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

HeartBeam (NASDAQ: BEAT) - Buy

October 5, 2022

Tune In to our Webinar with Senior Management Where We Explore the Fundamental Story of HeartBeam

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

HeartBeam is one of our favorite small-cap device companies. We met with senior management in a recorded webinar where we ask real questions about the product, the competitive landscape, and the existing treatment paradigm. We encourage anyone interested in the company to tune in. [Click Here](#).

What's Special About this ECG? ECG monitors available today are primarily used for detection of abnormal heart rhythms associated with atrial fibrillation or syncope. A 12-lead ECG patch can provide additional information to aid in diagnosing conditions such as ACS or more specific arrhythmias that current single-lead patches cannot accurately detect. This becomes differentiating in the monitoring marketplace.

Remote Monitoring and AI with an Emergency Room Assist: HeartBeam's plans to launch two products (initially). A telehealth product for high-risk cardiovascular patients (remote monitoring) and an AI-diagnostic expert & detection system in the Emergency Rooms (ER). Both hold the promise to improve patient outcomes. The initial telemedicine product addresses coronary artery disease (CAD) and other high risk (MI) patients. The market today lacks a user-friendly, easy to carry and always ready product that can provide physicians and patients with timely and accurate information about potential Acute Coronary Syndrome (ACS) and Myocardial Infarction (MI) events. Intelligent software in the ER can offer a welcome assist and save time during the golden window for patients in need of cardiac care.

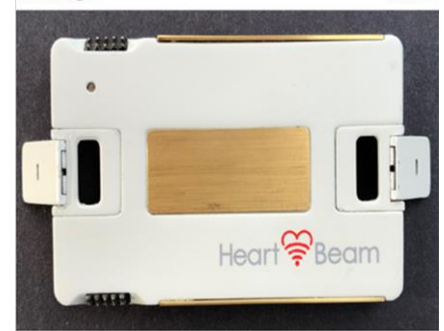
What's the Market Opportunity? It's large. Simply put, 18M patients in the U.S. have heart disease. This adds up to over \$30B. The number of hospitals using mobile applications is rising sharply (in part as a result of COVID), accelerating a push to tele-health. These 18 million patients are typically seen by 5,000 cardiologists and 5,000 emergency rooms nationwide.

Simple Math: We estimate Remote Monitoring, based on existing reimbursement rates, as worth \$1,400 plus annually. If we assume just a fraction of the 18M patient prevalence become users this equates to a multi-billion-dollar opportunity. 5,000 Emergency Rooms with the potential to license (\$100k annually) smart software (AI) to assist doctors in the detection and treatment of cardiac issues (& ruling out false positives), equates to \$500M market size. In our projected forecast we assume just a fraction of the market becomes RPM (remote patient monitoring) patients. In the ER space we assume up to 30% of ER's (AI Software) become users by the end of the decade. In addition to our assumed discount rate (30%) we apply a "risk cut" to our projections (30%) and then feed these revenues into our model with appropriate estimates on SG&A and R&D.

Valuation: We project our model out to 2030. We apply a 30% risk cut to our projected revenues in our product model 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. We use a fully diluted outyear share count assuming multiple raises. The result is equal-weighted and averaged and rounded to the nearest whole number to derive our 12-month projected price target of \$12.0.

Risks to our thesis include: 1. Regulatory Approvals; 2. Clinical Science 3. Adoption Rates 4. The competitive landscape. 5. Intellectual Capital 6. Dilution.

Current Price \$4.08
Price Target \$12.00



Source: HeatBeam

Stock Data	
52-Week Range	\$1.12 - \$5.47
Shares Outstanding (mil.)	8.0
Market Capitalization (mil.)	\$33
Enterprise Value (mil.)	\$23
Debt to Capital	0%
Book Value/Share	-
Price/Book	1.8
Average Three Months Trading Volume (K)	12
Insider Ownership	53.0%
Institutional Ownership	2.7%
Short interest (mil.)	0.4%
Dividend / Yield	\$0.00/0.0%



- **Regulatory Approvals.** The company's products require regulatory approvals, and there can be no assurances that the requirements to achieve these approvals can be met.
- **Clinical Science:** The company will need to demonstrate to its "sophisticated" clients (cardiologists) that the product works and is comparable to the existing standard of care.
- **Adoption Rates:** There are no assurances that our projected market share can be met. A combination of factors from pricing and reimbursement to competitive performance are expected to be key factors in driving users to select the product for both their practices, patients, and the emergency room setting.
- **The Competitive Landscape & IP.** The company does have intellectual property and knows how to protect the utility of its devices and software; however, we expect that the technology cycle is competitive, and the company may face competition from well-financed competitors who are already in position in the target markets.
- **Dilution:** The company is likely to incur losses for the foreseeable future until it is able to generate sufficient revenue from product sales. Our model assumes a rising share count. There can be no assurances that the company can successfully raise the capital required to execute its business strategy.

Exhibit 1. Income Statement

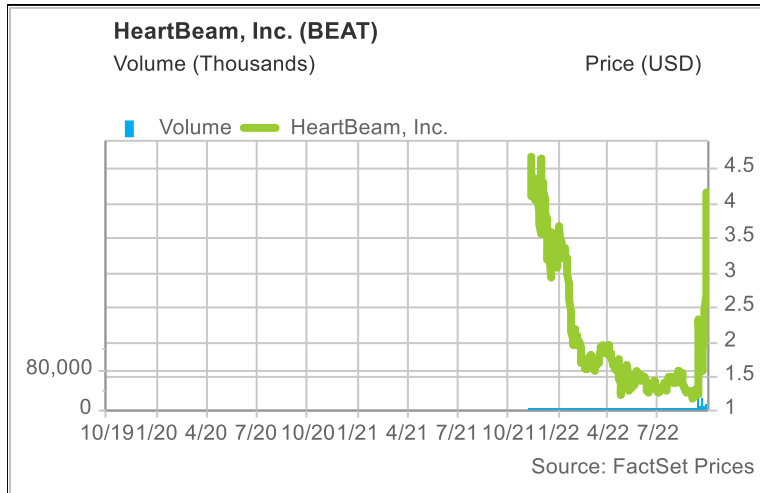
Heart Beam: Income Statement (\$'000)													
∴ YE December 31	1Q22A	2Q22A	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Product sales													
ED Software						-	1,780	18,103	36,823	56,178	76,182	96,853	130,028
ECG Monitor						-	14,921	78,164	173,558	278,125	504,877	663,846	804,172
Total Product Sales	-	-	-	-	-	-	16,701	96,267	210,381	334,303	581,059	760,699	934,200
Expenses													
COGS							3,340	19,253	33,661	46,802	69,727	76,070	93,420
COGS %							20%	20%	16%	14%	12%	10%	10%
General & Administrative	1,414	1,793	1,500	1,500	6,207	6,517	12,000	18,000	30,000	30,600	31,212	31,836	32,473
Research and Development	734	1,742	1,000	1,200	4,676	3,600	3,672	7,000	10,000	12,000	15,000	15,300	15,606
Total expenses	2,148	3,535	2,500	2,700	10,883	10,117	19,012	44,253	73,661	89,402	115,939	123,206	141,499
Operating Income (Loss)	(2,148)	(3,535)	(2,500)	(2,700)	(10,883)	(10,117)	(2,311)	52,013	136,720	244,900	465,120	637,493	792,701
Finance income													
Finance expenses	2	10			12								
Total other income		10	-	-	12	-	-	-	-	-	-	-	-
Pretax Income	(2,146)	(3,525)	(2,500)	(2,700)	(10,871)	(10,117)	(2,311)	52,013	136,720	244,900	465,120	637,493	792,701
change in fair value of cash flow hedge													
Income Tax Benefit (Provision)		-	-	-	-	-	-	5,201	20,508	61,225	139,536	223,123	301,227
Tax Rate	0%	0%	0%	0%	0%	0%	0%	10%	15%	25%	30%	35%	38%
GAAP Net Income (loss)	(2,146)	(3,525)	(2,500)	(2,700)	(10,871)	(10,117)	(2,311)	46,812	116,212	183,675	325,584	414,370	491,475
GAAP-EPS	(0.27)	(0.43)	(0.31)	(0.17)	(1.17)	(0.51)	(0.09)	1.86	4.59	7.23	12.77	16.19	19.12
GAAP EPS (dil)	(0.27)	(0.43)	(0.30)	(0.11)	(0.88)	(0.33)	(0.06)	1.24	2.96	4.50	7.66	9.37	10.68
Wgtd Avg Shrs (Bas) - '000s	8,082	8,146	8,154	16,000	10,095	20,518	25,088	25,188	25,289	25,390	25,492	25,594	25,697
Wgtd Avg Shrs (Dil) - '000s	8,082	8,146	8,227	25,000	12,364	30,276	36,243	37,714	39,246	40,839	42,497	44,223	46,019

Source: Dawson James estimates, company reports

Companies mentioned in this report:

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

- Initiated – Buy – July 25, 2022 – Price Target \$12.00
- Update Report – Buy – August 12, 2022 – Price Target \$12.00
- Update Report – Buy – September 20, 2022 – Price Target \$12.00
- Update Report – Buy – September 30, 2022 – Price Target \$12.00
- Update Report – Buy – October 5, 2022 – Price Target \$12.00

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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 20-Sep-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	83%	3	12%
Market Perform (Neutral)	4	13%	1	25%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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