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Toll-Free: 561-391-5555 ♦ www.DawsonJames.com ♦ 1 North Federal Highway - Suite 500 ♦ Boca Raton, FL 33432

## Adamis Pharmaceuticals (ADMP-NASDAQ)

February 27, 2020

### Rating Change: Downgrading from Buy to Neutral

Jason H. Kolbert

Head of Healthcare Research

646-465-6891

jkolbert@dawsonjames.com

The recent financing took us by surprise and, in our opinion, creates multiple new challenges for investors including the immediate dilution, the increased probability of a reverse stock split coupled with additional authorized shares to support future capital raises. In short, Adamis may have triggered a negative downward spiral which could prevent the company from unlocking the value of its platform.

Current Price	\$0.57
Price Target	NA

Estimates	F2019E	F2020E	F2021E
<b>Expenses (\$000s)</b>	\$ 48,113	\$ 45,698	\$ 49,719
1Q March	\$ 13,843	\$ 10,511	\$ 11,435
2Q June	\$ 13,512	\$ 10,968	\$ 11,932
3Q September	\$ 12,608	\$ 11,881	\$ 12,927
4Q December	\$ 8,150	\$ 12,338	\$ 13,424
Estimates	F2019E	F2020E	F2021E
<b>EPS (diluted)</b>	\$ (0.46)	\$ (0.00)	\$ 0.12
1Q March	\$ (0.19)	\$ (0.02)	\$ 0.01
2Q June	\$ (0.17)	\$ (0.02)	\$ 0.01
3Q September	\$ (0.12)	\$ 0.06	\$ 0.09
4Q December	\$ 0.01	\$ (0.02)	\$ 0.01

EBITDA/Share	(\$0.44)	(\$0.00)	\$0.12
EV/EBITDA (x)	0.0	0.0	0.0

Stock Data			
52-Week Range	\$0.48	-	\$3.14
Shares Outstanding (mil.)	73.4		
Market Capitalization (mil.)	\$42		
Enterprise Value (mil.)	\$35		
Debt to Capital	6%		
Book Value/Share	\$1.18		
Price/Book	0.5		
Average Three Months Trading Volume (K)	9,834		
Insider Ownership	3.5%		
Institutional Ownership	7.6%		
Short interest (mil.)	8.6%		
Dividend / Yield	\$0.00/0.0%		

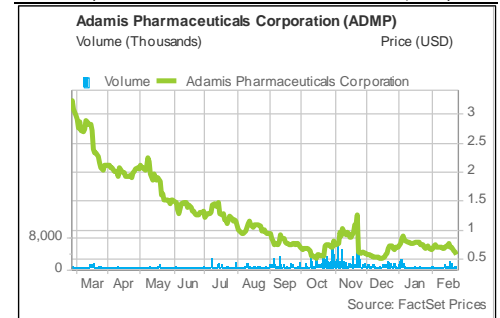
### Investment Highlights

**The Raise Worries Us.** The recent transaction, which raised \$6.7M, resulted in 11.6M additional shares and 8.7M warrants issued. If Symjepi sales were strong, we don't understand why management would raise what we consider to be very dilutive capital. Recall that this past **November, we slashed our Symjepi estimates.** We revised our model to assume just a three percent share in the EpiPen market, rising to just 13% by 2030 (through the effort of Pharma partner Novartis (NVS-Not Rated). We added in the compounding business, which combined in November, suggested a fair value in the \$1.00 range. Today when we factor in the dilution from the recent raise, the value drops to below \$1.00. Also, we see a high probability of a reverse stock split combined with newly authorized shares to support additional capital raises as likely. In our opinion, these factors are likely to constrain the value of the company from rising.

**Adamis Received a CRL.** Adamis announced receipt of a complete response letter or CRL regarding their Naloxone product. The focus of the CRL appears to be manufacturing. While we understand that the issue relates to extractables and leachables testing from the syringe and glassware, the reality is that this has been a setback, even if the company can resubmit by 2Q20.

**Valuation:** Our product models run out to the year 2030. For Symjepi, an approved product, we still use a high 30% discount rate in our valuation metrics. As discussed in the bullet above, this is combined with the assumption that by 2030 Symjepi achieves just 13% of the marketplace. Our price target is derived from an equal-weighted average of free cash flow (FCFF), discounted EPS (EPS), and sum-of-the-parts (SOP) models, all discounted at a rate of 30%. With the additional shares associated with the recent raise, our valuation falls below \$1.00. The model now suggests fair-value at \$0.68. As such, we can no longer support a positive rating. In addition, we are concerned that the probability that the company will have to both reverse split the stock and authorize additional shares driving further downside, has risen. For these reasons, we lower our rating from Buy to Neutral and suspend our price target.

**Risks:** Reverse stock split and additional shares authorized. Partnership risks, Commercialization risks, Financial risks, Clinical and regulatory risks, and Legal and intellectual property risk.





**Valuation.** We value ADMP based only on the revenues in our product models for the compounding pharmacy business and a reduced outlook for Symjepi. Our Symjepi estimates are based on royalties from Novartis – Sandoz, of 50% of net sales payable to Adamis. Our price target is derived from an equal-weighted average of free cash flow (FCFF), discounted EPS (EPS), and sum-of-the-parts (SOP) models. For companies that are well established with mature products and revenues, we typically discount at a 10% rate; for companies in the early stages of product commercialization, we typically use a higher rate, 15%, which is now the case for Adamis. The math associated with this model suggests fair-value at \$0.68, so as such, we can no longer support a positive rating. In addition, we are concerned that our share estimates may be folly, and the probability that the company may do a reverse stock split, in our opinion, has risen. For these reasons, we lower our rating from Buy to Neutral and suspend our price target.

### Exhibit 2. Discounted Free Cash Flow Model

Average	\$	0.68
Price Target	\$	0
Year		2020

#### DCF Valuation Using FCF (mln):

units ('000)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(22,672)	(200)	8,008	12,972	23,534	28,949	34,610	40,511	46,647	53,003	59,563	66,303
Tax Rate	0%	5%	10%	12%	18%	20%	24%	24%	24%	28%	30%	34%
EBIT(1-t)	(22,672)	(190)	7,207	11,416	19,298	23,159	26,303	30,789	35,451	38,162	41,694	43,760
CapEx												
Depreciation	2,102	-	-	-	-	-	-	-	-	-	-	-
Change in NWC												
FCF	(20,570)	(190)	7,207	11,416	19,298	23,159	26,303	30,789	35,451	38,162	41,694	43,760
PV of FCF	(26,741)	(190)	5,544	6,755	8,784	8,109	7,084	6,378.69	5,650	4,678	3,932	3,174.25
Discount Rate	30%											
Long Term Growth Rate	1%											
Terminal Cash Flow	152,405											
Terminal Value YE2030	11,055											
NPV	44,213											
NPV-Debt												
Shares out (thousands)	105,551	2030E										
NPV Per Share	\$ 0											

Source: Dawson James

### Exhibit 3. EPS Model

Current Year	2020
Year of EPS	2030
Earnings Multiple	15
Discount Factor	30%
Selected Year EPS	\$ 0.41
NPV	\$ -

Source: Dawson James estimates.

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		2030 EPS					
Earnings Multiple	0.0	5%	10%	15%	20%	25%	30%
	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5	\$1.00	\$1.00	\$1.00	\$0.00	\$0.00	\$0.00	\$ -
10	\$3.00	\$2.00	\$1.00	\$1.00	\$1.00	\$0.00	\$ -
15	\$4.00	\$2.00	\$2.00	\$1.00	\$1.00	\$1.00	\$ -
20	\$5.00	\$3.00	\$2.00	\$1.00	\$1.00	\$1.00	\$ 1.00
25	\$6.00	\$4.00	\$3.00	\$2.00	\$2.00	\$1.00	\$ 1.00
30	\$8.00	\$5.00	\$3.00	\$2.00	\$2.00	\$1.00	\$ 1.00
35	\$9.00	\$6.00	\$4.00	\$2.00	\$2.00	\$2.00	\$ 1.00

Source: Dawson James

### Exhibit 4. Sum-of-the-Parts Model

Adamis Pharmaceuticals	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MMs	Term Val
Symjepi	1%	15%	0	75%	\$97	\$691
NPV						\$0.98
Naloxone	1%	30%	1	75%	\$0	\$0
NPV						\$0.00
APC-1000 HFA Inhaled Oral Steroid (maintenance therapy)	1%	30%	3	50%	\$0	\$0
NPV						\$0.00
APC-4000 Fluticasone - Taper Dry Powder Inhaler (DPI)	1%	30%	3	50%	\$0	\$0
NPV						\$0.00
APC-8000 Tadalafil (Erectile Dysfunction)	1%	30%	3	50%	\$0	\$0
NPV						\$0.00
Compounding business	1%	30%	0	75%	\$128	\$443
NPV						\$0.63
Net Margin						20%
MM Shrs OS (2030E)						106
Total						\$2

Source: Dawson James

**Risk Analysis**

In addition to the typical risks associated with development stage specialty pharmaceutical companies, potential risks specific to Adamis are as follows:

**Partnership risk.** While Adamis has a partnership agreement with Sandoz to market Symjepi, such agreements are subject to disagreements and disputes. Revenue results may not materialize. The company may make agreements with partners for additional products, but there can be no assurances that the company will be able to secure favorable partnerships.

**Commercial risk.** There are no assurances that the company will be able to achieve significant sales, market share, or become profitable.

**Compliance Risk.** The company may reverse the stock to regain listing compliance. The company may also authorize additional shares in anticipation of raising future capital.

**Clinical and regulatory risk.** Lead products need to complete clinical trials. Trials may not produce the results expected from previous research or be sufficient for regulatory approval.

**Financial risk.** The company may need to raise capital in the marketplace, and there can be no assurances that the company will be able to successfully raise capital and or do so, at favorable terms.

**Legal and intellectual property risk.** The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and or that the company may infringe on third parties patents.

**Exhibit 5. Income Statement**

Adamis Pharmaceuticals Corporation: Income Statement (\$000)																					
ADMP- YE December	2018A	1Q19A	2Q19A	3Q19A	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Symjepi Gross revenues (not included in total product sales)*			265	205	4,000	4,470	4,277	4,463	4,835	5,021	18,597	24,333	31,106	38,174	45,546	53,232	61,244	69,591	78,286	87,339	96,762
Naloxone Gross revenues (not included in total product sales)*							0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
APC-1000 HFA Inhaled Oral Steroid (maintenance therapy)							0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
APC-4000 Fluticasone - Taper Dry Powder Inhaler (DPI)							0	0	0	0	-	-	-	-	-	-	-	-	-	-	-
APC-8000 Tadalafil (Erectile Dysfunction)							0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pharmaceutical Compounding business	15,087	4,906	5,500	5,800	7,000	24,000	7,176	7,488	8,112	8,424	31,200	40,560	52,728	65,910	72,501	79,751	87,726	96,499	106,149	116,764	128,440
<b>Total Product Sales *</b>	<b>15,087</b>	<b>4,906</b>	<b>5,765</b>	<b>6,005</b>	<b>11,000</b>	<b>27,676</b>	<b>11,453</b>	<b>11,951</b>	<b>12,947</b>	<b>13,445</b>	<b>49,797</b>	<b>64,893</b>	<b>83,834</b>	<b>104,084</b>	<b>118,047</b>	<b>132,983</b>	<b>148,970</b>	<b>166,090</b>	<b>184,435</b>	<b>204,102</b>	<b>225,202</b>
Royalty Revenue on Symjepi & Naloxone*	-		133	103	2,000	2,235	2,139	2,232	2,418	2,511	9,298	12,167	15,553	19,087	22,773	26,616	30,622	34,796	39,143	43,669	48,381
% Royalty (slides on Commercial levels)	#DIV/0!	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Symjepi / Naloxone Milestones	-								5,000		5,000	5,000	-	-	-	-	-	-	-	-	-
<b>Product Sales &amp; Royalties &amp; Milestones</b>	<b>15,087</b>	<b>4,906</b>	<b>5,633</b>	<b>5,903</b>	<b>9,000</b>	<b>25,441</b>	<b>9,315</b>	<b>9,720</b>	<b>15,530</b>	<b>10,935</b>	<b>45,498</b>	<b>57,727</b>	<b>68,281</b>	<b>84,997</b>	<b>95,274</b>	<b>106,367</b>	<b>118,348</b>	<b>131,294</b>	<b>145,292</b>	<b>160,433</b>	<b>176,821</b>
<b>Expenses</b>																					
Cost of Goods Sold	9,798	3,625	3,666	3,989	2,150	13,430	2,136	2,229	2,415	2,508	9,288	11,357	14,737	18,386	20,403	22,599	24,994	27,604	30,451	33,558	36,948
%COGS	65%	74%	64%	66%	20%	49%	19%	19%	19%	19%	19%	18%	18%	18%	17%	17%	17%	17%	17%	17%	16%
Research and Development	18,804	2,197	2,846	3,319	1,500	9,861	2,608	2,722	2,948	3,062	11,340	13,041	14,997	17,247	19,834	22,809	26,230	30,165	34,690	39,893	45,877
%R&D	125%	45%	49%	55%	14%	36%	23%	23%	23%	23%	23%	20%	18%	17%	17%	18%	18%	18%	19%	20%	20%
General and Administrative	25,948	8,021	7,000	5,300	4,500	24,822	5,766	6,017	6,518	6,769	25,070	25,321	25,574	25,830	26,088	26,349	26,612	26,879	27,147	27,419	27,693
%SG&A	48%	58%	52%	42%	55%	52%	55%	55%	55%	55%	55%	51%	46%	42%	39%	37%	34%	32%	29%	27%	25%
<b>Total expenses</b>	<b>54,550</b>	<b>13,843</b>	<b>13,512</b>	<b>12,608</b>	<b>8,150</b>	<b>48,113</b>	<b>10,511</b>	<b>10,968</b>	<b>11,881</b>	<b>12,338</b>	<b>45,698</b>	<b>49,719</b>	<b>55,309</b>	<b>61,463</b>	<b>66,325</b>	<b>71,757</b>	<b>77,837</b>	<b>84,648</b>	<b>92,289</b>	<b>100,870</b>	<b>110,518</b>
Operating income (Loss)	(39,464)	(8,938)	(7,879)	(6,705)	850	(22,672)	(1,196)	(1,248)	3,648	(1,404)	(200)	8,008	12,972	23,534	28,949	34,610	40,511	46,647	53,003	59,563	66,303
Interest expense	(158)	(24)	(23)	(22)																	
Interest Income	245	74	34	31																	
Gain/Loss on extinguishment of debt																					
Change in fair value of derivative liabilities																					
Change in fair value of conversion feature liability																					
Change in fair value of warrants																					
Change in fair value of warrants liability																					
<b>Total other income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</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>(39,376)</b>	<b>(8,887)</b>	<b>(7,868)</b>	<b>(6,697)</b>	<b>850</b>	<b>(22,672)</b>	<b>(1,196)</b>	<b>(1,248)</b>	<b>3,648</b>	<b>(1,404)</b>	<b>(200)</b>	<b>8,008</b>	<b>12,972</b>	<b>23,534</b>	<b>28,949</b>	<b>34,610</b>	<b>40,511</b>	<b>46,647</b>	<b>53,003</b>	<b>59,563</b>	<b>66,303</b>
Discontinued operations																					
Write down of discontinued operations receivable																					
Loss from discontinued operations																					
Income Tax/Benefit (Provision)	369	-	-	-	-	-	(60)	(62)	182	(70)	(10)	801	1,557	4,236	5,790	8,306	9,723	11,195	14,841	17,869	22,543
<b>Tax Rate</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>10%</b>	<b>12%</b>	<b>18%</b>	<b>20%</b>	<b>24%</b>	<b>24%</b>	<b>24%</b>	<b>28%</b>	<b>30%</b>	<b>34%</b>
<b>GAAP Net Income (loss)</b>	<b>(39,007)</b>	<b>(8,887)</b>	<b>(7,868)</b>	<b>(6,697)</b>	<b>850</b>	<b>(22,672)</b>	<b>(1,136)</b>	<b>(1,186)</b>	<b>3,466</b>	<b>(1,334)</b>	<b>(190)</b>	<b>7,207</b>	<b>11,416</b>	<b>19,298</b>	<b>23,159</b>	<b>26,303</b>	<b>30,789</b>	<b>35,451</b>	<b>38,162</b>	<b>41,694</b>	<b>43,760</b>
Deemed Dividend on Preferred Stock																					
<b>GAAP-EPS</b>	<b>(1.00)</b>	<b>(0.19)</b>	<b>(0.17)</b>	<b>(0.12)</b>	<b>0.02</b>	<b>(0.44)</b>	<b>(0.02)</b>	<b>(0.02)</b>	<b>0.05</b>	<b>(0.02)</b>	<b>(0.00)</b>	<b>0.11</b>	<b>0.17</b>	<b>0.28</b>	<b>0.33</b>	<b>0.38</b>	<b>0.44</b>	<b>0.51</b>	<b>0.54</b>	<b>0.59</b>	<b>0.62</b>
GAAP EPS (dil)	(1.00)	(0.19)	(0.17)	(0.12)	0.01	(0.44)	(0.01)	(0.02)	0.04	(0.02)	(0.00)	0.09	0.14	0.23	0.26	0.29	0.33	0.37	0.38	0.41	0.41
Wgtd Avg Shrs (Bas) - '000s	39,085	47,311	47,539	56,283	56,339	51,868	67,996	68,064	68,132	68,200	68,098	68,370	68,644	68,919	69,195	69,473	69,751	70,030	70,311	70,593	70,875
Wgtd Avg Shrs (Dil) - '000s	39,085	47,475	47,539	56,283	56,846	52,036	77,146	77,917	78,696	79,483	78,311	80,684	83,128	85,647	88,243	90,916	93,671	96,510	99,434	102,447	105,551

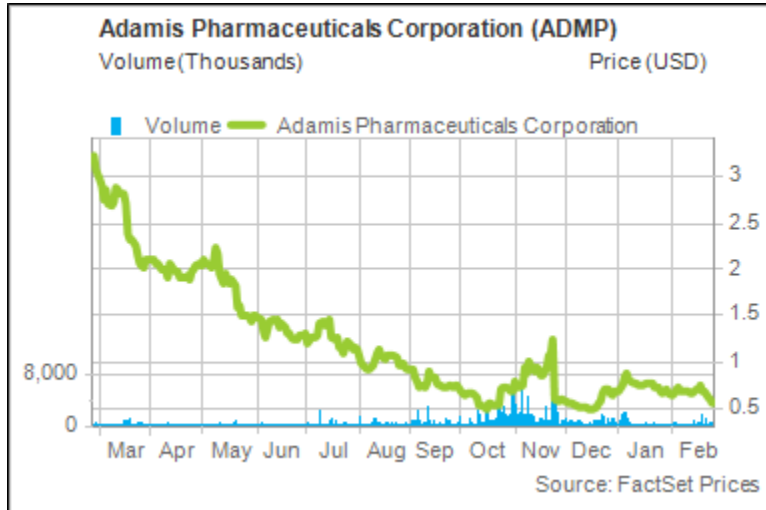
Source: Dawson James estimates.

Companies mentioned in this report:

Novartis (NVS): Not Rated

**Important Disclosures:**

**Price Chart:**



Price target and ratings changes over the past three years:

Initiated – Buy – July 2, 2019 – Price Target \$5.00

Update – Buy – August 13, 2019 – Price Target \$4.00

Update – Buy – August 28, 2019 – Price Target \$4.00

Update – Buy – November 26, 2019 – Price Target lowered from \$4.00 to \$1.00

Rating Change – Neutral – February 27, 2020 – Rating Lowered from Buy to Neutral

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- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 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.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

<b>Ratings Distribution</b>	<b>Company Coverage</b>		<b>Investment Banking</b>	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	85%	3	14%
Market Perform (Neutral)	4	15%	1	25%
Market Underperform (Sell)	0	0%	0	0%
Total	26	100%	4	15%

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