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## Check-Cap (NASDAQ/CHEK)

December 16, 2021

### Neutral – 3Qtr Results: \$57M in Cash, 95M shares Outstanding

*Check-Cap as a result of the raise (July 2021 at the low) is now funded with \$57M in cash on the balance sheet at the end of 3Q21. Management estimates the current cash balance is enough to fund the company into 2023 which includes the required pivotal study. In the interim period we see no reason (yet) to become more constructive on the company. We hope to see manufacturing issues resolved and look forward to enrollment numbers in the pivotal study as the next catalysts for the stock to recover.*

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### Investment Highlights

**Check-Cap reported 3Q21 results, ending the period with \$57M in cash.** We model losses of \$13.5M this year and \$13.0M next year.

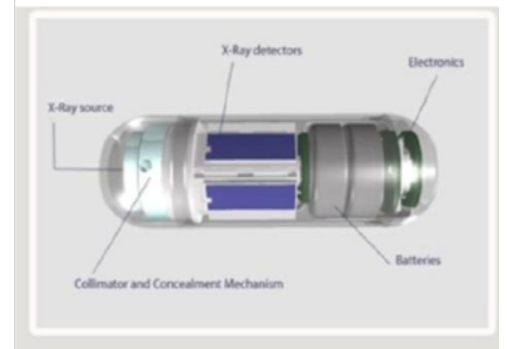
**Check-Cap raised Capital (at the low) - Deal Terms:** Check-Cap announced that it has entered into definitive agreements with several institutional and accredited investors for the purchase and sale of 25,925,926 of the Company's ordinary shares and accompanying short-term warrants to purchase up to 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.

**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 viewed 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."

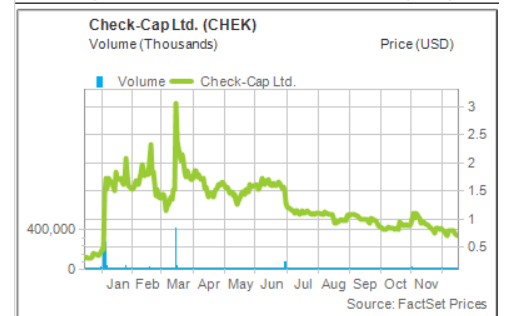
**Risk Factors:** These include clinical, investment and financial, regulatory, intellectual property, and commercial risks.

Current Price \$0.71  
Price Target NA



Source: Check-Cap

Stock Data			
52-Week Range	\$0.31	-	\$4.49
Shares Outstanding (mil.)	96.4		
Market Capitalization (mil.)	\$68		
Enterprise Value (mil.)	\$68		
Debt to Capital	0%		
Book Value/Share	\$0.53		
Price/Book	1.3		
Average Three Months Trading Volume (K)	331		
Insider Ownership	2.2%		
Institutional Ownership	2.4%		
Short interest (mil.)	7.1%		
Dividend / Yield	\$0.00/0.0%		



**Exhibit 1. Income Statement**

Check-Cap: Income Statement (\$000)																	
: YE December 31	2018A	2019A	2020A	1Q21A	2Q21A	3Q21A	4Q21E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Product sales</b>																	
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
<b>Total Product Sales</b>	-	-	-	-	-	-	-	-	-	<b>2,143</b>	<b>76,014</b>	<b>156,390</b>	<b>210,715</b>	<b>268,023</b>	<b>344,011</b>	<b>466,100</b>	<b>591,670</b>
<b>Expenses</b>																	
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	2,781	3,036	784	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	1,142	1,227	993	4,513	4,964	5,212	5,473	5,746	6,091	6,457	6,844	7,255	7,690
%SG&A																	
<b>Total expenses</b>	<b>11,063</b>	<b>14,069</b>	<b>13,932</b>	<b>3,557</b>	<b>3,923</b>	<b>4,263</b>	<b>1,777</b>	<b>13,520</b>	<b>13,070</b>	<b>12,508</b>	<b>31,042</b>	<b>50,753</b>	<b>64,739</b>	<b>79,491</b>	<b>98,935</b>	<b>129,929</b>	<b>161,818</b>
Operating Income (Loss)	(11,063)	(14,069)	(13,932)	(3,557)	(3,923)	(4,263)	(1,777)	(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)	5	22	-	-	-	-	-	-	-	-	-	-	-
Finance expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other income</b>	<b>473</b>	<b>233</b>	<b>86</b>	<b>(9)</b>	<b>5</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Pretax Income</b>	<b>(10,590)</b>	<b>(13,836)</b>	<b>(13,846)</b>	<b>(3,566)</b>	<b>(3,918)</b>	<b>(4,241)</b>	<b>(1,777)</b>	<b>(13,520)</b>	<b>(13,070)</b>	<b>(10,365)</b>	<b>44,971</b>	<b>105,636</b>	<b>145,977</b>	<b>188,532</b>	<b>245,076</b>	<b>336,171</b>	<b>429,851</b>
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
<b>Tax Rate</b>									<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>17%</b>	<b>20%</b>	<b>25%</b>	<b>27%</b>	<b>30%</b>	<b>32%</b>
<b>GAAP Net Income (loss)</b>	<b>(10,602)</b>	<b>(13,823)</b>	<b>(13,846)</b>	<b>(3,566)</b>	<b>(3,918)</b>	<b>(4,241)</b>	<b>(1,777)</b>	<b>(13,520)</b>	<b>(12,417)</b>	<b>(9,329)</b>	<b>35,375</b>	<b>87,678</b>	<b>116,781</b>	<b>141,399</b>	<b>178,905</b>	<b>235,320</b>	<b>292,299</b>
<b>GAAP-EPS</b>	<b>(2.61)</b>	<b>(1.73)</b>	<b>(0.63)</b>	<b>(0.05)</b>	<b>(0.06)</b>	<b>(0.04)</b>	<b>(0.02)</b>	<b>(0.17)</b>	<b>(0.13)</b>	<b>(0.09)</b>	<b>0.51</b>	<b>0.82</b>	<b>1.08</b>	<b>1.31</b>	<b>1.65</b>	<b>2.16</b>	<b>2.67</b>
GAAP EPS (dil)	(2.61)	(1.73)	(0.52)	(0.04)	(0.05)	(0.03)	(0.01)	(0.14)	(0.09)	(0.06)	0.21	0.50	0.64	0.75	0.91	1.15	1.37
Wgtd Avg Shrs (Bas) - '000s	4,058	7,986	30,351	68,071	70,485	95,835	95,931	82,580	96,171	106,571	106,998	107,427	107,857	108,289	108,723	109,159	109,596
Wgtd Avg Shrs (Dil) - '000s	4,058	7,986	47,643	80,000	80,800	140,000	141,400	110,550	144,971	161,008	167,545	174,348	181,428	188,794	196,460	204,437	212,738

Source: Dawson James estimates, company reports

**Valuation.** Our valuation is based on the assumed success of the E.U. and U.S. launches of Check-Cap's imaging capsule. We use a 30% probability of success for the EU and US approvals and commercialization. The product revenue models then flow into our income statement, which is projected out to 2030. On top of these therapeutic success probabilities, we apply a discount rate (r) of 30% (our highest rate for emerging growth companies), and we assume additional capital raises (dilution) in our final projected fully diluted share count of 212M (2030). We then apply these projections to our Free Cash Flow to the Firm or FCFE, discounted EPS or dEPS, and sum-of-the-parts or SOP models, which are equal-weighted, averaged and rounded to the nearest whole number to derive our 12-month price target. These metrics suggest fair value at \$1.00

## **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.

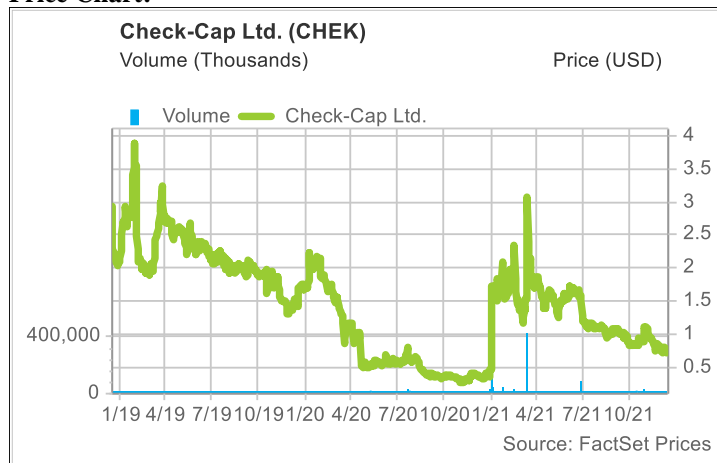
**Regulatory Risk.** Check-Cap, even with good clinical data, could face extensive delays and other regulatory setbacks.

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

Update – Neutral – December 16, 2021 – Price Target NA

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- 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.

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Current as of... 14-Dec-21

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	68%	5	20%
Market Perform (Neutral)	12	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>37</b>	<b>100%</b>	<b>5</b>	<b>14%</b>

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