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Adamis Pharmaceuticals (ADMP-NASDAQ)

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Reports the Third Quarter – Burning Precious Cash

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Adamis reported 3Q20 revenues, and like 2Q, the numbers were below our forecast. As we said last quarter, the company needs some time to re-launch its epinephrine like pen product. That transition has just occurred (10.31.20). As we wrote on August 24th, we expected a raise and in fact, the company did raise capital (Sept. 18), \$10M dollars at \$0.62 cents a share; as a result (including the raise), the company closed the period with \$12M on the balance sheet versus a burn rate of \$7M in the period. That leaves the company with about two quarters of cash. The hope has to be that the new partner can re-launch SYMJEPi successfully, offsetting the burn rate and extending the cash runway.

Investment Highlights

Reports 3Q20: Adamis reported revenues of \$4.3M but COGS of \$3.6 so the numbers were down sequentially from the prior quarter. We are told COVID remains the culprit. COGS, G&A, and R&D combined for \$11.1M for a net loss of \$7.5M. As noted the company even with the recent raise ended with just \$12M in cash. We previously stated, and continue to believe the company will need to raise more capital, issue more shares, and potentially reverse the stock.

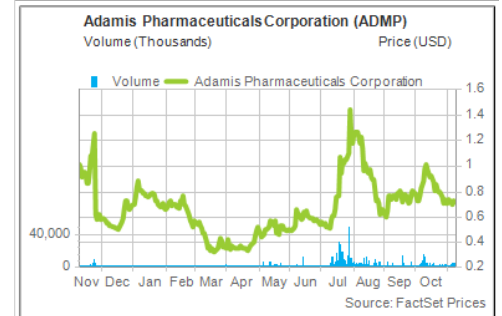
Next Event: ZIMI has a target action date (PDUFA) of November 15, 2020.

Novartis is Out; US WorldMeds is In. US WorldMeds obtained U.S. rights to commercialize and distribute SYMJEPi and ZIMHI, if approved by the FDA, in exchange for an upfront payment and potential regulatory and commercial milestones totaling up to \$26 million. Additionally, after deducting the supply price and certain other deductions, including an allocation for US WorldMeds sales and distribution expenses from net sales of the products, Adamis and US WorldMeds will share equally in the net profits, as defined in the agreement. Adamis is responsible for supplying the products to US WorldMeds at a price based upon cost.

Valuation: Back in August, we lowered Adamis to Neutral as the stock had reached our our target valuation. Our product models project peak Naloxone sales reaching \$166M (2030) and SYMJEPi revenues of \$104M (2030). We have not changed our compounding pharmacy revenues, and we do not yet include any revenues for Tempol. Our valuation models (and target) are derived from an equal-weighted average of free cash flow (FCFF), discounted EPS (EPS), and sum-of-the-parts (SOP) models, all discounted at our highest rate of 30% and rounded to the nearest whole number.

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

Current Price	\$0.69		
Price Target	NA		
Estimates	F2019A	F2020E	F2021E
Expenses (\$000s)	\$ 51,142	\$ 43,786	\$ 43,612
1Q March	\$ 13,843	\$ 11,778	\$ 10,031
2Q June	\$ 13,512	\$ 9,496	\$ 10,467
3Q September	\$ 12,608	\$ 11,140	\$ 11,339
4Q December	\$ 11,179	\$ 11,371	\$ 11,775
	F2019A	F2020E	F2021E
EPS (diluted)	\$ (0.57)	\$ (0.40)	\$ (0.08)
1Q March	\$ (0.19)	\$ (0.12)	\$ (0.03)
2Q June	\$ (0.17)	\$ (0.14)	\$ (0.03)
3Q September	\$ (0.12)	\$ (0.09)	\$ 0.02
4Q December	\$ (0.09)	\$ (0.05)	\$ (0.04)
EBITDA/Share	(\$0.55)	(\$0.36)	(\$0.08)
EV/EBITDA (x)	0.0	0.0	0.0
Stock Data			
52-Week Range	\$0.27	-	\$1.51
Shares Outstanding (mil.)	93.7		
Market Capitalization (mil.)	\$65		
Enterprise Value (mil.)	\$58		
Debt to Capital	4%		
Book Value/Share	\$1.18		
Price/Book	0.6		
Average Three Months Trading Volume (K)	5,392		
Insider Ownership	1.7%		
Institutional Ownership	5.4%		
Short interest (mil.)	3.6%		
Dividend / Yield	\$0.00/0.0%		



Valuation: Our product models have been revised to reflect the company's new partnership. We apply assumptions for FDA product approvals, launch dates, and product attributes to estimate revenues. These estimates feed into our income statement through the year 2030. Our SYMJEPi estimates are based on royalties from US WorldMeds, of 50% of net sales payable to Adamis. For conservatism, we apply risk cuts to our pipeline product sales projections to allow for the development risk in pipeline products. 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% to 30%. For Adamis, we choose to use our highest discount rate of 30% until we see revenues build as we project in our model. Given that we are Neutral rated we do not currently support a price target.

Exhibit 1. Discounted Free Cash Flow Model

Average	\$	1.0
Price Target	\$	0.4
Year		2020

DCF Valuation Using FCF (min):

Units ('000)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(29,298)	(29,667)	(6,545)	792	21,981	57,504	80,813	91,787	103,623	116,414	130,261	145,277
Tax Rate	0%		0%	12%	18%	20%	24%	24%	24%	28%	30%	34%
EBIT(1-t)	(29,289)	(29,667)	(6,545)	697	18,024	46,004	61,418	69,758	78,754	83,818	91,183	95,883
CapEx												
Depreciation	2,945	-	-	-	-	-	-	-	-	-	-	-
Change in NWC												
FCF	(26,345)	(29,667)	(6,545)	697	18,024	46,004	61,418	69,758	78,754	83,818	91,183	95,883
PV of FCF	(34,248)	(29,667)	(5,035)	412	8,204	16,107	16,542	14,452	12,551	10,275	8,598	6,955
Discount Rate	30%											
Long Term Growth Rate	1%											
Terminal Cash Flow	333,936											
Terminal Value YE2030	24,223											
NPV	49,370											
NPV-Debt												
Shares out (thousands)	112,494	2030E										
NPV Per Share	\$	0.4										

Source: Dawson James estimates, company reports

Exhibit 2. EPS Model

Current Year	2020
Year of EPS	2030
Earnings Multiple	15
Discount Factor	30%
Selected Year EPS	\$ 0.85
NPV	\$ 1.0

Source: Dawson James estimates.

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		2030 EPS					
Earnings Multiple	1.0	5%	10%	15%	20%	25%	30%
	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5	\$3.00	\$2.00	\$1.00	\$1.00	\$0.00	\$ -	\$ -
10	\$5.00	\$3.00	\$2.00	\$1.00	\$1.00	\$1.00	\$ 1.00
15	\$8.00	\$5.00	\$3.00	\$2.00	\$2.00	\$1.00	\$ 1.00
20	\$10.00	\$7.00	\$4.00	\$3.00	\$2.00	\$2.00	\$ 1.00
25	\$13.00	\$8.00	\$5.00	\$3.00	\$2.00	\$2.00	\$ 2.00
30	\$16.00	\$10.00	\$6.00	\$4.00	\$3.00	\$3.00	\$ 2.00
35	\$18.00	\$12.00	\$7.00	\$5.00	\$3.00	\$3.00	\$ 2.00

Source: Dawson James estimates

Exhibit 3. Sum-of-the-Parts Model

Adamis Pharmaceuticals	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MMs	Term Val
Symjepi	1%	30%	0	75%	\$105	\$361
NPV						\$0.96
Naloxone	1%	30%	1	75%	\$167	\$574
NPV						\$1.18
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%	\$89	\$308
NPV						\$0.82
Net Margin						40%
MM Shrs OS (2030E)						112
Total						\$2.0

Source: Dawson James estimates.

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 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.

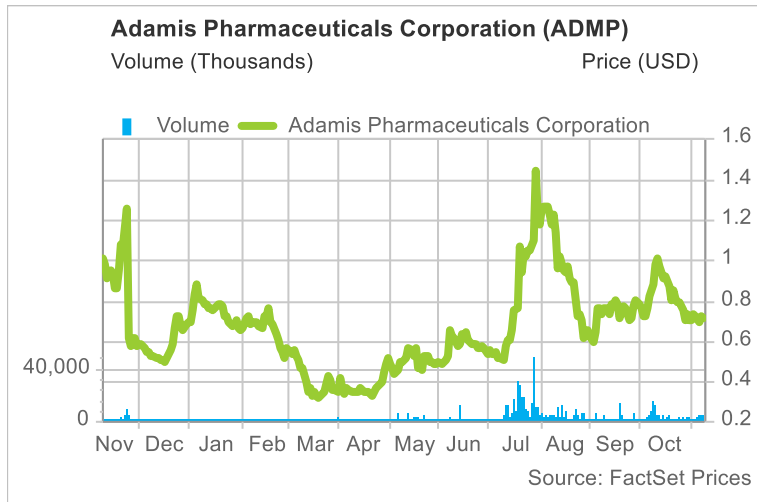
Legal and intellectual property risk. The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and/or that the company may infringe on third parties' patents.

Companies mentioned in this report:

US WorldMeds (private)

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
- Update – Neutral – April 1, 2020 – Price Target NA
- Update – Neutral – May 21, 2020 – Price Target NA
- Rating Change – Buy – June 15, 2020 – Price Target \$1.00
- Rating Change – Neutral – August 24, 2020 – Price Target \$1.00
- Update – Neutral – November 11, 2020 – Price Target NA

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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.

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	81%	4	18%
Market Perform (Neutral)	5	19%	1	20%
Market Underperform (Sell)	0	0%	0	0%
Total	27	100%	5	19%

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