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Know Labs (ASE: KNW) - Buy

September 19, 2022

Raises \$7.2M (3.6M shares @ \$2.0) Plus the Option for More

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Know Labs announced the pricing of a firm commitment underwritten public offering of 3.6M shares of its common stock at a public offering price of \$2.00 per share for aggregate gross proceeds of \$7.2 million before deducting the underwriting discounts and commissions and estimated Offering expenses payable by Know Labs. Our model had anticipated this raise and as such our valuation is unchanged.

Know labs reported 2nd Quarter results. The company spent \$3M in the quarter and ended the period with \$8.3M in cash. To this we can factor in an additional \$7.2M. based on the news of the announced underwriting. We also note the Company has granted to the underwriter a 45-day option to purchase, in the aggregate, up to 540,000 additional shares of its common stock to cover over-allotments at the \$2.00 per share public offering price.

A Paradigm Shift in How We Measure – Radio Frequency Coupled with Artificial Intelligence (AI). The technology utilizes electromagnetic energy across a wide range of the spectrum from visible light and infrared to radio and microwave wavelengths to perform analytics (AI processing) which accurately identifies and quantitates its target. The first selected indication is set targeting the glucose levels (HbA1c) in type II diabetic patients.

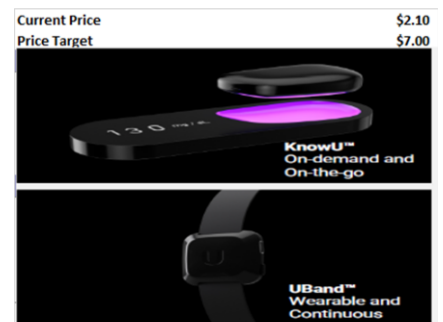
What is the Opportunity? With a competitive product and just a tiny piece of the market, the company can succeed. In just Type II diabetes in the U.S. alone, the CDC estimates there are 37M target patients. The numbers are even more significant in Europe.

Does it Work? The company has run hundreds of internal proof of concept studies and recently completed *In Vitro* validation at a world-renowned academic medical center. An *In Vivo* Study of Bio-RFID glucose monitoring is expected to begin soon.

What's the Timeline & Pathway to the Marketplace? The company will be busy over the next two years as they complete product refinements and finalize the KnowU production units. Management is preparing to initiate a clinical program based on input from regulators. A pre-submission meeting with the FDA is the next step. Multiple variables predict the timeline. Management intends to use the De Novo pathway. This pathway does not rely on comparisons to a predicate device where equivalence must be shown. As the technology behind the KnowU band is novel, it may provide an accelerated path to market.

Valuation: We project our model out to 2030. We apply a conservative 30% success probability to our projected revenues in our product model, which is in addition to our 30% risk rate applied in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP) models, which are then equal-weighted and averaged and rounded to the nearest whole number to derive our 12-month projected price target of \$7.0.

Risks to our thesis include: 1. Regulatory Approvals 2. Clinical Science 3. Dependence on OEM suppliers 4. Development of the target markets 5. Intellectual Capital 6. Dilution



Source: Know Labs

Stock Data	
52-Week Range	\$1.15 - \$4.00
Shares Outstanding (mil.)	43.8
Market Capitalization (mil.)	\$92
Enterprise Value (mil.)	\$86
Debt to Capital	0%
Book Value/Share	NA
Price/Book	-
Average Three Months Trading Volume (K)	NA
Insider Ownership	29.8%
Institutional Ownership	0.4%
Short interest (mil.)	-
Dividend / Yield	\$0.00/0.0%



Risks Analysis include: (1) Regulatory Approvals; (2) Clinical Science (3) Dependence on OEM suppliers; (4) Product Development (5) Intellectual Capital & IP (6) Competitive Landscape (7) Dilution and or Financing Risks.

Regulatory risk: Know Labs must be able to obtain the approval of the FDA before commercial sales of the product candidates commence in the United States. The timing of these approvals is uncertain.

Clinical Science risk: The trials may take longer than expected and the design may face challenges. The company plans to pursue the De Novo pathway but there can be no guarantees that this will be viable versus another pathway such as the FDA's 510-K.

Dependence on OEM suppliers: The company must rely on others to manufacture its devices.

Product Development risk: The company is still in early stages of finalizing its products and software.

Intellectual Capital & IP: The company is still small with a select group of internal people able to understand and develop the technology. The company's ability to expand may be dependent on its ability to retain existing and recruit new people to join the organization. The company has a defined patent estate but there can be no guarantees that the company patents are valid and or may be challenged.

Competitive Landscape: The medical device market is intensely competitive. Know Labs must compete with existing and new treatment methods, as well as new technologies for its disease targets. In addition, the company faces intense competition, including well-capitalized devices companies and other emerging technology companies, most of which are well financed.

Dilution and or Financing risk: Know Labs is not a profitable company. While the company has a cash balance today, it is likely that it might need to raise additional capital prior to commercialization. The company's ability to do so could be critical to keeping the current programs moving forward and providing a value-creation event in the future.

Exhibit 1. Income Statement

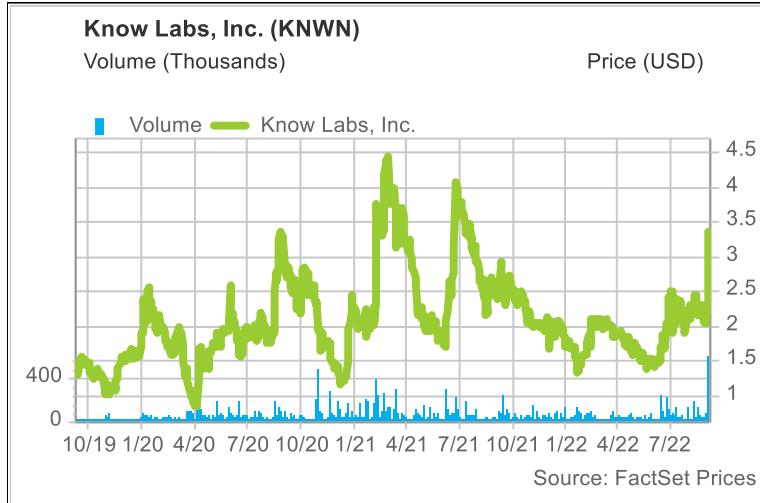
KNWN, Inc. Income Statement (\$000)														
YE Sept. 31	2021A	1Q22A	2Q22A	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue (\$000)														
US Type 2 Diabetes		-	-	-	-	-			54,631	117,020	167,105	223,712	359,249	412,238
ROW Type 2 Diabetes									300	300	300	300	300	300
Other Platform Services											25,000	50,000	75,000	100,000
Total Revenues		9	-	-	-	9	-	-	109,563	234,340	334,510	447,723	718,798	824,776
Expenses														
COGS		-	-	-	-	-	-	-	15,339	23,434	26,761	31,341	43,128	41,239
% COGS		9	-	-	-	9	-	-	14%	10%	8%	7%	6%	5%
Gross Profit									94,224	210,906	307,749	416,383	675,670	783,537
Research & Development	3,970	1,249	1,273	695	(437)	2,779	3,000	6,000	12,000	12,240	12,485	12,734	12,989	13,249
General & Administrative	6,476	1,448	1,589	1,250	713	5,000	5,100	5,202	10,000	15,000	15,300	15,606	15,918	16,236
Marketing & Business Development		155	164	-	(319)	-	-	2,000	4,000	15,000	25,000	25,500	26,010	26,530
Total expenses	10,446	2,851	3,025	1,945	(43)	7,779	8,100	13,202	26,000	42,240	52,785	53,840	54,917	56,016
Operating Profit	(10,446)	(2,843)	(3,025)	(1,945)	43	(7,770)	(8,100)	(13,202)	68,224	168,666	254,964	362,542	620,753	727,522
Oper Margin														
Interest Income (expense)	(14,914)		(240)			(240)	-	-	-	-	-	-	-	-
Other Income		(3)	262			259	-	-	-	-	-	-	-	-
Pre-tax income	(25,360)	(6,141)	(3,003)	(1,945)	43	(11,046)	(8,100)	(13,202)	68,224	168,666	254,964	362,542	620,753	727,522
Pretax Margin														
Income Tax (Benefit)		-	-	-	-	-	-	-	-	-	25,496	54,381	124,151	181,880
Tax Rate		0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	15%	20%	25%
GAAP Net Income	(25,360)	(6,141)	(3,003)	(1,945)	43	(11,046)	(8,100)	(13,202)	68,224	168,666	229,468	308,161	496,602	545,641
GAAP-EPS	(0.86)	(0.16)	(0.07)	(0.03)	0.00	(0.26)	(0.11)	(0.13)	0.65	1.60	2.16	2.88	4.60	5.02
Non GAAP EPS (dil)	(0.86)	(0.07)	(0.03)	(0.02)	0.00	(0.12)	(0.09)	(0.13)	0.65	1.60	2.16	2.88	4.60	5.02
Wgtd Avg Shrs (Bas) - '000s	29,371	37,872	43,761	63,848	63,976	52,364	71,812	74,903	75,504	76,110	76,720	77,336	77,957	78,582
Wgtd Avg Shrs (Dil) - '000s	29,371	93,000	93,186	113,372	113,599	103,289	100,981	104,202	104,933	105,670	106,411	107,158	107,910	108,668

Source: Company reports and Dawson James

Companies mentioned in this report:

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

- Initiated – Buy – February 8, 2022 – Price Target \$7.0
- Update Report – Buy – February 15, 2022 – Price Target \$7.0
- Update Report – Buy – May 24, 2022 – Price Target \$7.0
- Update Report – Buy – September 7, 2022 – Price Target \$7.0
- Update Report – Buy – September 19, 2022 – Price Target \$7.0

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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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Current as of 16-Sep-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	87%	3	12%
Market Perform (Neutral)	3	10%	1	33%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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