)	(14,069)	(13,932)	(3,557)	(3,110)	(3,515)	(3,338)	(13,520)	(13,070)	(10,365)	44,971	105,636	145,977	188,532	245,076	336,171	429,851
Finance income	473	233	86	(9)	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income	473	233	86	(9)	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(10,590)	(13,836)	(13,846)	(3,566)	(3,110)	(3,515)	(3,338)	(13,520)	(13,070)	(10,365)	44,971	105,636	145,977	188,532	245,076	336,171	429,851
change in fair value of cash flow hedge	(13)																
Income Tax Benefit (Provision)	1	(13)	-	-	-	-	-	-	(654)	(1,037)	9,596	17,958	29,195	47,133	66,171	100,851	137,552
Tax Rate									5%	10%	15%	17%	20%	25%	27%	30%	32%
GAAP Net Income (loss)	(10,602)	(13,823)	(13,846)	(3,566)	(3,110)	(3,515)	(3,338)	(13,520)	(12,417)	(9,329)	35,375	87,678	116,781	141,399	178,905	235,320	292,299
GAAP-EPS	(2.61)	(1.73)	(0.63)	(0.05)	(0.05)	(0.05)	(0.05)	(0.20)	(0.18)	(0.12)	0.69	1.10	1.47	1.77	2.23	2.92	3.61
GAAP EPS (dil)	(2.61)	(1.73)	(0.52)	(0.04)	(0.04)	(0.04)	(0.04)	(0.17)	(0.15)	(0.10)	0.35	0.83	1.06	1.23	1.49	1.89	2.26
Wgld Avg Shrs (Bas) - '000s	4,058	7,986	30,351	68,071	68,139	68,207	68,275	68,173	68,446	78,735	79,051	79,368	79,686	80,005	80,325	80,647	80,970
Wgld Avg Shrs (Dil) - '000s	4,058	7,986	47,643	80,000	80,800	81,608	82,424	81,208	84,505	98,088	102,070	106,215	110,528	115,015	119,686	124,545	129,602

Source: Dawson James estimates, company reports

Risk Analysis

Clinical Trial Risk. Check-Cap is dependent on the outcome of multiple clinical trials.

Commercial Risk. Check-Cap hopes to initially commercialize the device in Europe and Israel, followed by the U.S. There can be no assurances that the company can achieve meaningful market share.

Financial Risk. Check-Cap is likely to require additional capital raises before the company can be self-sustaining. There can be no guarantees that the company will be able to raise the needed capital.

Investment Risk. Check-Cap is a small capital company, which can translate into high volatility and risk for investors. The company has no revenues and is dependent on the clinical progress of the device.

Intellectual Property. Check-Cap may face IP challenges, forcing the company to defend its patents or against claims that the company is infringing on other patents.

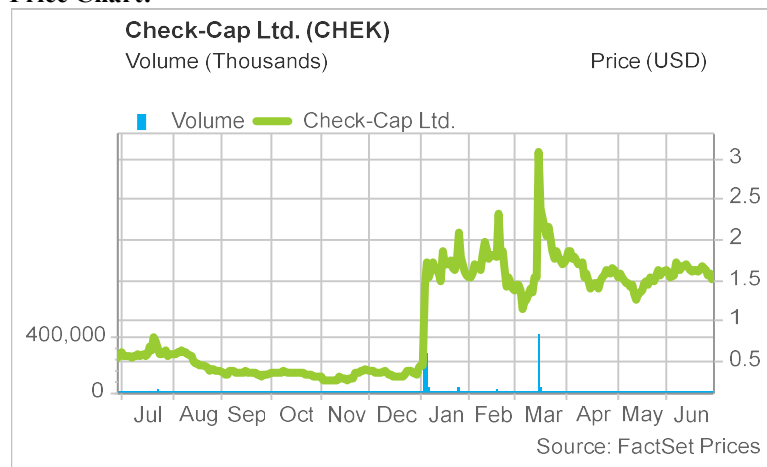
Regulatory Risk. Check-Cap, even with good clinical data, could face extensive delays and other regulatory setbacks.

Companies mentioned in this report

PillCam is a product sold by Medtronic (MDT - Not Rated).

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

Initiated – Buy – December 5, 2019 – Price Target \$4.00

Update – Buy – March 9, 2020 – Price Target \$4.00

Price Target Change – Buy – April 21, 2020 – Price Target Lowered from \$4.00 to \$2.00

Update – Buy – May 11, 2020 – Price Target \$2.00

Rating change – Neutral – March 17, 2021 – Price Target NA

Update – Neutral – May 12, 2021 – Price Target NA

Update – Neutral – June 30, 2021 – Price Target NA

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Rating Definitions:

- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

As of: 28-Jun-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	71%	4	17%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	34	100%	4	12%

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