

Member FINRA/SIPC

Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

## Check-Cap (NASDAQ/CHEK) – Buy Rated

April 7, 2022

### Check-Cap Reports 4Q21 - \$52M in Cash on Balance Sheet

**Jason Kolbert**  
Managing Director & Senior Analyst  
jkolbert@dawsonjames.com

*The FDA has given the go-ahead to the Company's amended IDE application, enabling initiation of the U.S. pivotal study. The first part of the pivotal study will focus on device calibration and enhancement of C-Scan algorithms and is anticipated to begin this month. The second part of the trial is anticipated to begin in Q4 2022. This will compare performance of C-Scan to traditional colonoscopy.*

### Investment Highlights

**Check-Cap has plenty of cash and has made progress in Europe and the U.S.** We are hopeful that the start of the U.S. pivotal trial can signal a recovery for the stock. Our fair-value calculations, for the moment, still suggest a \$1.00 target. Given the fall in the stock price to \$0.38 and the cash on the balance sheet (approx. \$52M), which exceeds the company's market capitalization, or a negative Enterprise value, we see a more favorable risk-reward ratio. We have always believed in the product, and that has not changed. Our downgrade last year was driven by dilution concerns. Those concerns are now behind us. As a result, we upgraded the stock from Neutral to Buy in February and now maintain our \$1.0 price target.

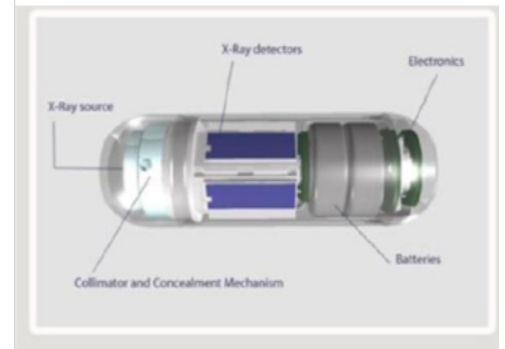
**Europe too:** In late 2021, the European Medical Device Regulation (MDR) issued a renewal of the Company's C.E. mark approval for an additional five years. The updated MDR CE approval permits Check-Cap to commercialize C-Scan in Europe. The renewal enables the company to continue to explore opportunities to launch C-Scan in other international markets.

**Check-Cap Raised Capital:** Check-Cap announced a \$10M capital raise for 20M shares and 15M Warrants. The impact was the stock has fallen from approximately \$0.60 to \$0.39 to add \$10M to an already strong balance sheet. We are baffled by management's actions. So, what's the bottom line? We do believe in the technology and the stock does appear over-sold, as such we maintain our Buy Rating.

**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 E.U. and U.S. 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 99M (2030). We then apply these projections to our Free Cash Flow to the Firm or FCFF, 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 a fair value of \$1.00

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

Current Price **\$0.38**  
Price Target **\$1.00**



Source: Check-Cap

Stock Data			
52-Week Range	\$0.34	-	\$1.91
Shares Outstanding (mil.)	116.4		
Market Capitalization (mil.)	\$45		
Enterprise Value (mil.)	-\$12		
Debt to Capital	0%		
Book Value/Share	\$0.53		
Price/Book	1.3		
Average Three Months Trading Volume (K)	552		
Insider Ownership	1.5%		
Institutional Ownership	1.8%		
Short interest (mil.)	2.1%		
Dividend / Yield	\$0.00/0.0%		



**Exhibit 1. U.S. Model**

Capsule Endoscopy - US	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Colorectal Cancer Screenings</b>	115,169,082	115,975,266	116,787,092	117,604,602	118,427,834	119,256,829	120,091,627	120,932,268	121,778,794	122,631,246
<b>% Not screened or Not Current (34%)</b>	<b>39,157,488</b>	<b>39,431,590</b>	<b>39,707,611</b>	<b>39,985,565</b>	<b>40,265,464</b>	<b>40,547,322</b>	<b>40,831,153</b>	<b>41,116,971</b>	<b>41,404,790</b>	<b>41,694,624</b>
Market penetration	0.00%				0.01%	0.02%	0.10%	0.20%	0.50%	1.00%
Total addressable patients	-	-	-	-	4,027	8,109	40,831	82,234	207,024	416,946
Patients with insurance	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Total eligible patients	-	-	-	-	3,423	6,893	34,706	69,899	175,970	354,404
Tests per patient	1	1	1	1	1	1	1	1	1	1
Total tests needed	-	-	-	-	3,423	6,893	34,706	69,899	175,970	354,404
Cost per test	\$ 662	\$ 695	\$ 729	\$ 766	\$ 804	\$ 812	\$ 820	\$ 828	\$ 837	\$ 845
Increase in price	5%	5%	5%	5%	5%	1%	1%	1%	1%	1%
<b>Sales (\$000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,752</b>	<b>\$ 5,598</b>	<b>\$ 28,467</b>	<b>\$ 57,906</b>	<b>\$ 147,235</b>	<b>\$ 299,497</b>
Risk adjustment	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
<b>US Revenue (\$000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 826</b>	<b>\$ 1,679</b>	<b>\$ 8,540</b>	<b>\$ 17,372</b>	<b>\$ 44,171</b>	<b>\$ 89,849</b>

Source: Dawson James

**Exhibit 2. E.U. Model**

Capsule Endoscopy - EU	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Colorectal Cancer Screenings</b>	57,859,662	58,264,680	58,672,533	59,083,240	59,496,823	59,913,301	60,332,694	60,755,023	61,180,308	61,608,570
<b>% Not screened or Not Current (34%)</b>	<b>57,859,662</b>	<b>58,264,680</b>	<b>58,672,533</b>	<b>59,083,240</b>	<b>59,496,823</b>	<b>59,913,301</b>	<b>60,332,694</b>	<b>60,755,023</b>	<b>61,180,308</b>	<b>61,608,570</b>
Market penetration			0.00%	0.00%	0.01%	0.50%	1.00%	1.30%	1.50%	1.70%
Total addressable patients	-	-	-	-	5,950	299,567	603,327	789,815	917,705	1,047,346
Patients with insurance	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Total eligible patients	-	-	-	-	5,057	254,632	512,828	671,343	780,049	890,244
Tests per patient	1	1	1	1	1	1	1	1	1	1
Total tests needed	-	-	-	-	5,057	254,632	512,828	671,343	780,049	890,244
Cost per test	\$ 541	\$ 552	\$ 563	\$ 574	\$ 586	\$ 586	\$ 586	\$ 586	\$ 586	\$ 586
Increase in price	2%	2%	2%	2%	2%	0%	0%	0%	0%	0%
<b>Sales (\$000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,963</b>	<b>\$ 149,171</b>	<b>\$ 300,430</b>	<b>\$ 393,293</b>	<b>\$ 456,976</b>	<b>\$ 521,531</b>
Risk adjustment	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
<b>EU Total Sales (\$000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,481</b>	<b>\$ 74,585</b>	<b>\$ 150,215</b>	<b>\$ 196,646</b>	<b>\$ 228,488</b>	<b>\$ 260,766</b>
Royalty rate	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>EU Revenue (\$000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,481</b>	<b>\$ 74,585</b>	<b>\$ 150,215</b>	<b>\$ 196,646</b>	<b>\$ 228,488</b>	<b>\$ 260,766</b>
<b>Total Revenue (\$000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,307</b>	<b>\$ 76,265</b>	<b>\$ 158,755</b>	<b>\$ 214,018</b>	<b>\$ 272,659</b>	<b>\$ 350,615</b>

Source: Dawson James

**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 E.U. and U.S. 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). We assume additional capital raises (dilution) in our final projected fully diluted share. We then apply these projections to our Free Cash Flow to the Firm or FCF, 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

### Exhibit 3. Free Cash Flow to the Firm

Average \$		1
Price Target \$		1
Year		2022

DCF Valuation Using FCF (mln):												
units ('000)	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(13,836)	(13,846)	(13,520)	(13,070)	(12,508)	(12,039)	(9,926)	45,139	106,581	147,581	191,090	249,060
Tax Rate	0%	0%	0%	5%	10%	15%	17%	20%	25%	27%	30%	32%
EBIT(1-t)	(13,836)	(13,846)	(13,520)	(12,417)	(11,257)	(10,233)	(8,238)	36,111	79,936	107,734	133,763	169,361
CapEx	(167)	(203)	(247)	(300)	(365)	(443)	(539)	(655)	(796)	(967)	(1,176)	(1,429)
Depreciation	115	58	59	61	63	65	67	69	71	73	75	78
Change in NWC												
FCF	(13,888)	(13,991)	(13,707)	(12,656)	(11,559)	(10,611)	(8,710)	35,525	79,211	106,840	132,662	168,009
PV of FCF	(30,512)	(23,645)	(17,819)	(12,656)	(8,891)	(6,279)	(3,965)	12,438	21,334	22,135	21,142	20,596
Discount Rate	30%											
Long Term Growth Rate	1%											
Terminal Cash Flow	585,136											
Terminal Value YE2030	71,732											
NPV	137,586											
NPV-Debt	142											
Shares out (thousands)	134,025	2030E										
NPV Per Share	\$	1.03										

Source: Dawson James

### Exhibit 4. Discounted EPS

Current Year	2022
Year of EPS	2030
Earnings Multiple	10
Discount Factor	30%
Selected Year EPS	\$ 1.26
NPV	\$ 1.55

Source: Dawson James estimates

Discount Rate and Earnings Multiple Varies, Year is Constant							
		2030 EPS					
Earnings Multiple	1.5	5%	10%	15%	20%	25%	30%
		5	\$4.28	\$2.95	\$2.07	\$1.47	\$1.06
10	\$8.55	\$5.90	\$4.13	\$2.94	\$2.12	\$ 1.55	
15	\$12.83	\$8.84	\$6.20	\$4.41	\$3.18	\$ 2.32	
20	\$17.11	\$11.79	\$8.26	\$5.88	\$4.24	\$ 3.10	
25	\$21.38	\$14.74	\$10.33	\$7.35	\$5.30	\$ 3.87	
30	\$25.66	\$17.69	\$12.39	\$8.82	\$6.36	\$ 4.65	
35	\$29.94	\$20.63	\$14.46	\$10.29	\$7.42	\$ 5.42	
40	\$34.21	\$23.58	\$16.52	\$11.76	\$8.48	\$ 6.20	

### Exhibit 5. Sum of the Parts

Check-Cap	LT Gr	Discount Rate	Yrs. to Mkt Peak	% Success	Peak Sales MMs	Term Val
Imaging Capsule - US	1%	30%	7	30%	\$299	\$1,033
NPV						\$0.17
Imaging Capsule - EU	1%	30%	5	50%	\$261	\$899
NPV						\$0.41
Net Margin						45%
MM Shrs OS (2030E)						134
Total						\$1

Source: Dawson James

**Exhibit 1. Income Statement**

Check-Cap: Income Statement (\$000)																	
YE December 31	2018A	2019A	2020A	2021A	1Q22E	2Q22E	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Product sales</b>																	
Imaging capsule EU	-	-	-	-	-	-	-	-	-	-	-	1,481	74,585	150,215	196,646	228,488	260,766
Imaging capsule US	-	-	-	-	-	-	-	-	-	-	-	826	1,679	8,540	17,372	44,171	89,849
<b>Total Product Sales</b>	-	-	-	-	-	-	-	-	-	-	-	<b>2,307</b>	<b>76,265</b>	<b>158,755</b>	<b>214,018</b>	<b>272,659</b>	<b>350,615</b>
<b>Expenses</b>																	
Cost of Goods Sold			0	0	0	0	0	0	0	0	0	577	19,066	39,689	53,505	68,165	87,654
	<b>%COGS</b>		<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>
Research and Development	7,618	10,474	10,008	12,349	2,667	2,556	2,890	3,001	11,114	10,003	9,002	8,102	8,183	8,265	8,348	8,431	8,515
	<b>%R&amp;D</b>																
General and Administrative	3,445	3,595	3,924	4,972	1,313	1,258	1,422	1,477	5,469	5,743	6,030	6,331	6,711	7,114	7,541	7,993	8,473
	<b>%SG&amp;A</b>																
<b>Total expenses</b>	<b>11,063</b>	<b>14,069</b>	<b>13,932</b>	<b>17,321</b>	<b>3,980</b>	<b>3,814</b>	<b>4,312</b>	<b>4,477</b>	<b>16,583</b>	<b>15,745</b>	<b>15,032</b>	<b>15,010</b>	<b>33,961</b>	<b>55,068</b>	<b>69,393</b>	<b>84,589</b>	<b>104,642</b>
Operating Income (Loss)	(11,063)	(14,069)	(13,932)	(17,321)	(3,980)	(3,814)	(4,312)	(4,477)	(16,583)	(15,745)	(15,032)	(12,703)	42,304	103,687	144,625	188,070	245,973
Finance income	473	233	86	119	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other income</b>	<b>473</b>	<b>233</b>	<b>86</b>	<b>119</b>	<b>-</b>	<b>-</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>(17,202)</b>	<b>(3,980)</b>	<b>(3,814)</b>	<b>(4,312)</b>	<b>(4,477)</b>	<b>(16,583)</b>	<b>(15,745)</b>	<b>(15,032)</b>	<b>(12,703)</b>	<b>42,304</b>	<b>103,687</b>	<b>144,625</b>	<b>188,070</b>	<b>245,973</b>
change in fair value of cash flow hedge	(13)				(199)	(191)	(216)	(224)	(829)	(1,575)	(2,255)	(2,160)	8,461	25,922	39,049	56,421	78,711
Income Tax Benefit (Provision)	1	(13)	-	-													
<b>Tax Rate</b>					<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</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>(17,202)</b>	<b>(3,781)</b>	<b>(3,623)</b>	<b>(4,096)</b>	<b>(4,254)</b>	<b>(15,754)</b>	<b>(14,171)</b>	<b>(12,777)</b>	<b>(10,544)</b>	<b>33,843</b>	<b>77,766</b>	<b>105,576</b>	<b>131,649</b>	<b>167,262</b>
<b>GAAP-EPS</b>	<b>(2.61)</b>	<b>(1.73)</b>	<b>(0.63)</b>	<b>0.21</b>	<b>(0.07)</b>	<b>(0.06)</b>	<b>(0.07)</b>	<b>(0.08)</b>	<b>(0.28)</b>	<b>(0.25)</b>	<b>(0.22)</b>	<b>(0.18)</b>	<b>0.59</b>	<b>1.35</b>	<b>1.83</b>	<b>2.27</b>	<b>2.87</b>
GAAP EPS (dil)	(2.61)	(1.73)	(0.52)	(0.15)	(0.05)	(0.05)	(0.06)	(0.06)	(0.22)	(0.19)	(0.16)	(0.13)	0.40	0.88	1.15	1.38	1.68
Wgtd Avg Shrs (Bas) - '000s	4,058	7,986	30,351	82,807	56,283	56,339	56,395	56,452	56,367	56,593	56,820	57,047	57,276	57,505	57,736	57,967	58,199
Wgtd Avg Shrs (Dil) - '000s	4,058	7,986	47,643	110,550	71,283	71,995	72,715	73,443	72,359	75,297	78,354	81,536	84,847	88,292	91,877	95,607	99,489

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 I.P. challenges, forcing the company to defend its patents or against claims that the company is infringing on other patents.

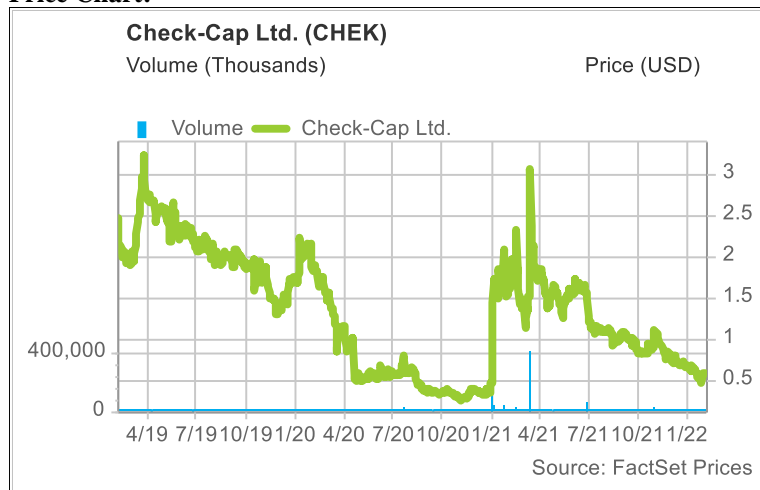
**Regulatory Risk.** Check-Cap, even with good clinical data, could face extensive delays and other regulatory setbacks.

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
- Update – Buy – February 7, 2022 – Price Target \$1.0
- Update – Buy – March 2, 2022 – Price Target \$1.0
- Update – Buy – April 7, 2022 – Price Target \$1.0

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has NOT engaged in investment banking relationships with CHEK in the prior twelve months, as a manager or co-manager of a public offering and has NOT received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has NOT received any other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of April 7, 2022, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad

pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

**Information about risks can be found in the "RISK ANALYSIS" section of this report.**

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

**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.

Current as of... 7-Apr-22

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	74%	4	13%
Market Perform (Neutral)	11	26%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	42	100%	4	10%

**Analyst Certification:**

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.