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## Check-Cap (NASDAQ/CHEK) – Neutral

September 21, 2023

### Check-Cap: Keystone Dental Holdings and Check-Cap Ltd Enter into Definitive Business Combination Agreement

*Keystone Dental Holdings, Inc. (private) and Check-Cap in August announced that the two companies have entered into a definitive Business Combination Agreement where the stockholders of Keystone Dental will become the majority holders of the combined company. Upon closing of the transaction, the combined company will trade on the NASDAQ under the symbol "KSD." We remain neutral rated.*

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### Investment Highlights

**Check-Cap Gets Folded into Keystone Delta.** If completed, the business combination will create a public company headquartered in Irvine, CA and focused on advancing commercial execution and market development of Keystone Dental's comprehensive portfolio of implants, arches and other tooth replacement solutions comprised of restoration products, prosthetic solutions, biomaterial, and digital dentistry capabilities.

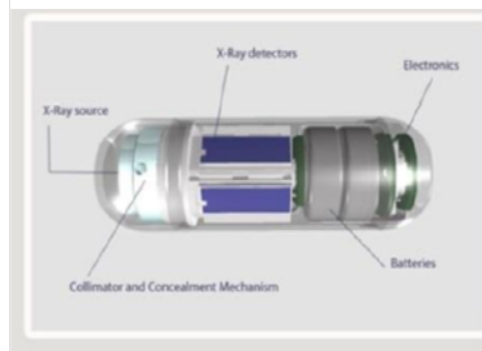
**What will Check-Cap Shareholders Get?** Based upon the number of shares to be issued in the business combination, current Check-Cap security holders are expected to own approximately 15% of the combined company representing an equity valuation of \$39.7 million and Keystone Dental security holders are expected to own approximately 85% of the combined company representing an equity valuation of \$225 million. The actual allocation will be subject to adjustment based on Check-Cap's net cash balance at the time of closing. The Business Combination Agreement provides for a Check-Cap net cash target of \$22.3 million at closing of the transaction which implies a \$17.4 million premium to the Check-Cap net cash target.

**What will Happen to C-Scan?** We expect C-Scan program is now terminated. Perhaps NEWCO will divest the assets to a buyer who wants to pursue the technology. The net effect is our model is no longer relevant as KSD dental business has nothing to do with Check-Cap C-Scan.

**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).

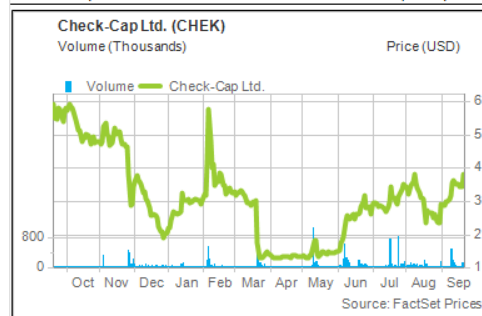
**Risk Factors:** These include clinical, investment and financial, regulatory, intellectual property, and commercial risk.

Current Price \$3.82  
Price Target NA



Source: Check-Cap

Stock Data			
52-Week Range	\$1.22	-	\$6.54
Shares Outstanding (mil.)	5.8		
Market Capitalization (mil.)	\$22		
Enterprise Value (mil.)	-\$10		
Debt to Capital	0%		
Book Value/Share	\$10.59		
Price/Book	0.3		
Average Three Months Trading Volume (K)	198		
Insider Ownership	0.1%		
Institutional Ownership	0.2%		
Short interest (mil.)	1.9%		
Dividend / Yield	\$0.00/0.0%		



**Exhibit 1. Income Statement**

Check-Cap: Income Statement (\$000)																	
YE December 31	2018A	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Product sales</b>																	
Imaging capsule EU	-	-	-	-	-	-	-	-	-	-	-	-	-	90,129	117,988	137,093	156,459
Imaging capsule US	-	-	-	-	-	-	-	-	-	-	-	-	-	8,540	17,372	44,171	89,849
<b>Total Product Sales</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	98,669	135,360	181,263	246,309
<b>Expenses</b>																	
Cost of Goods Sold			0	0	0	0	0	0	0	0	0	0	0	24,667	33,840	45,316	61,577
%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	12,349	14,271	3,671	4,480	3,339	3,468	12,844	11,560	10,404	10,508	10,613	10,719	10,826	10,934
%R&D																	
General and Administrative	3,445	3,595	3,924	4,972	5,763	1,179	2,947	1,573	1,634	6,051	6,354	6,671	7,072	7,496	7,946	8,422	8,928
%SG&A																	
<b>Total expenses</b>	<b>11,063</b>	<b>14,069</b>	<b>13,932</b>	<b>17,321</b>	<b>20,034</b>	<b>4,850</b>	<b>7,427</b>	<b>4,913</b>	<b>5,102</b>	<b>18,895</b>	<b>17,913</b>	<b>17,075</b>	<b>17,579</b>	<b>42,776</b>	<b>52,504</b>	<b>64,564</b>	<b>81,439</b>
Operating Income (Loss)	(11,063)	(14,069)	(13,932)	(17,321)	(20,034)	(4,850)	(7,427)	(4,913)	(5,102)	(18,895)	(17,913)	(17,075)	(17,579)	55,893	82,855	116,699	164,869
Finance income	473	233	86	119	926	408	549										
Finance expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other income</b>	<b>473</b>	<b>233</b>	<b>86</b>	<b>119</b>	<b>926</b>	<b>408</b>	<b>549</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>(19,108)</b>	<b>(4,442)</b>	<b>(6,878)</b>	<b>(4,913)</b>	<b>(5,102)</b>	<b>(18,895)</b>	<b>(17,913)</b>	<b>(17,075)</b>	<b>(17,579)</b>	<b>55,893</b>	<b>82,855</b>	<b>116,699</b>	<b>164,869</b>
change in fair value of cash flow hedge	(13)																
Income Tax Benefit (Provision)	1	(13)	-	-	-						(2,687)	(2,903)	(3,516)	13,973	22,371	35,010	52,758
<b>Tax Rate</b>					0%	0%	0%	0%	0%	0%	15%	17%	20%	25%	27%	30%	32%
<b>GAAP Net Income (loss)</b>	<b>(10,602)</b>	<b>(13,823)</b>	<b>(13,846)</b>	<b>(17,202)</b>	<b>(19,108)</b>	<b>(4,442)</b>	<b>(6,878)</b>	<b>(4,913)</b>	<b>(5,102)</b>	<b>(18,895)</b>	<b>(15,226)</b>	<b>(14,172)</b>	<b>(14,063)</b>	<b>41,920</b>	<b>60,484</b>	<b>81,689</b>	<b>112,111</b>
<b>GAAP-EPS</b>	<b>(2.61)</b>	<b>(1.73)</b>	<b>(0.63)</b>	<b>0.21</b>	<b>(3.37)</b>	<b>(0.76)</b>	<b>(1.18)</b>	<b>(0.42)</b>	<b>(0.44)</b>	<b>(2.79)</b>	<b>(1.30)</b>	<b>(1.20)</b>	<b>(1.19)</b>	<b>3.53</b>	<b>5.08</b>	<b>6.83</b>	<b>9.34</b>
GAAP EPS (dil)	(2.61)	(1.73)	(0.52)	(0.15)	(3.37)	(0.76)	(1.18)	(0.83)	(0.86)	(3.21)	(2.49)	(2.23)	(2.12)	6.08	8.43	10.95	14.44
Wgtd Avg Shrs (Bas) - '000s	4,058	7,986	30,351	82,807	5,671	5,846	5,848	11,681	11,693	8,767	11,722	11,769	11,816	11,863	11,911	11,959	12,007
Wgtd Avg Shrs (Dil) - '000s	4,058	7,986	47,643	110,550	5,671	5,846	5,848	5,906	5,966	5,892	6,116	6,365	6,623	6,892	7,172	7,463	7,766

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.

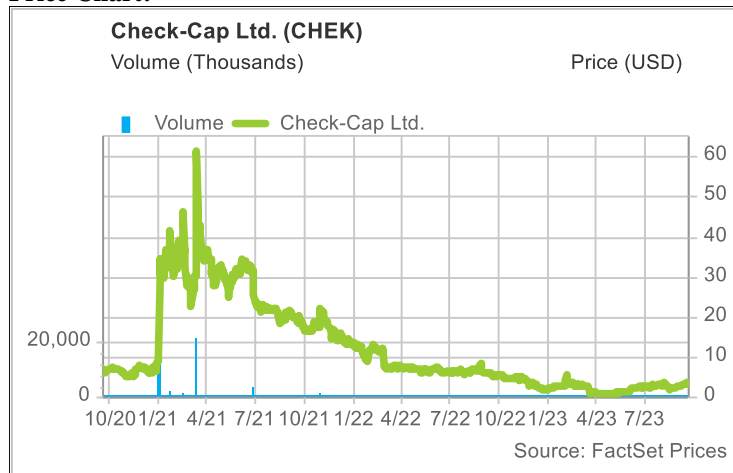
**Investment Risk.** Check-Cap is a small capital company, which can translate into high volatility and risk for investors. The company has no revenues and is dependent on the clinical progress of the device.

**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  
 Rating Change – Neutral from Buy – September 15, 2022 - Price Target NA  
 Update – Neutral – December 8, 2022 – Price Target NA  
 Update – Neutral – March 22, 2023 – Price Target NA  
 Update – Neutral – April 5, 2023 – Price Target NA  
 Update – Neutral – June 7, 2023 – Price Target NA  
 Update – Neutral – September 21, 2023 – 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 18-Sep-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	67.64%	3	8.80%
Market Perform (Neutral)	11	32.36%	3	8.80%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	6	17.60%

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