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Check-Cap (NASDAQ/CHEK) – Buy Rated

July 5, 2022

Check-Cap Reports 1Q22 ~ \$56M in Cash on Balance Sheet

Check-Cap spent \$5.8M in the 1st quarter 2022 and closed the period with approximately \$56M in cash. The FDA has allowed 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. The second part of the trial is anticipated to begin in Q4 2022. This will compare performance of C-Scan to traditional colonoscopy.

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Investment Highlights

Check-Cap has plenty of cash and has made progress in Europe and the U.S. Our fair-value calculations, for the moment, still suggest a \$1.00 target. Given the fall in the stock price to \$0.31 and the cash on the balance sheet (approx. \$56M), 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.

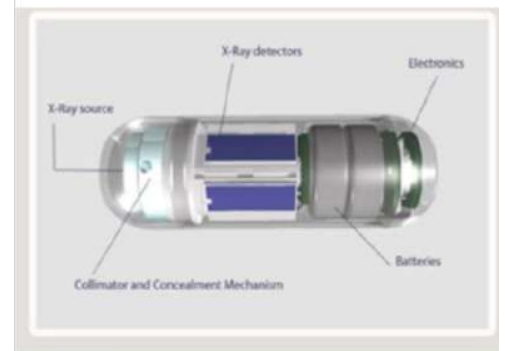
Cash & Share Count Update (press release): Cash and cash equivalents as of March 31, 2022 were \$55.7M. On March 3, 2022, the Company consummated a registered direct offering for the sale of 20,000,000 of the Company's ordinary shares and accompanying warrants to purchase up to an aggregate of 15,000,000 of the Company's ordinary shares. The Company believes that it has sufficient capital to fund its ongoing operations and plans into the first quarter of 2024. As of May 30, 2022, the number of outstanding ordinary shares was 116,411,949.

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.

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 | \$0.31 |
| Price Target | \$1.00 |



Source: Check-Cap

| Stock Data | | | |
|-----------------------------------------|-------------|---|--------|
| 52-Week Range | \$0.29 | - | \$1.31 |
| Shares Outstanding (mil.) | 116.4 | | |
| Market Capitalization (mil.) | \$36 | | |
| Enterprise Value (mil.) | -\$19 | | |
| Debt to Capital | 0% | | |
| Book Value/Share | \$0.53 | | |
| Price/Book | 1.3 | | |
| Average Three Months Trading Volume (K) | 276 | | |
| Insider Ownership | 1.2% | | |
| Institutional Ownership | 0.5% | | |
| Short interest (mil.) | 1.6% | | |
| Dividend / Yield | \$0.00/0.0% | | |



Please find Important Disclosures beginning on Page 5.

Exhibit 1. U.S. Model

| Capsule Endoscopy - US | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Colorectal Cancer Screenings | 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 |
| % Not screened or Not Current (34%) | 39,157,488 | 39,431,590 | 39,707,611 | 39,985,565 | 40,265,464 | 40,547,322 | 40,831,153 | 41,116,971 | 41,404,790 | 41,694,624 |
| 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% |
| Sales (\$000) | \$ - | \$ - | \$ - | \$ - | \$ 2,752 | \$ 5,598 | \$ 28,467 | \$ 57,906 | \$ 147,235 | \$ 299,497 |
| Risk adjustment | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% | 70% |
| US Revenue (\$000) | \$ - | \$ - | \$ - | \$ - | \$ 826 | \$ 1,679 | \$ 8,540 | \$ 17,372 | \$ 44,171 | \$ 89,849 |

Source: Dawson James

Exhibit 2. E.U. Model

| Capsule Endoscopy - EU | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Colorectal Cancer Screenings | 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 |
| % Not screened or Not Current (34%) | 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 |
| 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% |
| Sales (\$000) | \$ - | \$ - | \$ - | \$ - | \$ 2,963 | \$ 149,171 | \$ 300,430 | \$ 393,293 | \$ 456,976 | \$ 521,531 |
| Risk adjustment | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% |
| EU Total Sales (\$000) | \$ - | \$ - | \$ - | \$ - | \$ 1,481 | \$ 74,585 | \$ 150,215 | \$ 196,646 | \$ 228,488 | \$ 260,766 |
| Royalty rate | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| EU Revenue (\$000) | \$ - | \$ - | \$ - | \$ - | \$ 1,481 | \$ 74,585 | \$ 150,215 | \$ 196,646 | \$ 228,488 | \$ 260,766 |
| Total Revenue (\$000) | \$ - | \$ - | \$ - | \$ - | \$ 2,307 | \$ 76,265 | \$ 158,755 | \$ 214,018 | \$ 272,659 | \$ 350,615 |

Source: Dawson James

Exhibit 1. Income Statement

| Check-Cap: Income Statement (\$000) | | | | | | | | | | | | | | | | | |
|-----------------------------------------|------------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|---------------|----------------|----------------|----------------|----------------|
| : YE December 31 | 2018A | 2019A | 2020A | 2021A | 1Q22A | 2Q22E | 3Q22E | 4Q22E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
| Product sales | | | | | | | | | | | | | | | | | |
| 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 |
| Total Product Sales | - | - | - | - | - | - | - | - | - | - | - | 2,307 | 76,265 | 158,755 | 214,018 | 272,659 | 350,615 |
| Expenses | | | | | | | | | | | | | | | | | |
| Cost of Goods Sold | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 577 | 19,066 | 39,689 | 53,505 | 68,165 | 87,654 |
| | %COGS | | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 25% | 25% | 25% | 25% | 25% | 25% |
| Research and Development | 7,618 | 10,474 | 10,008 | 12,349 | 4,128 | 2,556 | 2,890 | 3,001 | 11,114 | 10,003 | 9,002 | 8,102 | 8,183 | 8,265 | 8,348 | 8,431 | 8,515 |
| | %R&D | | | | | | | | | | | | | | | | |
| General and Administrative | 3,445 | 3,595 | 3,924 | 4,972 | 1,757 | 1,258 | 1,422 | 1,477 | 5,469 | 5,743 | 6,030 | 6,331 | 6,711 | 7,114 | 7,541 | 7,993 | 8,473 |
| | %SG&A | | | | | | | | | | | | | | | | |
| Total expenses | 11,063 | 14,069 | 13,932 | 17,321 | 5,885 | 3,814 | 4,312 | 4,477 | 16,583 | 15,745 | 15,032 | 15,010 | 33,961 | 55,068 | 69,393 | 84,589 | 104,642 |
| Operating Income (Loss) | (11,063) | (14,069) | (13,932) | (17,321) | (5,885) | (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 | 51 | - | - | - | - | - | - | - | - | - | - | - | - |
| Finance expenses | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total other income | 473 | 233 | 86 | 119 | 51 | - | - | - | - | - | - | - | - | - | - | - | - |
| Pretax Income | (10,590) | (13,836) | (13,846) | (17,202) | (5,834) | (3,814) | (4,312) | (4,477) | (16,583) | (15,745) | (15,032) | (12,703) | 42,304 | 103,687 | 144,625 | 188,070 | 245,973 |
| change in fair value of cash flow hedge | (13) | | | | | | | | | | | | | | | | |
| Income Tax Benefit (Provision) | 1 | (13) | - | - | (292) | (191) | (216) | (224) | (922) | (1,575) | (2,255) | (2,160) | 8,461 | 25,922 | 39,049 | 56,421 | 78,711 |
| Tax Rate | | | | | 5% | 5% | 5% | 5% | 5% | 10% | 15% | 17% | 20% | 25% | 27% | 30% | 32% |
| GAAP Net Income (loss) | (10,602) | (13,823) | (13,846) | (17,202) | (5,542) | (3,623) | (4,096) | (4,254) | (15,661) | (14,171) | (12,777) | (10,544) | 33,843 | 77,766 | 105,576 | 131,649 | 167,262 |
| GAAP-EPS | (2.61) | (1.73) | (0.63) | 0.21 | (0.05) | (0.04) | (0.04) | (0.04) | (0.17) | (0.14) | (0.12) | (0.10) | 0.32 | 0.74 | 1.00 | 1.25 | 1.58 |
| GAAP EPS (dil) | (2.61) | (1.73) | (0.52) | (0.15) | (0.04) | (0.02) | (0.03) | (0.03) | (0.10) | (0.09) | (0.08) | (0.06) | 0.18 | 0.41 | 0.53 | 0.64 | 0.78 |
| Wgld Avg Shrs (Bas) - '000s | 4,058 | 7,986 | 30,351 | 82,807 | 102,634 | 102,737 | 102,839 | 102,942 | 102,788 | 103,200 | 103,613 | 104,028 | 104,445 | 104,863 | 105,284 | 105,705 | 106,129 |
| Wgld Avg Shrs (Dil) - '000s | 4,058 | 7,986 | 47,643 | 110,550 | 153,951 | 155,491 | 157,045 | 158,616 | 156,276 | 162,621 | 169,224 | 176,095 | 183,246 | 190,686 | 198,429 | 206,486 | 214,870 |

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.

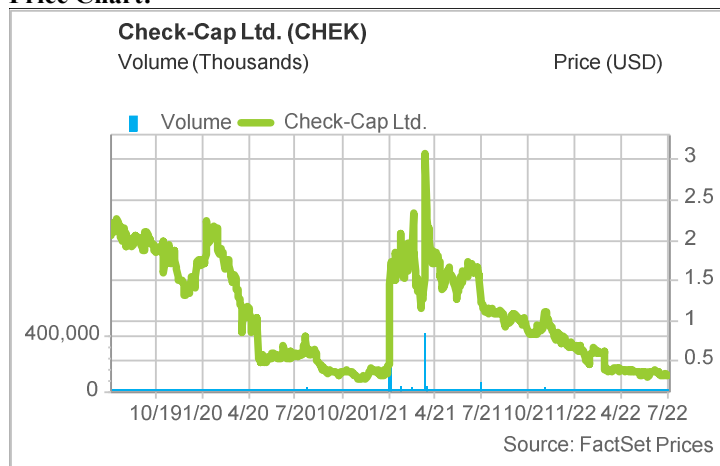
Investment Risk. Check-Cap is a small capital company, which can translate into high volatility and risk for investors. The company has no revenues and is dependent on the clinical progress of the device.

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.

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
 Update – Buy – July 5, 2022 – Price Target \$1.0

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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 16-Jun-22

| | Company Coverage | | Investment Banking | |
|-----------------------------|-------------------------|-------------|---------------------------|-------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 31 | 72% | 4 | 13% |
| Market Perform (Neutral) | 12 | 28% | 0 | 0% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0% |
| Total | 43 | 100% | 4 | 9% |

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