Zacks Small-Cap Research
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June 5, 2023
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Intelligent Bio Solutions Inc. (INBS: NASDAQ)

INBS: Fentanyl is the Latest Innovation

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 (6/2/2023)	$2.82
Valuation	**$13.50**

OUTLOOK

IBS offers a portable, easy to use drug testing device that works by detecting analytes in 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	**2.09**
One-Year Return (%)	**-75.3**
Beta	**4.0**
Average Daily Volume (sh)	**115,398**
Shares Outstanding (mil)	**1.87**
Market Capitalization ($mil)	**4.9**
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 2023 Estimate	**N/A**
P/E using 2024 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	$0.6 A	$0.5 E	$2.0 E
2024					$3.2 E
2025					$6.0 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	-$5.72 A	-$1.66 E	-$9.84 E
2024					-$4.60 E
2025					-$2.73 E

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WHAT'S NEW

Global Expansion Efforts

Intelligent Bio Solutions Inc. (NASDAQ: INBS) reported fiscal third quarter earnings on May 11, 2023 and filed its Form 10-Q. Revenues were up both sequentially and compared with the prior year driven by new Intelligent Fingerprint (IFP) clients. A sales team is being assembled for launch of IFP products in the Australia, New Zealand and Asia Pacific markets. The team will be supported by a new distribution hub, office facility and lab-based confirmation testing specialist for expansion throughout the Pacific Rim. In the globe's Northern hemisphere, enhanced marketing efforts are being made for expanding IFP's product set more broadly throughout the UK and Europe with support provided from new strategies and distribution channels. Looking ahead, we expect to see confirmation of the FDA regulatory pathway for the IFP drug test in the United States and advancement towards accreditation from the National Association of Testing Authorities (NATA) in Australia.

2023 Year to Date Events

- 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
- NASDAQ compliance regained – March 2023
- Submission of FDA 513(g) to identify IFP cartridge regulatory approval pathway – February 2023
- Capital raise with Ladenburg Thalmann – March 2023
- HASTA Laboratory in Australia selected as IFP lab-based confirmation testing partner – March 2023
- Patent granted in UK for Fingerprint Drug Screening System cartridge reader – April 2023
- IFP commercialization activities launch in Australia – May 2023
- Initiation of work to add fentanyl to drug screening test – May 2023

Upcoming Milestones (Calendar Quarters)

- Clinical trials & validation of glucose sensor ready for FDA/TGA[1] submission – 2023
- Saliva glucose sensor FDA/TGA submission – 2023
- Launch of IFP drug screening in Australia, New Zealand and Asia Pacific – 2Q:23
- LD Micro Conference Participation in Los Angeles – June 6, 2023
- 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 March 31st, IBS generated total revenues of $575,000 compared to $193,000 in the prior year period. 3Q:23 revenues included a component from both Intelligent Fingerprinting (IFP) and government support revenue while 3Q:22 revenues only included government support. Operating expense in 3Q:23 totaled $2.6 million producing a net loss of ($6.3) million or ($5.72) per share. A goodwill charge of ($4.1) million was recognized predominantly related to a writedown of the IFP acquisition, contributing to the reported loss.

[1] Australian Therapeutics Goods Administration (TGA).

For the fiscal third quarter 2023 ending March 31, 2023 and versus the same prior year period:

- Revenues from sales of goods were $457,000 vs. $0 due to the acquisition of the product revenue generating IFP on October 4, 2022. Government support revenues were $118,000, down 39% compared with $193,000 due to timing of the amount spent on research and development;
- Selling, General & Administrative expenses rose 69% to $1.9 million from $1.1 million driven primarily by the addition of IFP activities to the profit and loss statement;
- Development & Regulatory Approval fell 27% to $0.3 million from $0.4 million on the timing of invoicing of the University of Newcastle's research and development activities differed from the prior year;
- Depreciation and amortization expenses were $389,000 vs. $0 related to the acquisition of IFP and the amortization of acquired intangibles;
- Goodwill impairment of $4.1 million was recognized based on the decline in the company's market capitalization and change in macroeconomic factors;
- Loss from operations was ($6.5) million compared to ($1.3) million;
- Net other income was $191,000 vs. ($1,304) related to fair value movements of derivatives, realized foreign exchange income and interest income partially offset by interest expense;
- Net loss including non-controlling interests was ($6.3) million which was significantly impacted by the ($4.1) million non-cash goodwill impairment producing a loss per share of ($5.72) million and ($1.79).

As of March 31, 2023, cash and equivalents totaled $2.3 million. This amount compares to $8.2 million held on June 30, 2022, the end of the company's prior fiscal year. IBS held $1.2 million of notes and convertible notes payable on its balance sheet. Cash burn for the first nine months of FY:23 totaled ($7.3) million. Financing cash flows were $1.4 million related to proceeds from stock offerings partially offset by a variety of negative financing cash flows including payment of equity issuance costs relating to the acquisition of IFP.

Fentanyl Fingerprint Test

IBS announced its intent to expand into testing for fentanyl to help address the global opioid crisis. In addition to providing a rapid test for employers, the product can also provide law enforcement and forensic pathologists with an early read on cause of death in the field. This is a next step into testing for additional analytes that have applications in a variety of areas where urine or blood testing is not feasible. Expansion into sports testing, probation and legal compliance, parental and child welfare and public health among many other areas is dramatically simplified with a fingerprint test. We expect to see additional drug tests added to the panels in coming periods.

Oceania Launch

In April 2023, IBS added four sales executives with drug testing experience in a variety of industries for its new sales force in Australia. A new distribution hub and staffed office facility to support sales and operations was established. These investments will help support the expansion of commercial activities throughout the Oceania region. Further milestones were achieved with the selection of HASTA (Human and Supplement Testing Australia). HASTA is the Australian sports supplement drug testing specialist, a division of Racing Analytical Services Limited (RASL), Australia's largest independent sports drug testing laboratory.

Active efforts are also underway to grow the IFP business across the UK and mainland Europe by expanding the marketing effort and creating new distribution channels. In the following section we highlight some of the recent additions to the IFP client base.

Recent IFP Client Additions

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 respectful to the employee and more sanitary for everyone 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.

A&F Sprinklers

A March 27th press release highlighted the addition of A&F Sprinklers to the IFP drug screening family. A&F Sprinklers is a UK based design company specializing in fire-control sprinkler installation. The company provides its services throughout Europe and works on complex and special-risk projects as well as providing sprinkler system analysis and reports. The IFP drug testing system will help A&F with its drug testing efforts and increase its productivity by 3x according to the company. Some of the features the A&F team sought were a test that seeks recent drug use of cannabis, cocaine, opiates, and methamphetamine. Further desired characteristics are simple, non-intrusive, hygienic and portable tests with ability to scale.

Exhibit I – Selection of Existing Customers[2]

abellio Leading London bus operator with 2,300 drivers and staff	CHASETOWN CIVIL ENGINEERING LTD 40+ year old civil engineering firm with 200+ employees	RMS PORTS Operates in U.K.s busiest estuary with 200+ employees	MPB Major civil construction firm with 500+ employees
Eastern airways Regional airline operating within the UK and Ireland	Huntingdonshire DISTRICT COUNCIL Government administrator with 500+ employees	XPO LOGISTICS One of the world's largest global 3rd party logistics providers	quartz elec Engineering firm with 550+ employees
McCann Civil and electrical engineering firm with 200+ employees	ParkerSteel UK steel stockholder and processor with 200+ employees	sdc 50 year old construction firm with 500+ employees	MH MASTERSON HOLDINGS Construction company with 200+ employees

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 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.

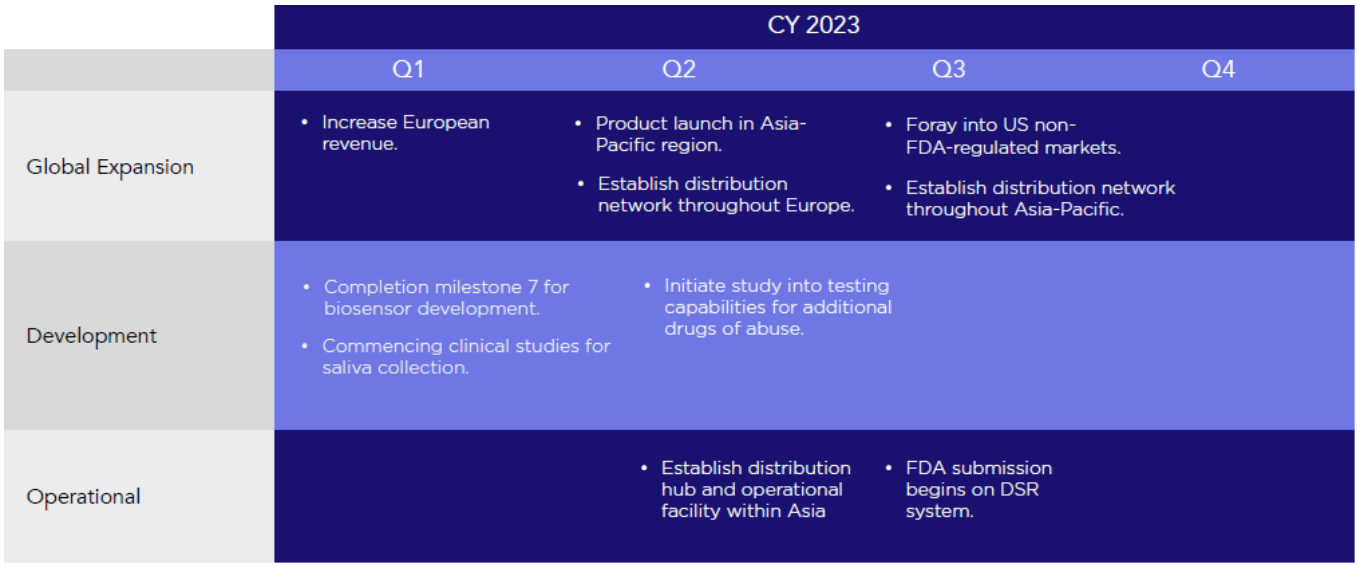
[2] IBS Investor Presentation, May 2023.

[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.

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.

Exhibit II – IBS' 2023 Milestones[4]



Competitive Environment and Patents

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.

The most recent patent granted was in the UK, announced in mid-April. It is related to the IFP drug screening system DSR-plus cartridge reader and titled Reader for analysing fluorescent markers under patent number GB2592432A. The patent relates to the proprietary lateral flow test strip reading capability for the DSR-Plus cartridge reading unit. The new specification enables simpler and faster drug testing compared with previous iterations.

Valuation

We update our valuation to reflect the number of shares outstanding, cost of new capital and anticipated new shares to be issued generating a target price of $13.50. No changes were made to our estimates for earnings from IFP or future potential from the glucose biosensor test.

Summary

IBS has undergone a rapid transformation over the last several quarters, 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. More recent efforts have centered on growing IFP sales in the Asia Pacific and European regions. 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 $13.50 per share.

[4] IBS Investor Presentation, May 2023.

PROJECTED FINANCIALS

Intelligent Bio Solutions Inc. - Income Statement[5]

IBS Inc.	2022 A	Q1 A	Q2 A	Q3 A	Q4 E	2023 E	2024 E	2025 E
Total Revenues ($US ,000)	**$437**	**$311**	**$626**	**$575**	**$491**	**$2,003**	**$3,192**	**$5,951**
YOY Growth	*-78%*	*# DIV/0!*	*252%*	*199%*	*634%*	*358%*	*59%*	*86.4%*
Cost of Revenue			$113	$424	$172	$708	$1,117	$2,083
Gross Margin	$437	$311	$514	$151	$319	$1,295	$2,075	$3,868
Gross Margin			*68%*	*7%*	*65%*	*65%*	*65%*	*65%*
Selling, General & Administrative	$4,920	$1,450	$2,245	$1,899	$2,248	$7,842	$9,051	$9,323
Development & Regulatory	$3,854	$79	$1	$300	$500	$880	$2,000	$2,060
Sales & Marketing	$0	$0	$0	$0	$300	$300	$1,475	$1,519
Other	$0	$0	$398	$4,495	$0	$4,894	$0	$0
Income from operations	($8,337)	($1,218)	($2,131)	($6,543)	($2,429)	($12,322)	($8,976)	($7,514)
Operating Margin	*-1907%*	*-391%*	*-340%*	*-1139%*	*-495%*	*-615%*	*-281%*	*-126%*
Net Interest Expense	$7	$7	($75)	($86)	($30)	($184)	($180)	($180)
Other Items	($4)	($2)	$1,779	$277	$0	$2,054	$0	$0
Non-controlling Interest	($28)	($6)	($6)	($8)	$0	($20)	$0	$0
Net Income	**($8,306)**	**($1,208)**	**($421)**	**($6,344)**	**($2,459)**	**($10,432)**	**($9,156)**	**($7,694)**
Net Margin								
Reported EPS	**($11.33)**	**($1.62)**	**($0.46)**	**($5.72)**	**($1.66)**	**($9.84)**	**($4.60)**	**($2.73)**
YOY Growth								
Basic Shares Outstanding	733	744	908	1,109	1,480	1,060	1,993	2,815

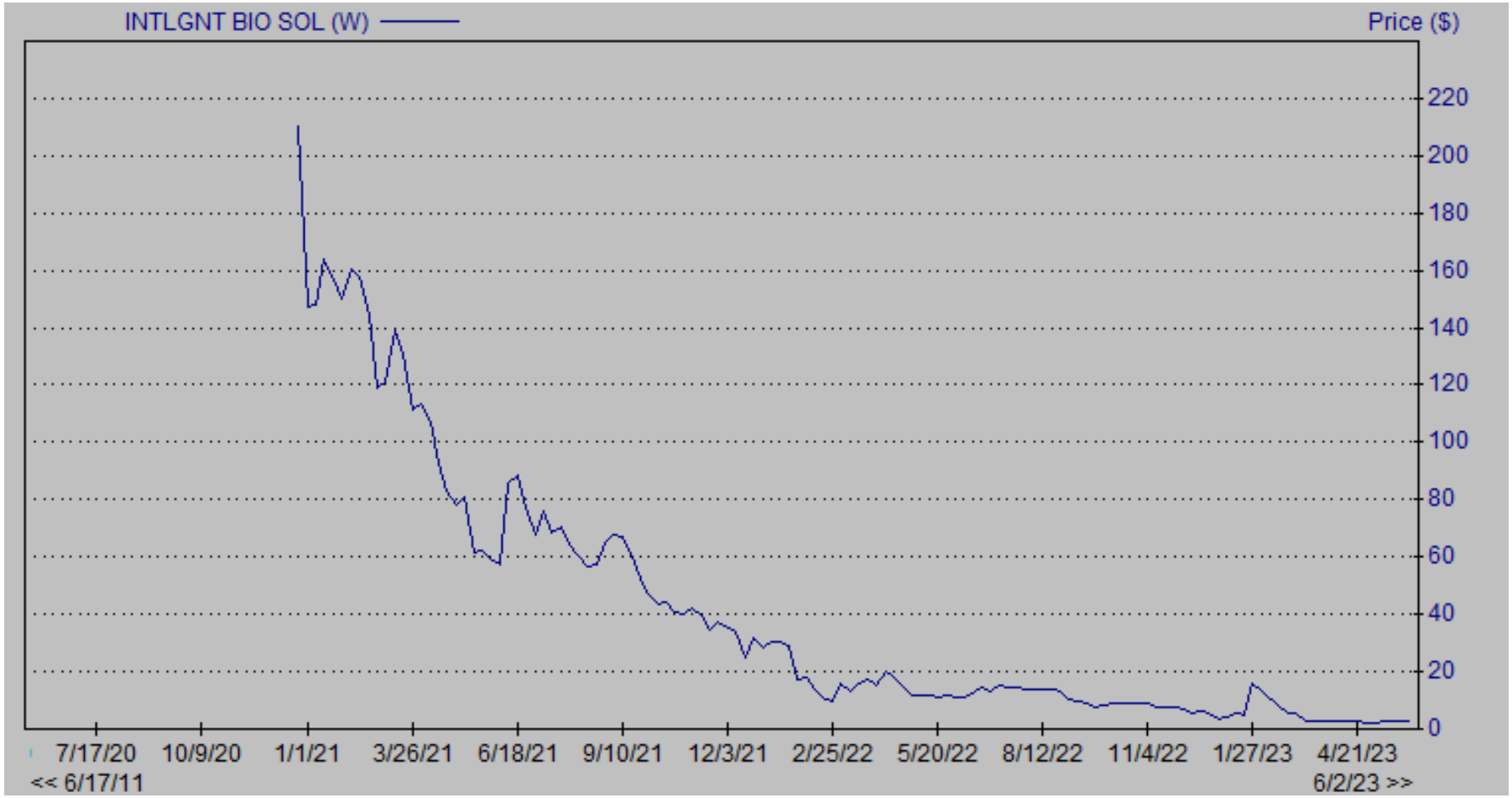
Source: Company Filing // Zacks Investment Research, Inc. Estimates

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

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HISTORICAL STOCK PRICE

Intelligent Bio Solutions Inc. – Share Price Chart[6]



[6] Source: Zacks Research System

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