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Intelligent Bio Solutions Inc. (INBS: NASDAQ)

INBS: New Zealand & American Expansion

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 (11/14/2023)	$0.56
Valuation	**$6.00**

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. The company is expanding geographically using distributors. South America, Australia, New Zealand, Asia Pacific and the United States are recent and future expansion areas. IBS will be pursuing NATA accreditation in the Asia-Pacific and FDA approval in the US which will provide greater legitimacy for the IFP drug test offering.

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.

SUMMARY DATA

52-Week High	**32.00**
52-Week Low	**0.20**
One-Year Return (%)	**-93.5**
Beta	**4.0**
Average Daily Volume (sh)	**5,478,992**
Shares Outstanding (mil)	**8.73**
Market Capitalization ($mil)	**4.8**
Short Interest Ratio (days)	**0.2**
Institutional Ownership (%)	**9.7**
Insider Ownership (%)	**24.6**
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)
2023	$0.3 A	$0.6 A	$0.6 A	$0.5 A	$2.0 A
2024	$0.9 A	$1.0 E	$1.1 E	$1.2 E	$4.2 E
2025					$7.3 E
2026					$12.2 E

Earnings per Share

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2023	-$1.62 A	-$0.46 A	-$5.72 A	-$1.19 A	-$10.03 A
2024	-$1.04 A	-$0.27 E	-$0.21 E	-$0.16 E	-$1.01 E
2025					-$0.47 E
2026					-$0.24 E

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WHAT'S NEW

Intelligent Bio Solutions Inc. (NASDAQ: INBS) reported first quarter fiscal year 2024 financial and operational results on November 9, 2023 and simultaneously filed its Form 10-Q. Revenues continued their ascent and were ahead of our expectations. Several new clients have been announced over the last few months and are now being recognized on the revenue line. The company also reached a milestone with Auctus Management Group, which has now performed 25,000 IFP tests.

South American, Australia, New Zealand and the Asia Pacific Rim have become emerging growth areas for IBS. Recent launches in these geographies have yielded early successes and sales. The team is supported by a new distribution hub, office facility and lab-based confirmation testing specialist for expansion throughout these regions. In the Northern hemisphere, enhanced marketing efforts are being made for expanding IFP's product set more broadly throughout the UK and Europe with over 350 small and medium sized business clients. Before the end of the year, we expect to see accreditation from the National Association of Testing Authorities (NATA) in Australia which should more broadly open up government and large business clients to the IFP product in Oceania.

1Q:24 Financial Results

In its fiscal first quarter ending September 30, 2023, IBS generated total revenues of $906,000 compared to $311,000 in the same prior year period. 1Q:24 revenues included contributions from both Intelligent Fingerprinting (IFP) product and government support revenue while 2022 revenues only included contributions from government support. Operating expense in 1Q:24 totaled $2.9 million producing a net loss of ($2.4) million or ($1.04) per share.

For the fiscal first quarter 2024 ending September 30, 2023 and versus the same prior year period:

- Revenues from sales of goods were $796,000 vs. $0 due to the acquisition of the product revenue generating IFP on October 4, 2022. Government support revenues were $110,000, down 65% compared with $311,000 due to timing of the amount spent on research and development;
- Gross margin for product sales was 29%, ahead of the gross margin of 26% in FY:23 for the trailing nine-month duration of IFP ownership;
- Selling, General & Administrative expenses rose 69% to $2.5 million from $1.5 million driven primarily by the addition of IFP activities and expenses related to the 32 additional personnel added to the rolls of the organization;
- Development & Regulatory Approval rose 31% to $104,000 from $79,000 due to the timing of invoicing and research and development activities carried out by University of New Castle;
- Depreciation and amortization expenses were $308,000 vs. $0 related to the acquisition of IFP and the amortization of acquired intangibles;
- Loss from operations was ($2.5) million compared to ($1.2) million;
- Net other income was $87,000 vs. ($1,000) related to fair value movements of derivatives embedded in the convertible notes, realized foreign exchange income and interest income partially offset by interest expense;
- Net loss including non-controlling interests was ($2.4) million vs. ($1.2) million producing a loss per share of ($1.04) and ($1.62).

As of September 30, 2023, cash and equivalents totaled $186,000. This amount compares to $1.5 million held as of June 30, 2023, the end of the company's prior fiscal year. IBS held $0.6 million of notes payable on its balance sheet. Cash burn for 1Q:24 totaled ($1.3) million and there were no financing cash flows. Following the end of the reporting period, IBS raised a gross $4.4 million in a transaction that was closed October 4th. Additional funds may be recognized through warrant exercises.

Significant Milestones

- Distribution agreement with TSCOM – July 2023
- IFP Drug Screening introduction at the Health & Safety Show, Sydney, Australia – September 2023
- ISO Recertification granted for IFP drug screening – September 2023
- Close of $4.4 million public offering – October 2023
- New Zealand IFP drug test launch – November 2023

New Analyte Tests in the Works

On September 8th, IBS announced that it had completed important milestones related to adding ketamine and tramadol tests to the fingerprint drug test library. The IFP offering now tests for opiates, methamphetamine, cocaine and cannabis. IBS goal is to expand to other important analytes to service a larger proportion of the market. Ketamine and tramadol are two emerging drugs that are abused. The US, UK and Australia have identified increased usage and seizures of these products highlighting the importance of implementing a related drug testing program.

In May, IBS announced that it will 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.

ISO Recertification

IBS has been working on recertification of the ISO 13485: 2016 Harmonized Quality Management System standard for the medical device industry for some time and announced in late September that it had been granted. ISO 13485 is a quality management system standard specific to the medical device industry. It outlines requirements for a comprehensive quality management system for the design and manufacture of medical devices. Key processes addressed include risk management, design control, document control, purchasing, production, calibration, corrective actions, and internal auditing.

The recertification is effective on October 14th, 2023 and is valid for three years. The certification is a standard that indicates research and development, manufacturing facilities and operations for drug screening products conform with strict requirements in the industry. It indicates to prospects and clients that the company is a legitimate provider of testing devices. It is also a requirement for medical device manufacturers in the US, Canada, Europe, Japan, Singapore, Malaysia and Saudi Arabia. The FDA recently published a proposed rule to harmonize its medical device quality management system with ISO 13485.

The certification will be an asset as IBS expands its commercialization plan across Europe, Australia and other locations in the Asia-Pacific.

Capital Raise

On October 4, 2023, IBS closed its $4.378 million underwritten public offering. A total of 2,232,221 shares of common stock, 5,728,723 shares of IBS' Series E Convertible Preferred Stock, 7,960,944 five and a half year warrants (Series E) and 7,960,944 one and a half year warrants (Series F) were issued. Units consisted of one share of common or preferred stock along with one Series E Warrant and one Series F Warrant. The units were priced at $0.55 generating gross proceeds of approximately $4.378 million. Net proceeds were approximately $3.35 million. Between the capital raise and November 7th, a total of 4,571,761 Series E Convertible Preferred shares were converted to common stock.

Ladenburg Thalmann & Co. Inc. acted as the sole bookrunning manager for the offering.

Client and Geography Additions

VKVP Haulage
Specialist container logistics firm VKVP Haulage selected the IFP Screening System to monitor employees and augment its existing alcohol testing program. The client manages a fleet of 80 trucks and requires that its drivers are compliant with substance abuse policies. An October press release provided details on the arrangement.

New Zealand
IBS announced an expansion into the New Zealand market. Under the Health and Safety in Employment Act of 1992, requirements were put into place for employers to take precautions against employees who may be under the influence of alcohol or drugs. The IFP device offers a new and efficient method to satisfy these obligations as opposed to other common options. Expansion into New Zealand builds on the launch in Australia that has been underway for the last six months. Future growth regions include Asia-Pacific, the United States and Canada.

Australia
On August 1st, months after the May 2023 launch of marketing activities in Australia, IBS announced the signing of eight new customers throughout the country. The entities contribute to the mining, aviation, construction, manufacturing and agriculture industries and together employ over 10,000 individuals.

Exhibit I – Selection of Existing Customers[1]



South America
IBS signed an agreement with TSCOM SPA granting distribution rights to the Chilean company as described in a July 6th press release. TSCOM provides telecare to seniors, devices that prevent the use of vehicles for those under the influence of alcohol, radar devices, as well as drug, alcohol and fatigue detection products. The IFP cartridge and reader will fall into the Drug and Alcohol Detection division.

The agreement will expand IFP's drug screening device availability across South America and TSCOM plans to offer it to workplaces, government operations and healthcare providers across Chile. An order has already been signed with a Chilean electrical distribution company for several reader devices. TSCOM is in the process of training test administrators to use the monitors and is helping the client introduce the Intelligent Fingerprinting device to the workplace.

IFP Regulatory Pathway in United States

The FDA provided guidance to IBS with respect to the regulatory pathway recommended for the Intelligent Fingerprinting Drug Screening Cartridge. The agency determined that the cartridge falls under regulations pertaining to an Opiate Test System, a Class II device that requires the submission of a pre-market notification related to section 510(k). Based on this feedback, IBS plans to submit a 510(k) pre-market notification for the cartridge.

[1] IBS Investor Presentation, May 2023.

Competitive Environment and Patents

The primary drug testing approach in the US, Europe, Oceania 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, 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.

Upcoming Milestones (Calendar Quarters)

- IFP launch in Asia – 2024
- Launch of IFP drug screening in South East Asia – 2H:23
- NATA Accreditation – 4Q:23
- FDA submission for IFP drug screening system - 2024

Valuation

Following the collapse of Life Science Biosensor Diagnostics Pty Ltd. (LSBD), the technology that was licensed to IBS as the intellectual property behind the biosensor platform has reverted back to the University of Newcastle. This opens the opportunity for IBS to renegotiate the license in a more favorable arrangement. While these negotiations are taking place, IBS has placed a hold on development for the glucose biosensor. The timing is favorable as cash levels are low and funds are now oriented towards the IFP business. Based on the change in strategy, we remove the glucose biosensor program from the portfolio and our valuation. We also adjust the model to reflect existing share balance and anticipated capital needs over the next two years. The result of our modifications produces an updated valuation of $6.00 per share.

Summary

IBS has produced a sharp increase in revenues in its first fiscal quarter following expansion efforts in a number of new regions including South America, Oceania and Asia Pacific. Several new IFP clients were announced in a variety of industries including security services, mining, aviation, construction, logistics, manufacturing and agriculture contributing to the topline result. Efforts to advance intellectual property have also moved forward with milestones achieved for new analytes and patents. IBS' efforts to obtain validation by professional bodies has yielded results with ISO 13485 recertification in September and NATA accreditation expected before year end. These endorsements are expected to help close new contracts with prospects, especially larger and government-oriented entities. The company closed a small capital raise after quarter end which should help support operations through at least half of FY:24 as IBS moves closer to positive free cash flow in the future. We note the continued near-term need for capital and may see warrant exercise and related cash flows partially address this. We adjust our valuation to reflect the hold on the glucose monitoring program and anticipated share balances which produces a $6.00 per share valuation.

PROJECTED FINANCIALS

Intelligent Bio Solutions Inc. - Income Statement[2]

IBS Inc.	2023 A	Q1 A	Q2 E	Q3 E	Q4 E	2024 E	2025 E	2026 E
Total Revenues ($US ,000)	**$1,995**	**$906**	**$1,008**	**$1,078**	**$1,161**	**$4,153**	**$7,236**	**$12,157**
YOY Growth	*356%*	*191%*	*61%*	*88%*	*141%*	*108%*	*74.2%*	*68.0%*
Cost of Revenue	$930	$564	$334	$357	$385	$1,640	$2,533	$4,255
Gross Margin	$1,064	$342	$674	$721	$776	$2,513	$4,704	$7,902
Gross Margin	26%	29%	65%	65%	65%	61%	65%	65%
Selling, General & Administrative	$8,027	$2,457	$2,255	$2,271	$2,275	$9,258	$9,536	$9,822
Development & Regulatory	$507	$104	$500	$500	$500	$1,604	$1,652	$1,702
Depreciation & Amortization	$967	$308						
Sales & Marketing	$0		$375	$375	$375	$1,125	$1,159	$1,194
Other	$4,159	$0	$0	$0	$0	$0	$0	$0
Income from operations	($12,595)	($2,526)	($2,081)	($2,050)	($1,999)	($8,349)	($6,484)	($3,621)
Operating Margin	-631%	-279%	-206%	-190%	-172%	-201%	-90%	-30%
Net Interest Expense	($214)	($37)	($45)	($45)	($45)	($172)	($180)	($180)
Other Items	$2,145	$131	$0	$0	$0	$131	$0	$0
Non-controlling Interest	($33)	($7)	$0	$0	$0	($7)	$0	$0
Net Income	**($10,632)**	**($2,425)**	**($2,126)**	**($2,095)**	**($2,044)**	**($8,383)**	**($6,664)**	**($3,801)**
Net Margin								
Reported EPS	**($10.03)**	**($1.04)**	**($0.27)**	**($0.21)**	**($0.16)**	**($1.01)**	**($0.47)**	**($0.24)**
YOY Growth								
Basic Shares Outstanding	1,060	2,330	8,000	10,000	13,000	8,333	14,250	16,000

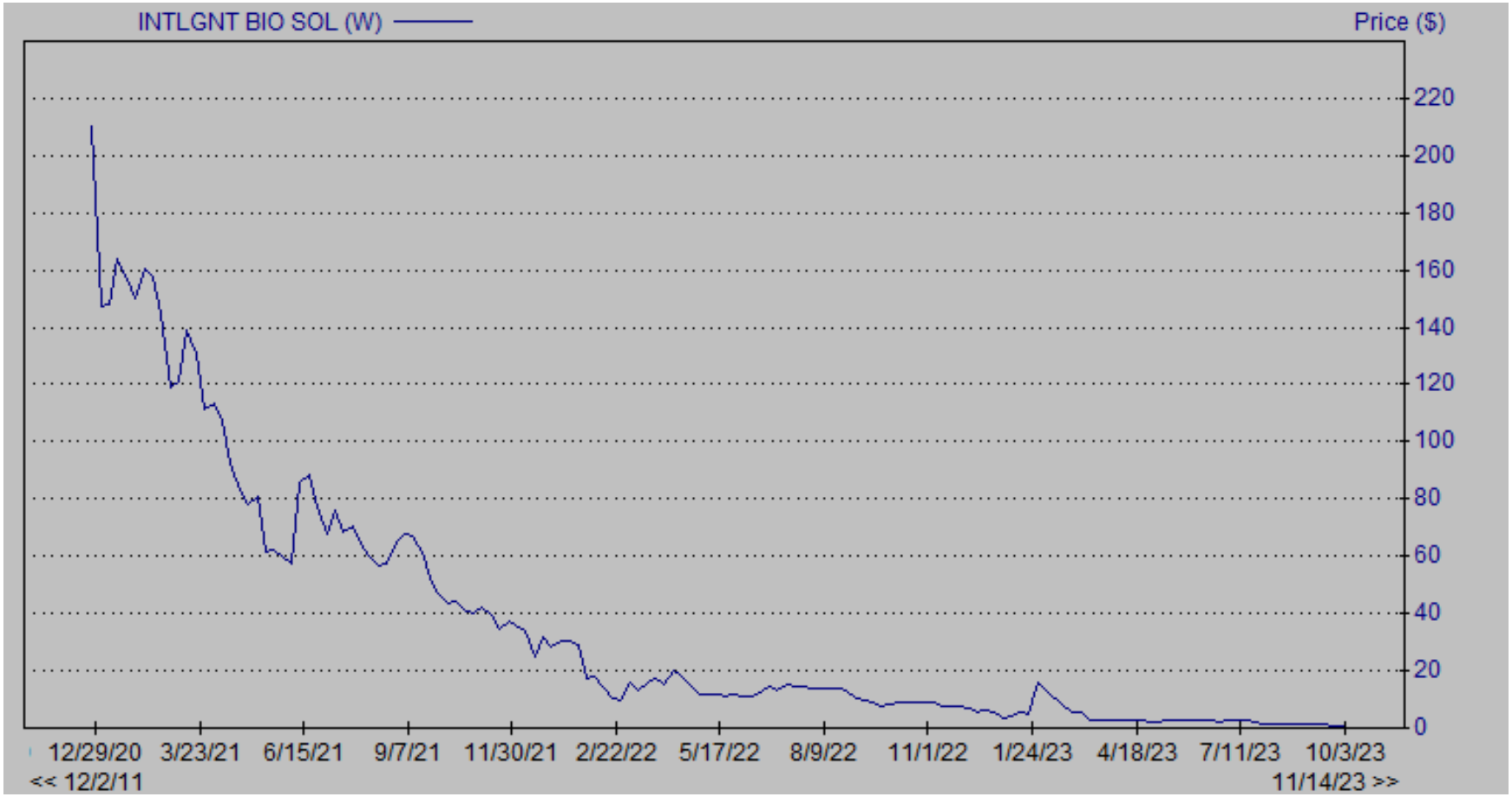
Source: Company Filing // Zacks Investment Research, Inc. Estimates

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

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HISTORICAL STOCK PRICE

Intelligent Bio Solutions Inc. – Share Price Chart[3]



[3] Source: Zacks Research System

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