Zacks Small-Cap Research
*Sponsored – Impartial – Comprehensive*

March 9, 2023
John D. Vandermosten, CFA
312-265-9588 / jvandermosten@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Suite 1600, Chicago, IL 60606

# Intelligent Bio Solutions Inc. (INBS: NASDAQ)

***Valuation Update on 2Q:23 Results***

We apply a sum of the parts approach using a multiple of financial results for the IFP segment and a DCF model to the glucose biosensor. A multiple of 2029 EPS for IFP is discounted at 20% to generate a one-year target price for IFP. For the biosensor, we employ a 15% discount rate to future cash flows and a 50% probability of commercialization. The values of the two components are summed to generate our valuation.

| | |
|---|---|
| Current Price (3/8/2023) | $3.40 |
| **Valuation** | **$15.00** |

## OUTLOOK

IBS offers a portable, easy to use drug testing device that works by detecting skin secretions which are captured in a screening cartridge, then read by the DSR-Plus portable analyzer. The product is useful in many industries such as transportation, construction and energy where a drug free environment is critical to safety and rapid, simple test design is required. IBS is also developing saliva-based, non-invasive biosensors for use in glucose monitoring in diabetes. Advances in organic thin-film transistors have paved the way to inexpensive, easy to manufacture, flexible and sensitive devices. If successful, the technology could replace painful, cumbersome & inconvenient finger-prick testing.

The fingerprint test segment is revenue generating & has many options globally for increased sales. Several contracts have recently been executed, signaling continued sales growth. The DSR-plus device offers several advantages over blood and urine tests and boasts patents that should protect its market for many years to come. IBS' saliva glucose biosensor production is undergoing correlation testing to monitor glucose accuracy and consistency. Development of the saliva test is ongoing and we expect periodic updates as it continues. We expect to see the d*e novo* application pathway used for the saliva glucose biosensor in 2023.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **32.00** |
| **52-Week Low** | **3.11** |
| **One-Year Return (%)** | **-74.6** |
| **Beta** | **4.3** |
| **Average Daily Volume (sh)** | **185,398** |
| **Shares Outstanding (mil)** | **1.87** |
| **Market Capitalization ($mil)** | **6.4** |
| **Short Interest Ratio (days)** | **0.0** |
| **Institutional Ownership (%)** | **2.0** |
| **Insider Ownership (%)** | **8.9** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **N/A** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/A** |
| **P/E using 2022 Estimate** | **N/A** |
| **P/E using 2023 Estimate** | **N/A** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Above Average** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **Med-Instruments** |

## ZACKS ESTIMATES

### Revenue

(In millions of USD)

| | Q1 (Sep) | Q2 (Dec) | Q3 (Mar) | Q4 (Jun) | Year (Jun) |
|---|---|---|---|---|---|
| 2022 | $0.0 A | $0.2 A | $0.2 A | $0.0 A | $0.4 A |
| 2023 | $0.3 A | $0.6 A | $0.4 E | $0.5 E | $1.8 E |
| 2024 | | | | | $3.1 E |
| 2025 | | | | | $5.8 E |

### Earnings per Share

| | Q1 (Sep) | Q2 (Dec) | Q3 (Mar) | Q4 (Jun) | Year (Jun) |
|---|---|---|---|---|---|
| 2022 | -$2.05 A | -$4.65 A | -$1.81 A | -$2.69 A | -$11.33 A |
| 2023 | -$1.62 A | -$0.46 A | -$2.70 E | -$1.66 E | -$6.52 E |
| 2024 | | | | | -$4.62 E |
| 2025 | | | | | -$2.77 E |

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

## WHAT'S NEW

**Capital Raise Extends Runway**

Intelligent Bio Solutions Inc. (NASDAQ: INBS) announced a proposed public offering on March 7th, 2023 and closed the deal the following day. The deal will raise $2.2 million in gross proceeds and was managed and underwritten by Ladenburg Thalmann. 569,560 shares of common stock and 170,868 warrants were issued at $3.90 per share. Warrant exercise price was also set at $3.90 per share. Ladenburg has a 45-day option to purchase an additional 85,430 shares which includes 1/3rd of a warrant for each share. The offering is expected close on March 10th with gross proceeds to be used for working capital and general corporate purposes.

**Fiscal Year 2023 Second Quarter Operational and Financial Results**

IBS announced financial and operational results for the fiscal quarter ending December 31, 2022 in a February 14th press release and Form 10-Q.

**Second Quarter and Year to Date Events**

- Acquisition of Intelligent Fingerprinting (IFP) – October 2022
- Change of corporate name to Intelligent Bio Solutions Inc. – October 2022
- Additions to Board of Directors: Messrs. Jenkins & Isenberg – October 2022
- Closing of private placement offering – December 2022
- Breakthrough improvement in thin film biosensor (Milestone 7) – January 2023
- Addition of five new material IFP clients – To date since close of IFP merger
- 1:20 reverse stock split – February 2023
- Regain compliance with NASDAQ listing requirement – March 2023
- Submission of FDA 513(g) for identifying regulatory approval pathway for IFP cartridge – February 2023
- Capital raise with Ladenburg Thalmann – March 2023

**Upcoming Milestones (Calendar Quarters)**

- Clinical trials & validation of glucose sensor ready for FDA/TGA[1] submission – 1Q:23
- Saliva glucose sensor FDA/TGA submission – 1H:23
- Launch of IFP drug screening in Australia – 2Q:23
- Completion of Milestone 8 – 3Q:23
- IFP launch in Asia – 3Q:23
- Launch of IFP drug screening in South East Asia – 2H:23
- Build of Australia R&D/Manufacturing facility - 2023
- Final design and verification of biosensor supported by two studies – 4Q:22
- FDA submission for IFP drug screening system

**Financial Results**

In its latest fiscal quarter ending December 31st, IBS generated total revenues of $626,000 compared to $178,000 in the prior year period. 2Q:23 revenues included a component from both Intelligent Fingerprinting (IFP) and government support revenue while 2Q:22 revenues only included the government support component. Operating expense in 2Q:23 totaled $2.6 million producing a net loss of ($421,000) or ($0.46) per share.

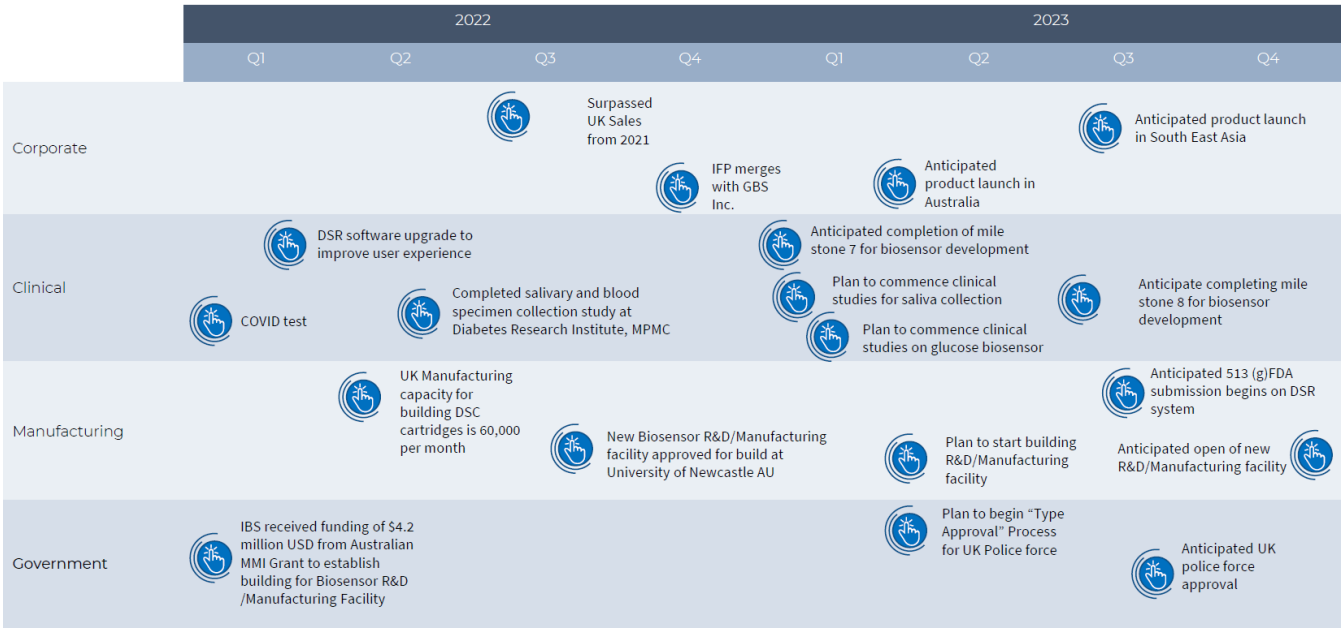
[1] Australian Therapeutics Goods Administration (TGA).

For the fiscal second quarter 2023 ending December 31, 2022 and versus the same prior year period:

- Revenues from sales of goods were $357,000 vs. $0 due to the acquisition of the product revenue generating IFP on October 4, 2022. Government support revenues were $270,000, up 52% compared with $178,000 due to timing of the amount spent on research and development;
- General & Administrative expenses rose 124% to $2.2 million from $1.0 million driven primarily by the addition of IFP activities to the profit and loss statement;
- Development & Regulatory Approval fell dramatically to close to zero from $2.6 million as higher expenses in the prior year related to the prepaid research and development contribution were not repeated in 2Q:23;
- Depreciation and amortization expenses were $398,000 vs. $0 related to the acquisition of IFP and the amortization of acquired intangibles;
- Total operating expenses fell 27% to $2.6 million from $3.6 million;
- Net other income was $1.7 million vs. $2,812, predominantly related to the recognition of fair value movements related to revaluation gain on convertible notes and contingent consideration for holdback shares. This was partially offset by net interest expense and loss on foreign exchange;
- Net loss including non-controlling interests was ($421,000) which was significantly aided by the $1.8 million fair value movement vs. ($3.5) million or ($0.46) and ($4.65) per share, respectively.

As of December 31, 2022, cash and equivalents totaled $2.9 million. This amount compares to $8.2 million held on June 30, 2022, the end of the company's prior fiscal year. IBS adds $833,000 of notes payable on its balance sheet. Cash burn for the first half of FY:23 totaled ($5.0) million. No financing cash flows were recognized. Following the end of the quarter, IBS announced a small public offering of $2.2 million in gross proceeds.

**Exhibit I – IBS' Completed and Anticipated Milestones[2]**




## Milestone 7

After the turn of the year, IBS reported that it had completed its Milestone 7 phase of biosensor review which addressed testing time to result, sensitivity and reproducibility. The results achieved a fourfold improvement in time to result, enabling the biosensor to produce test results in 30 seconds. Previous iterations of the device produced results in 120 seconds.

The benefits were achieved through a change the layering architecture which combines ink coatings to improve the reaction time of the glucose oxidase. A new ink was used that contributes to the enhancement in response time. Beyond the performance improvements, the changes simplify manufacturing and printing processes thereby reducing the amount of material needed. Detection parameters were refined as well, which are now sensitive enough to

[2] IBS Corporate Presentation, December 2022.

consistently detect 0.36 mg/dL compared with the prior limits of 0.54 mg/dL and 0.90 mg/dL.[3] The mechanism of improved detection has not yet been identified and IBS will provide more detail when available.

Milestone 8 consists of an ongoing correlation study where IBS is seeking the best method of saliva collection to reduce variability. Correlation between saliva and blood must be established to validate the technology. This is a crucial milestone that must be achieved before submitting to the FDA for a grant of marketing authorization. Approximately 100 subjects are participating in the testing process. The goal of the study is to reduce variability among collection protocols and find the method that provides the optimal correlation between glucose in blood and saliva.

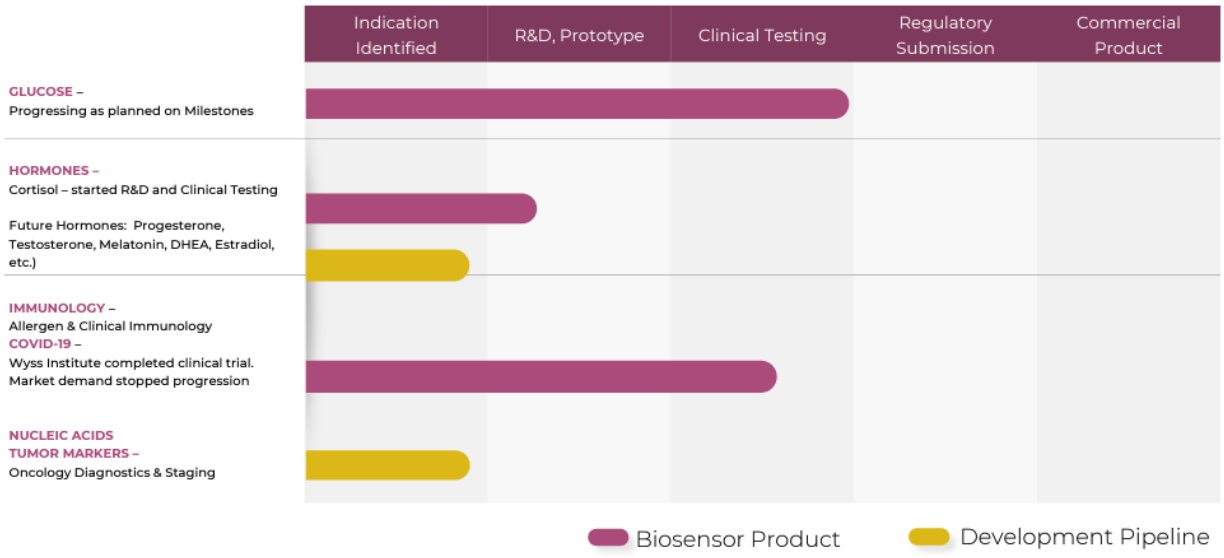
IBS has been able to show a tight correlation between cortisol in saliva and blood using its collection method, but has not been able to show this same tight association between glucose in saliva and blood. Cortisol is being used as a control as it is known to have a tight correlation between saliva and blood which can guide the development of the saliva glucose sensor.

Another component of Milestone 8 is finalizing the prototype. Milestone 9 will transfer the technology to a manufacturing facility and build the product while acknowledging FDA guidance and quality assurance requirements. Milestone 10 will bring everything together and prepare the product for FDA submission.

## Name Change to Intelligent Bio Solutions

Following the acquisition of Intelligent Fingerprinting, GBS, Inc. (NASDAQ: GBS) changed its name to Intelligent Bio Solutions Inc. (NASDAQ: INBS) and memorialized the evolution in an October 26th press release. The new name reflects the company's focus on non-invasive testing technologies as it adds drug and alcohol testing capabilities and products. The company's shares began trading under the symbol INBS on October 27th. In parallel with the name change, Harry Simeonidis returns to his role as Chief Executive Officer while Steven Boyages relinquishes his interim CEO title and maintains his position as Chairman of the Board. New board members David Jenkins and Jason Isenberg from Intelligent Fingerprinting were installed following the close of the recent acquisition.

**Exhibit II – IBS Pipeline[4]**




## Acquisition with Intelligent Fingerprinting Closes

In an October 5th press release, Intelligent Bio Solutions announced its acquisition of Intelligent Fingerprinting (IFP). The merger adds IFP's on-the-spot fingerprint drug test to the company's portfolio adding to the development work that IBS is doing using saliva to detect a variety of analytes. As consideration, IBS issued 2.96 million shares of INBS common stock and 2.36 million shares of Series C Convertible Preferred Stock that is convertible into 7.08 million shares of common stock. There are an additional 1.65 million Series C Convertible Stock shares that are available to issue subject to terms listed in the transaction documents. In total, the equivalent of 15.0 million shares

[3] The unit for reporting glucose concentration in the USA is mg/dL, or milligrams per 100 milliliters. The international standard unit for reporting the concentration of glucose in blood is mmol/l.
[4] Source: IBS November 2022 Corporate Presentation

will be issued for IFP, adding to the 14.9 million shares of IBS previously outstanding. Additional terms of the transaction include a 12-month lock-up for sale of the shares and the right to appoint two board members by the former majority shareholders of IFP. Following the early February reverse stock split, the number of shares were reduced 20-fold. We update per share values in our model to reflect the change.

Following the close of the transaction with IFP, the combined company plans to grow from its pre-merger customer base of 200 by submitting IFP's CE Mark to the Therapeutic Goods Association of Australia and sponsoring regulatory approval to begin a direct sales campaign in 1H:23. Since the close of the merger, several new clients have been added to IBS' roster. The companies added reflect the broad selection of industries that benefit from an effective, rapid and cost-effective method of drug testing in the gardening, distribution, trucking, airline and manufacturing spaces.

IFP offers two four-panel tests designated DSC 5-Plus and DSC 8-Plus. DSC 5 screens for opiates, methamphetamine, cocaine and cannabis while DSC 8 screens for opiates, methadone, benzodiazepines and buprenorphine. Other tests can be offered; however, existing offerings are the most in demand from customers and prospects.

While revenues and profits for IFP have not yet been released, the majority of sales come from the test cartridges and the reading device. Contributions from the alcohol and COVID testing products are minimal.

*Fingerprint Drug Testing Protocol*
IFP's fingerprint drug test offers a simplified approach to drug testing. The protocol for generating a test result suggests that hands be washed 15 minutes before testing and requires that all 10 fingers be pressed for five seconds apiece on the sample application pad. Following the capture of the sample, from one to five tests may be entered into the portable DSR-Plus measurement instrument.

If the initial test is non-negative, indicating the presence of a drug analyte, a liquid chromatography/mass spectrometry (LC/MS) confirmation test is used to evaluate the sample. LC/MS offers a greater level of accuracy. The cartridge for the confirmation test captures the analyte in the same manner as the rapid test and requires the same protocol for sample submission. However, the cartridge is mailed to and evaluated at the laboratory. The confirmation tests in the UK are conducted by UKAS-accredited laboratories and provide a result in a few days. The laboratory technicians that run the test are witness-trained in case of a legal challenge.

*Advantages*
IFP's sweat-based test provides several advantages compared with other approaches such as urine or blood. The fingerprint test does not require dedicated toilet facilities or gender-specific staff to supervise sample collection, which make it an ideal solution for on-site testing while also supporting social distancing where required. It respects employee privacy and only one administrator is needed and this person can be trained quickly.

IFP's solution is able to collect a sample in less than a minute, and produce results in 10 minutes. It has a shorter window of detection, which prevents the test from running afoul of workers' privacy rights. The portable reader and individually wrapped cartridges can be easily transported for clients that test at multiple sites.

**Exhibit III – DSR-Plus Reader[5]**



[5] Intelligent Fingerprinting Product Brochure.

## Competitive Environment

The primary drug testing approach in the US, Europe, Oceana and Asia uses urine as the testing medium. Other approaches include blood and saliva. While sweat tests have been conducted for several years, IBS has obtained substantial patent protection to prevent others from using fingerprints in a directly competitive manner.

Drug testing is predominantly used in the construction, aviation, trucking and related transportation industries where key personnel engage in hazardous activities and are responsible for the safety of others. Drug testing is also important for individuals who are responsible for the security of confidential information or high value products.

Our review of publically available pricing found that drug screening can cost from $30 to $250 with the amount increasing with the number of analytes measured.[6] Instant tests can run from $80 to $150. The drug test is frequently performed at a lab or other location remote from the job site, which requires transportation and turn around time. If the test is to be run on-site by a third party, additional fees are required. In contrast to this structure, the cost for IFP's cartridge is from $10 to $15 and when used in conjunction with the DSR-Plus portable analyzer, the system can return a result in about 10 minutes.

## Target Audience

Drug testing is a critical requirement for many businesses and industries where employees must make decisions and take on activities that can have life and death or serious economic consequences. Some of the most common industries for testing include military installations, construction sites, schools, hospitals, transportation companies and oil and gas operations among others. Testing can also be required in competitive environments as well, such as at academic institutions and for athletes.

Employers are seeking drug testing solutions that are inexpensive, quick, respectful of the employees' privacy and in compliance with labor laws, boxes that are checked by IFP's system.

## Recent IFP Client Additions

*Glass Systems*
In a string of press releases highlighting new customers for IFP's fingerprint drug screening, Glass Systems added the non-invasive test to its internal processes. The company is the largest independent glass manufacturer in the UK and supplies multiple sectors of construction industry with insulating glass units and glazing options. Glass Systems will conduct random or for cause drug testing at its six factories for its 1,000 employees to ensure worker safety using manufacturing machinery and transportation equipment. The test will be administered and managed internally. Glass Systems' management pointed out the flexibility and rapid implementation and response from IFP's fingerprint drug test as key factors supporting their use of the product. The client also frames the test as a deterrent to employees using illegal drugs. The Health Safety Manager who was quoted in the press release anticipates purchasing new readers for additional locations.

*Goldstar Transport*
Goldstar Transport added IFP's test to its administrative procedures as described in an October 31st release, switching from urine-based testing. The trucking company purchased six DSR-Plus readers to support its 600 drivers, 170 administrative staff and 40 forklift operators across 14 sites in the UK. Goldstar switched to IFP's test as it is more hygienic and less intrusive than urinalysis. The fingerprint test also provides faster results, which improves productivity at the transportation company.

*Eastern Airways*
On November 3rd, 2022 IBS announced new client Eastern Airways (EA), a UK based airline that provides short-haul and private air charter flights to popular destinations in the UK and Ireland. EA selected IBS' solution to comply with recently introduced regulations from the European Aviation Authority and to address missteps related to the deliberate crash of Germanwings Flight 9525.

*Hozelock*
On January 31st, 2023, IBS welcomed gardening supplier Hozelock to its fingerprinting drug test community. The client is an equipment manufacturer that provides hoses, outdoor water management systems, water spray guns and parts related to its offerings through UK-based partner retailers and around the globe. Hozelock's business is seasonal and the IFP drug testing solution will enable them to easily ramp up random drug testing when needed. The company prefers the fingerprint solution as opposed to saliva or urine tests as it is more respectful and sanitary

[6] Lee, Spencer. How Much Does a Urine Test Cost Without Insurance? September 15, 2021.

while isolating the narrow window of detection that labor guidelines suggest. Some of the company's operations may be potentially dangerous if conducted by impaired employees. The fingerprint test can address this unmet need in an efficient and cost-effective manner.

*Boughey Distribution*

Boughey Distribution added Intelligent Fingerprinting's drug test to their random drug screening program. The transportation company is a logistics provider to the food industry in the United Kingdom. It also provides warehousing, e-fulfillment, consolidation and contract packing services. Boughey elected IFP's drug testing system based on its ease of use for in-house random testing and its non-invasive, rapid and clean approach compared to urine testing, avoiding the need for meeting rooms and toilet facilities for administration. Boughey's operations require human use of handling equipment and vehicles which require the deterrent and identification abilities of drug testing to support a safe environment.

**Background on IFP Acquisition**

In a June 16th press release, IBS' predecessor company, GBS, Inc. announced that it had entered into an exclusivity agreement to acquire Intelligent Fingerprinting Limited (IFP), a UK-based device company that is developing a fingerprint reader for drug screening and detection. Following the agreement, GBS management began conducting due diligence on the private company. The initial review of IFP identified several primary synergies between the two companies:

- GBS' regulatory experience with FDA
- GBS' capital and cash balance
- GBS' geographic experience in Oceana and Asia-Pacific
- IFP's commercialization and research & development experience
- IFP's manufacturing facilities
- IFP's experience securing the CE mark
- IFP's full ownership of technology rights
- IFP's revenue and potential cash flow generation which may reduce the need for a capital raise
- Concentration of assets in the non-invasive diagnostic space

**Exhibit IV – Drug Screening Cartridge[7]**




[7] Source: Intelligent Fingerprinting website accessed November 2022.

Now that the acquisition has been consummated, the combined company will initiate commercialization efforts in the Asia Pacific region and begin work to obtain FDA approval either via the *de novo* or 510k pathway. Since the product does not have a distinct predicate device, we expect it will follow the *de novo* route in the United States.

According to Grandview Research, the size of the drug testing market was $8.1 billion in 2020 and is expected to grow at 4.9% per annum until 2028. GBS has indicated that IFP's growth rate has historically been is in the low double-digit range.

## Updated Valuation

We suspended our target price following the combination with IFP to wait for additional information. Now that access to historical revenues and costs for IFP is provided, and company management has provided input, we have developed a forecast model reflecting our estimates. This valuation uses a sum of the parts approach, taking the existing revenue generating business from IFP and applying a multiple of earnings and combining it with a discounted cash flow (DCF) model that values the glucose biosensor.

We look upon the acquisition of IFP favorably, recognizing the substantial benefits of fingerprint testing as opposed to the alternatives and the lack of other options that are as quick and easy. IBS has added several new clients since the close of the merger and we expect this trend to accelerate as commercialization efforts expand into Australia in 2023 and other regions including the United States in 2024.

Fiscal year 2023 second quarter was the first consolidated quarter combining IFP with legacy GBS operations. Based on recent disclosures, trailing 12-month revenues were approximately $1.5 million and costs were approximately $3 million, leading to an operational loss of ($1.5) million. We expect revenues to increase substantially off of this small base for 100% growth for fiscal year 2024 based on the geographical expansion of efforts. 2026 growth is forecast at 86%, a $2.7 million incremental increase followed by 68% in 2026, a $3.9 million incremental increase. We expect the growth rate to slow as critical mass is reached with expansions of 50%, 40% and 30% in each of the three following years from 2027 to 2029.

Costs for IFP commercialization and biosensor development are expected to be stable, experiencing only low single digit inflation as there is excess capacity in the manufacturing and research and development segments that will take time to fully utilize. We layer on additional sales and marketing expense, growing from $250,000 per quarter to over $375,000 per quarter as efforts expand in Australia and the United States. We expect that distributors will assume some of the additional sales and marketing efforts as the fingerprint test is rolled out globally.

**Exhibit V – Annual Forecast Model, IFP[8]**

| IBS Inc. | 2022 A | 2023 E | 2024 E | 2025 E | 2026 E | 2027 E | 2028 E | 2029 E |
|---|---|---|---|---|---|---|---|---|
| **Total Revenues ($US ,000)** | **$437** | **$1,849** | **$3,118** | **$5,814** | **$9,767** | **$14,651** | **$20,511** | **$26,665** |
| *YOY Growth* | *-78%* | *323%* | *69%* | *86.4%* | *68.0%* | *50.0%* | *40.0%* | *30.0%* |
| Cost of Revenue | | $431 | $1,091 | $2,035 | $3,419 | $5,128 | $7,179 | $9,333 |
| Gross Margin | $437 | $1,417 | $2,027 | $3,779 | $6,349 | $9,523 | $13,332 | $17,332 |
| *Gross Margin* | | *77%* | *65%* | *65%* | *65%* | *65%* | *65%* | *65%* |
| General & Administrative | $4,920 | $8,194 | $9,051 | $9,323 | $9,602 | $9,890 | $10,187 | $10,493 |
| Development & Regulatory | $3,854 | $1,080 | $2,000 | $2,060 | $2,122 | $2,185 | $2,251 | $2,319 |
| Sales & Marketing | $0 | $550 | $1,475 | $1,519 | $1,565 | $1,612 | $1,660 | $1,710 |
| Other | $0 | $398 | $0 | $0 | $0 | $0 | $0 | $0 |
| Income from operations | ($8,337) | ($8,255) | ($9,024) | ($7,603) | ($5,375) | ($2,553) | $894 | $4,521 |
| *Operating Margin* | *-1907%* | *-447%* | *-289%* | *-131%* | *-55%* | *-17%* | *4%* | *17%* |
| Net Interest Expense | $7 | ($129) | ($180) | ($180) | ($180) | ($180) | ($180) | ($180) |
| Other Items | ($4) | $1,777 | $0 | $0 | $0 | $0 | $0 | $0 |
| Non-controlling Interest | ($28) | ($12) | $0 | $0 | $0 | $0 | $0 | $0 |
| Pre-Tax Income | ($8,306) | ($6,595) | ($9,204) | ($7,783) | ($5,555) | ($2,733) | $714 | $4,341 |
| Provision for Income Tax | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| *Tax Rate* | | | | | | | | |
| **Net Income** | **($8,306)** | **($6,595)** | **($9,204)** | **($7,783)** | **($5,555)** | **($2,733)** | **$714** | **$4,341** |
| *Net Margin* | | | | | | | | |
| **Reported EPS** | **($11.33)** | **($7.55)** | **($4.62)** | **($2.77)** | **($1.90)** | **($0.78)** | **$0.20** | **$1.20** |
| *YOY Growth* | | | | | | | | |
| Basic Shares Outstanding | 733 | 873 | 1,993 | 2,815 | 2,920 | 3,500 | 3,600 | 3,625 |

*Source: Company Filing // Zacks Investment Research, Inc. Estimates*

[8] Zacks Analyst Estimates

We do not anticipate payment of cash taxes during the first years of profitability due to the use of offsetting net operating losses (NOLs).

Based on our growth forecasts, IBS should tip into profitability in 2028, and build on this the following year. We use a multiple of 2029 earnings and discount this to present at 20%. The valuation is summarized in the matrix below:

**Exhibit VI – Multiple of EPS Valuation Matrix[9]**

| 2029 Price/Earnings | 2023 PV | Discount Rate | | | | |
|---|---|---|---|---|---|---|
| | | 15.0% | 17.5% | 20.0% | 22.5% | 25.0% |
| | 14.0 | $7.25 | $6.37 | $5.61 | $4.96 | $4.39 |
| | 16.0 | $8.28 | $7.28 | $6.42 | $5.67 | $5.02 |
| | 18.0 | $9.32 | $8.19 | $7.22 | $6.38 | $5.65 |
| | 20.0 | $10.35 | $9.10 | $8.02 | $7.09 | $6.28 |
| | 22.0 | $11.39 | $10.01 | $8.82 | $7.80 | $6.91 |

The other component of our valuation is the glucose biosensor program. We anticipate that development will take place over the 2023/2024 period as Milestones 8 – 10 are completed. Submission to the FDA is expected in 2024 and first sales are expected in 2025. Our model assumes that IBS works with a partner to develop the biosensor. We estimate biosensor penetration into both the Asia Pacific (APAC) region and the United States. The diabetic population and addressable market are estimated at 8.2% of the APAC population and about 10% of the US population. This should generate a demand of about 5.0 billion strips per year in APAC and 5.1 billion in the US of which we see IBS' product gaining about 8% share after an eight-year ramp and initial penetration of 0.5% in 2025. Pricing is expected to be $0.20 per strip in APAC and $0.40 in the US. These assumptions generate product revenues of $93 million and $175 million in APAC and the US respectively for 2032, the same year as terminal penetration.

We assume that IBS will engage a partner to commercialize the glucose biosensor strip and will pay a net royalty to the company in return for the license. IBS owes a sizeable royalty to Life Science Biosensor Diagnostics Pty Ltd (LSBD) and after netting it out we anticipate a net payment of 15% of revenues to IBS from a marketing and distribution partner. Annual forecasted cash flows are discounted to present using a 15% discount rate. We also apply a 50% likelihood of ultimate commercialization as described above to generate the valuation for the glucose biosensor component.

In our sum of parts, when we combine the $7.22 from our IFP multiple of EPS and the $7.79 from the glucose biosensor probability-adjusted DCF model, we generate a valuation of $15.00 per share which is summarized below.

**Exhibit VII – Sum of Parts Valuation[10]**

| EPS Multiple (IFP) | DCF (Biosensor) | IBS Valuation |
|---|---|---|
| $7.22 | $7.79 | $15.01 |

## Summary

IBS has undergone a rapid transformation in recent months, adding a new and complementary business, changing its name and signing new clients. The company continues to advance its development and clinical work for the glucose biosensor and recently achieved an important efficiency, accuracy and efficacy milestone for its development product. Additional financial details regarding profit and loss for the IFP segment were recently provided which we use to develop a financial forecast model to generate our valuation. We expect to see additional financial details for IFP in coming quarters at which time we will refine our valuation to reflect the company's prospects. Our sum of parts approach employs a multiple of earnings for the IFP segment and combines it with a DCF approach for the glucose biosensor segment to generate a valuation of $15.00 per share.

[9] Zacks Analyst Estimates
[10] Zacks Analyst Estimates

## PROJECTED FINANCIALS

**Intelligent Bio Solutions Inc. - Income Statement[11]**

| IBS Inc. | 2022 A | Q1 A | Q2 A | Q3 E | Q4 E | 2023 E | 2024 E | 2025 E |
|---|---|---|---|---|---|---|---|---|
| **Total Revenues ($US ,000)** | **$437** | **$311** | **$626** | **$420** | **$491** | **$1,849** | **$3,118** | **$5,814** |
| *YOY Growth* | *-78%* | *# DIV/0!* | *252%* | *118%* | *634%* | *323%* | *69%* | *86.4%* |
| Cost of Revenue | | | $113 | $147 | $172 | $431 | $1,091 | $2,035 |
| Gross Margin | $437 | $311 | $514 | $273 | $319 | $1,417 | $2,027 | $3,779 |
| *Gross Margin* | | | *68%* | *65%* | *65%* | *77%* | *65%* | *65%* |
| General & Administrative | $4,920 | $1,450 | $2,245 | $2,250 | $2,248 | $8,194 | $9,051 | $9,323 |
| Development & Regulatory | $3,854 | $79 | $1 | $500 | $500 | $1,080 | $2,000 | $2,060 |
| Sales & Marketing | $0 | $0 | $0 | $250 | $300 | $550 | $1,475 | $1,519 |
| Other | $0 | $0 | $398 | $0 | $0 | $398 | $0 | $0 |
| Income from operations | ($8,337) | ($1,218) | ($2,131) | ($2,477) | ($2,429) | ($8,255) | ($9,024) | ($7,603) |
| *Operating Margin* | *-1907%* | *-391%* | *-340%* | *-590%* | *-495%* | *-447%* | *-289%* | *-131%* |
| Net Interest Expense | $7 | $7 | ($75) | ($30) | ($30) | ($129) | ($180) | ($180) |
| Other Items | ($4) | ($2) | $1,779 | $0 | $0 | $1,777 | $0 | $0 |
| Non-controlling Interest | ($28) | ($6) | ($6) | $0 | $0 | ($12) | $0 | $0 |
| Pre-Tax Income | ($8,306) | ($1,208) | ($421) | ($2,507) | ($2,459) | ($6,595) | ($9,204) | ($7,783) |
| Provision for Income Tax | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| *Tax Rate* | | | | | | | | |
| **Net Income** | **($8,306)** | **($1,208)** | **($421)** | **($2,507)** | **($2,459)** | **($6,595)** | **($9,204)** | **($7,783)** |
| *Net Margin* | | | | | | | | |
| **Reported EPS** | **($11.33)** | **($1.62)** | **($0.46)** | **($2.74)** | **($1.66)** | **($6.52)** | **($4.62)** | **($2.77)** |
| *YOY Growth* | | | | | | | | |
| Basic Shares Outstanding | 733 | 744 | 908 | 916 | 1,480 | 1,012 | 1,993 | 2,815 |

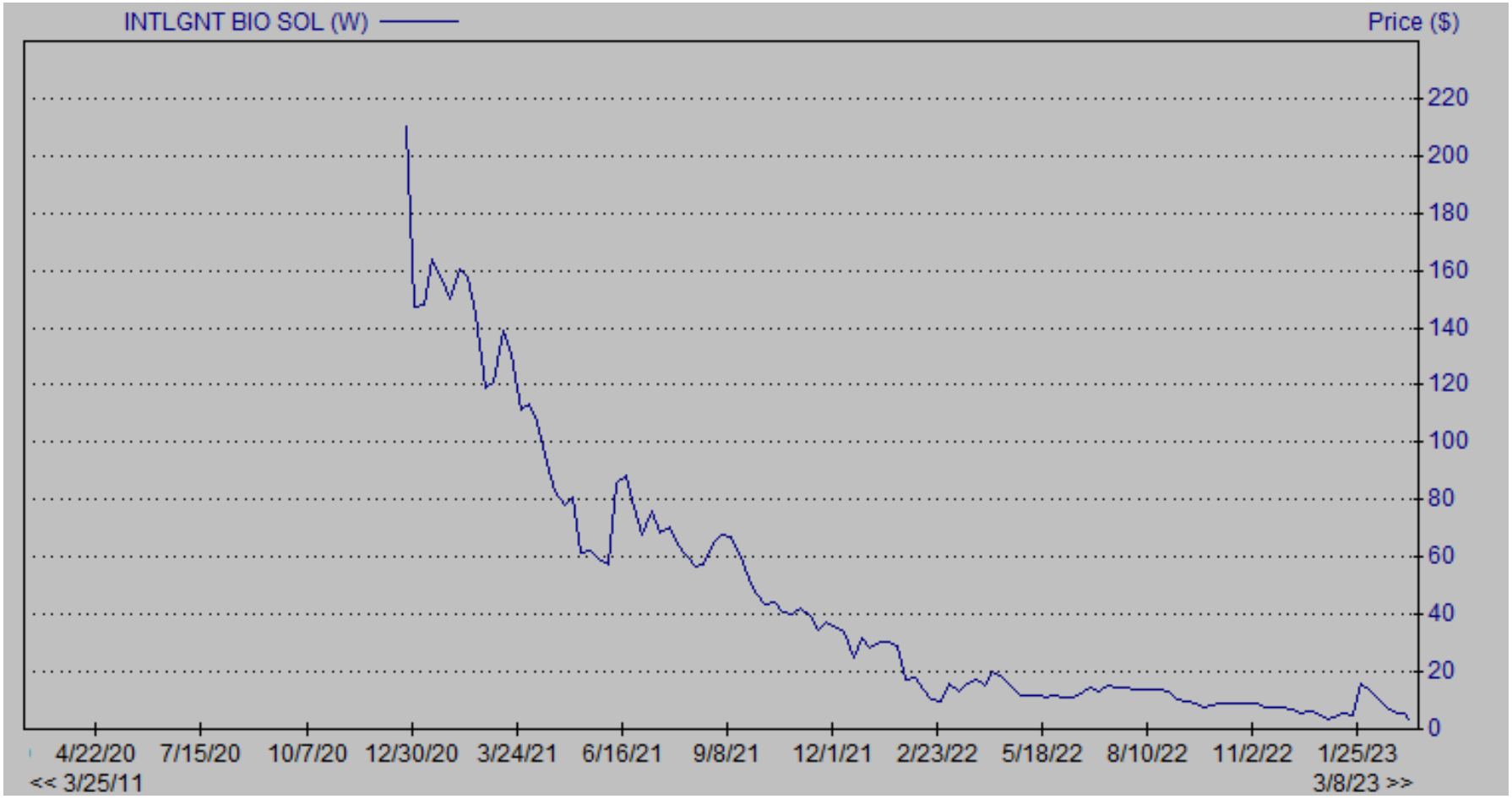
*Source: Company Filing // Zacks Investment Research, Inc. Estimates*

[11] Financial statement information presents data as originally reported.

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

## HISTORICAL STOCK PRICE

**Intelligent Bio Solutions Inc. – Share Price Chart[12]**




[12] Source: Zacks Research System

## DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, John Vandermosten, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.

Zacks SCR has received compensation from the issuer directly, from an investment manager or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. This research report was prepared under the aforementioned engagement.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover.
SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

© Copyright 2023, Zacks Investment Research. All Rights Reserved.