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Fortress Biotech (NASDAQ/FBIO)

April 7, 2021

BUY: FBIO – Cash, Catalysts and Solid Fundamentals; Raising the Price Target from \$22 to \$24

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Fortress announced fourth-quarter results, with full-year 2020 record revenues showing both sequential quarterly growth and strong y-o-y growth. We see the revenue growth as “great,” but for us, the underlying story for Fortress is really about the pipeline, which includes the company’s ownership in Cyprium Therapeutics (CUTX-101 for Menkes disease), Caelum Biosciences (CAEL-101 for Amyloidosis), Checkpoint Therapeutics (Cosibelimab [formerly CK-301], an anti-PD-L1 antibody), Mustang Bio (MB-107 and MB-207 [Lentiviral Gene Therapies for XSCID]), and Journey Therapeutics (IV Tramadol).

Investment Highlights

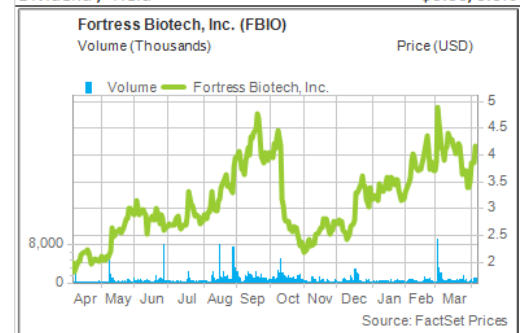
Fortress reported revenues of \$44.5M driven by the Journey Medical dermatology franchise. In the quarter, Journey generated revenues of \$13.7M, vs. \$9.4M in the prior quarter. We view Journey’s revenues more as a “means to an end,” meaning that they contribute greatly to the effort at Fortress, but we see the bigger picture as the pipeline. With that said, we do expect to see Journey acquire several new products and continue to grow the revenues as a fully integrated dermatology franchise. The net-net (Non-GAAP) loss for Fortress was \$28M last year, but even that can be adjusted, and the Fortress non-GAAP loss looked more like \$13M. Fortress closed the year with plenty of cash, \$235M.

Model revisions: We have increased our growth assumptions for Journey’s dermatology franchise. The net result is our price target adjusts to \$24 from \$22.

Valuation: Please see our discussion of valuation on the following pages. Our price target change is driven by a change (increase) in the revenues for Journey Medical. This increase follows our last price target increase, which was driven by our change to the probability of success of Tramadol (restored back to 70%) and the timeline restored back to 2021 (from 2023). Recall that valuation is a complex discussion for Fortress as it represents a “platform therapeutics company” that has significant ownership stakes in companies such as Mustang Bio.

Risks to our thesis include the following: (1) commercial; (2) regulatory; (3) clinical; (4) financial; and (5) intellectual property. We review these and other risks in the risk section of this report.

Current Price	\$4.15		
Price Target	\$24.00		
Estimates	F2019A	F2020A	F2021E
Expenses (\$000s)	\$ 147,448	\$ 142,146	\$ 152,390
1Q March	\$ 39,085	\$ 34,446	\$ 36,298
2Q June	\$ 34,540	\$ 34,853	\$ 38,035
3Q September	\$ 32,312	\$ 32,518	\$ 37,536
4Q December	\$ 41,511	\$ 40,329	\$ 40,521
	F2019A	F2020A	F2021E
EPS (diluted)	\$ (0.73)	\$ (0.76)	\$ (0.45)
1Q March	\$ 0.09	\$ (0.19)	\$ (0.15)
2Q June	\$ (0.24)	\$ (0.19)	\$ (0.00)
3Q September	\$ (0.23)	\$ (0.20)	\$ (0.14)
4Q December	\$ (0.35)	\$ (0.16)	\$ (0.15)
EBITDA/Share	(\$1.43)	(\$0.15)	(\$1.21)
EV/EBITDA (x)	0.0	0.0	-1.2
Stock Data			
52-Week Range	\$1.04	-	\$4.78
Shares Outstanding (mil.)	93.7		
Market Capitalization (mil.)	\$389		
Enterprise Value (mil.)	\$314		
Debt to Capital	19%		
Book Value/Share	\$1.03		
Price/Book	7.3		
Average Three Months Trading Volume (K)	506		
Insider Ownership	25.1%		
Institutional Ownership	30.2%		
Short interest (mil.)	1.3%		
Dividend / Yield	\$0.00/0.0%		



Model Assumptions

1. We have increased our revenue assumptions for Journey's dermatology franchise.
2. We have adjusted our royalty and milestone rates for CUTX-101.
3. We recently adjusted our probability of success for Tramadol to 70% with commercialization possible in 2021.
4. We model five late-stage therapeutic products (below) and apply to each one its own probability of success factor.
5. Each model assumes launch timing, market share, and pricing.
6. Models are based on available statistics for prevalence and incidence of the target therapeutic indication.
7. Price is based on our understanding of the market and the duration of therapy annually.
8. Our model assumes certain milestones are achieved, for example, a voucher associated with Menkes disease program is monetized.

Exhibit 1. Product Models

Avenue Therapeutics	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E									
IV Tramadol																				
IV pain relievers market	10,020,010	10,030,030	10,040,060	10,050,100	10,060,150	10,070,210	10,080,281	10,090,361	10,100,451	10,110,552	10,120,662									
Cost of Therapy	\$200.00	\$200.00	\$200.00	\$202.00	\$204.02	\$206.06	\$208.12	\$210.20	\$212.30	\$214.43	\$216.57									
Price Change		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%									
Market share		1%	3%	6%	10%	20%	30%	35%	40%	45%	45%									
Patients Treated with a Course	100,300	301,202	603,006	1,006,015	2,014,042	3,024,084	3,531,626	4,040,180	4,549,748	4,554,298										
Revenues (000)	20,060	60,240	121,807	205,247	415,014	629,375	742,355	857,747	975,589	986,330										
Probability of Success (Phase 3)		70%	70%	70%	70%	70%	70%	70%	70%	70%	70%									
Adjusted Revenues (000)	\$	14,042	\$	42,168	\$	85,265	\$	143,673	\$	290,510	\$	440,562	\$	519,648	\$	600,423	\$	682,912	\$	690,431
Mustang Bio	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E									
MB-107 "Bubble Boy"																				
Current "Reservoir" patients (U.S. and ex-U.S. markets)			1,050	1,125	900	600	500	575	475	375	275									
New Cases a year (U.S. and ex-U.S. markets)			75	75	75	75	75	75	75	75	75									
Market Share - Prevalance			10%	20%	35%	55%	60%	65%	70%	75%	80%									
Market Share New Cases			10%	20%	35%	55%	75%	85%	90%	90%	90%									
Total patients treated			113	240	341	371	356	438	400	349	288									
Cost of Therapy (one-time)			\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000									
Revenues (M)			168,750	360,000	511,875	556,875	534,375	656,250	600,000	523,125	431,250									
Probability of Success (Phase 2/3)			30%	30%	30%	30%	30%	30%	30%	30%	30%									
Adjusted Revenues (M)			\$ 50,625	\$ 108,000	\$ 153,563	\$ 167,063	\$ 160,313	\$ 196,875	\$ 180,000	\$ 156,938	\$ 129,375									
Royalty assumed			4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%									
Royalty revenue (000)	\$	2,278	\$	4,860	\$	6,910	\$	7,518	\$	8,859	\$	8,100	\$	7,062	\$	5,822				
CheckPoint PD-L1 in NSCLC	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E									
Cosibelimab (NSCLC)																				
New cases of lung cancer/year	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150									
Patients - PDL1 Option	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%									
Target patient population	171,113	171,113	171,113	171,113	171,113	171,113	171,113	171,113	171,113	171,113	171,113									
Market share			1%	2%	4%	6%	8%	10%	12%	14%	14%									
Patients treated				1,711	3,422	6,845	10,267	13,689	17,111	20,534	23,956									
Costs				\$ 35,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000									
Revenues (000)				\$ 59,889	\$ 188,224	\$ 376,448	\$ 564,671	\$ 752,895	\$ 941,119	\$ 1,129,343	\$ 1,317,566									
Probability of Success				50%	50%	50%	50%	50%	50%	50%	50%									
Adjusted Revenues (M)				\$ 29,945	\$ 94,112	\$ 188,224	\$ 282,336	\$ 376,448	\$ 470,559	\$ 564,671	\$ 658,783									
Royalty assumed				4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%									
Royalty revenue (000)	\$	-	\$	-	\$	1,348	\$	4,235	\$	8,470	\$	12,705	\$	16,940	\$	21,175				
CheckPoint TKI in NSCLC	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E									
CK-101 (EGFR mutation + LC)																				
New cases of lung cancer/year	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150	228,150									
Total Lung Cancer Market size (M)	19,478,150	19,706,300	19,934,450	20,162,600	20,390,750	20,618,900	20,847,050	21,075,200	21,303,350	21,531,500	21,759,650									
Total NSCLC lung cancer	16,556,428	16,750,355	16,944,283	17,138,210	17,332,138	17,526,065	17,719,993	17,913,920	18,107,848	18,301,775	18,495,703									
% of patients with EGFR/NSCLC patients	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%	26%									
Patients with EGFR/NSCLC patients				59,319	59,319	59,319	59,319	59,319	59,319	59,319	59,319									
Market share				5%	10%	12%	14%	15%	16%	17%	18%									
Treated patients (000)				2,966	5,932	7,118	8,305	8,998	9,491	10,084	10,677									
Cost (competition=\$15,240/month)				\$ 182,880	\$ 182,880	\$ 182,880	\$ 182,880	\$ 182,880	\$ 182,880	\$ 182,880	\$ 182,880									
Revenues (000)				\$ 542,413	\$ 1,084,826	\$ 1,301,791	\$ 1,518,756	\$ 1,627,239	\$ 1,735,721	\$ 1,844,204	\$ 1,952,687									
Probability of Success				30%	30%	30%	30%	30%	30%	30%	30%									
Adjusted Revenues (000)				\$ 162,724	\$ 325,448	\$ 390,537	\$ 455,627	\$ 488,172	\$ 520,716	\$ 553,261	\$ 585,806									
Royalty assumed				4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%									
Royalty revenue (000)	\$	7,323	\$	14,645	\$	17,574	\$	20,503	\$	21,968	\$	23,432	\$	24,897	\$	26,361				
Cyprum Therapeutics (private)	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E									
CUTX-101 (Menkes Disease)																				
Prevalance (USA)	2,720	2,720	2,720	2,720	2,720	2,720	2,720	2,720	2,720	2,720	2,720									
Incidence annually (USA)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000									
Target patient population	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500									
Market share	0%	0%	10%	30%	50%	70%	80%	80%	80%	80%	80%									
Patients treated				250	750	1,250	1,750	2,000	2,000	2,000	2,000									
Price				\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000									
Revenues (000)				75,000	225,000	375,000	525,000	600,000	600,000	600,000	600,000									
Probability of Success				30%	30%	30%	30%	30%	30%	30%	30%									
Adjusted Revenues (M)				\$ 22,500	\$ 67,500	\$ 112,500	\$ 157,500	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000									
Royalty assumed				25.0%	6.0%	17.0%	25.0%	25.0%	25.0%	25.0%	25.0%									
Royalty revenue (000)	\$	-	\$	1,350	\$	11,475	\$	28,125	\$	39,375	\$	45,000	\$	45,000	\$	45,000				
Milestone Revenues				\$ 11,000	\$ 9,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 35,000										

Source: Dawson James estimates, company reports

Valuation: How to value Fortress? As a reminder, Fortress, as the controlling entity, reports consolidated statements. Our valuation expenses are based on GAAP numbers, but we recognize this is conservative. If we substituted Non-GAAP projections, it would actually result in a higher valuation. There are multiple ways to value a "platform therapeutics company" such as Fortress that has a majority ownership in multiple public companies with the rights to royalties and milestones (such as monetization of a priority voucher), plus the company has its own internal products that are generating revenues and internal private companies that have their own therapeutic pipeline candidates. We choose to model the key products as they exist (inside and outside the company) and project them based on the ownership percentage to the Fortress income statement. We recognize that this is a "model." It is a method to forecast future value, i.e., reporting the revenues of outside companies based on the percentage ownership (not as a 100% consolidated entity), but we do show the consolidated expenses as they are currently reported by Fortress. We view our method as doubly conservative; that is, we cut the revenues but not the expenses. One might argue we need to assess each outside company, determine net income, and apply valuation metrics, based on the projected value of the external company. We leave that for "others" to do, as our purpose is to determine: is their upside to Fortress based on the value of the holding in the external companies, the product royalties, the annual stock dividend, and the internal companies and P&L metrics of Fortress itself? We conclude yes. In our model, we do separate and show our projected revenues, royalties, and milestones. We model external and internal products. We then assume R&D, SG&A based on the current consolidated numbers. We project the share count as well as revenues, expenses, and, ultimately, net income out to 2030. For each individual product, we make certain assumptions about the timing and probability of success and apply these assumptions to our model. We apply a probability of success in our therapeutic models. This ranges from as low as 30% to as high as 70% based on what we feel is the therapeutic risk that the product will advance. In addition to the success factor, we apply a 15% discount rate (r) in our Free Cash Flow to the Firm (FCFF), Discounted EPS (dEPS), and Sum of the Parts (SOP) models. We then average the result and round to the nearest whole number to derive our \$24.00 12-month price target.

Exhibit 2. Free Cash Flow Model (\$)

Average	24
Price Target	33
Year	2021

DCF Valuation Using FCF (mln):												
units ('000)	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(101,660)	(130,480)	(92,526)	(41,419)	151,005	320,943	478,261	605,801	674,727	706,141	771,409	811,634
Tax Rate	0%	0%	0%	0%	0%	10%	15%	18%	20%	21%	21%	21%
EBIT (1-t)	(101,660)	(130,480)	(92,526)	(41,419)	151,005	288,849	406,522	496,757	539,781	557,851	609,413	641,191
CapEx												
Depreciation												
Change in NWC												
FCF	(101,660)	(130,480)	(92,526)	(41,419)	151,005	288,849	406,522	496,757	539,781	557,851	609,413	641,191
PV of FCF	(134,445)	(150,052)	(92,526)	(36,017)	114,181	189,923	232,430	246,976	233,362	209,717	199,218	182,266
Discount Rate								15%				
Long Term Growth Rate								1%				
Terminal Cash Flow											4,625,734	
Terminal Value YE2030											1,314,922	
NPV											2,644,402	
NPV-Debt											9,396	
Shares out ('000)											79,158	2030E
NPV Per Share											33	

Source: Dawson James estimates, company reports

Exhibit 3. Discounted-EPS Model

Current Year	2021
Year of EPS	2030
Earnings Multiple	10
Discount Factor	15%
Selected Year EPS	\$ 8.12
NPV	23

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		5%	10%	15%	20%	25%	30%
Earnings Multiple	1	5.24	3.44	2.31	1.57	1.09	0.77
	5	26.18	17.22	11.55	7.87	5.45	3.83
	10	52.36	34.45	23.09	15.74	10.90	7.66
	15	78.54	51.67	34.64	23.61	16.35	11.49
	20	104.72	68.90	46.18	31.49	21.81	15.32
	25	130.91	86.12	57.73	39.36	27.26	19.15
	30	157.09	103.35	69.27	47.23	32.71	22.98
	35	183.27	120.57	80.82	55.10	38.16	26.81

Source: Dawson James estimates

Exhibit 4. Sum-of-the-Parts Model

	LT Gr	Discount Rate	Yrs to Peak	% Success	Peak Sales (MM's)	Term Val
Fortress Biotech						
Avenue Tramadol IV (Pain)	1%	30%	4	70%	\$986	\$3,401
NPV						\$3.2
Mustang MB-107 (bubble Boy)	1%	15%	3	70%	\$431	\$3,080
NPV						\$5.4
Cyprium CUTX-101 (Menke's Disease)	1%	30%	4	70%	\$600	\$2,069
NPV						\$2
CheckPoint Cosibelimab (PD-L1)	1%	30%	4	70%	\$1,318	\$4,543
NPV						\$4
CheckPoint CK-101 (TRK)	1%	30%	3	70%	\$1,953	\$6,733
NPV						\$8.1
Net Margin (Products)						30%
MM Shrs OS (2030E)						79
Product Total NPV						\$15
Product Royalties NPV	1%	15%	4	70%	\$155	\$1,106
NPV						\$1.7
NPV - Royalties & Products						\$16.4
Milestones	1%	10%	2	70%	\$100	\$1,111
NPV						\$2.4
NPV - Royalties & Products & Milestones						\$18.8

Source: Dawson James estimates

Risk Analysis

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

Financial risk. The company may need to raise capital in the marketplace in order to successfully push its products into the next phase, and there can be no assurances that the company will be able to successfully raise capital and or do so on favorable terms.

Clinical and regulatory risk. Lead products must start and complete clinical trials. Trials may not produce results sufficient for regulatory approval.

Partnership risk. Fortress Biotech may seek partnerships for clinical development support and commercialization. We have no specific knowledge of any discussions with possible partners today, and there can be no assurances that the company will be able to secure a favorable partnership.

Commercial risk. There are no assurances that the company will be able to secure favorable pricing, commercially launch products, and achieve significant market share to become profitable.

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, working with Fortress and/or part of valuation discussion:

Alexion (ALXN/NASDAQ)-Not covered.

InvaGen Pharmaceuticals – (Private).

St. Jude Children’s Research Hospital (Private).

Mustang Bio (MBIO/NASDAQ) – Not covered.

Checkpoint Therapeutics (CKPT/NASDAQ) – Not covered.

Avenue Therapeutics (ATXI/ NASDAQ) – Not covered.

Caelum Biosciences (Private).

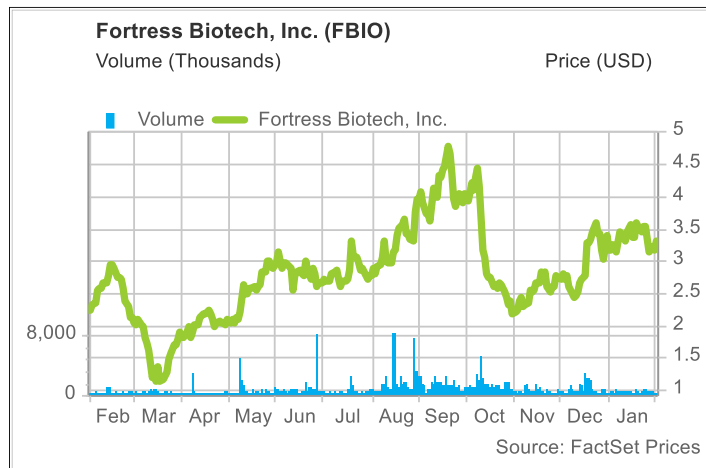
Journey Medical Corporation (internal Fortress company).

Cyprium Therapeutics (Private).

Important Disclosures:

Price Chart:

Price target and rating changes over the past three years:



- Initiated – Buy August 26, 2019, Price Target \$19.00
- Update – Buy September 17, 2019, Price Target \$19.00
- Update – Buy November 4, 2019, Price Target \$19.00
- Update – Buy December 11, 2019, Price Target \$19.00
- Update – Buy December 23, 2019, Price Target \$19.00
- Update – Buy January 15, 2020, Price Target \$19.00
- Update – Buy February 14, 2020, Price Target \$19.00
- Update – Buy February 20, 2020, Price Target \$19.00
- Update – Buy March 30, 2020, Price Target \$19.00
- Update – Buy May 14, 2020, Price Target \$19.00
- Update – Buy July 31, 2020, Price Target \$19.00
- Update – Buy September 8, 2020, Price Target \$19.00
- Price Target Change – Buy October 12, 2020, Price Target \$15.00
- Update – Buy October 20, 2020, Price Target \$15.00
- Price Target Change – Buy November 10, 2020, Price Target \$16.00
- Update – Buy December 14, 2020, Price Target \$16.00
- Update – Buy February 2, 2021, Price Target \$16.00
- Price Target Change – Buy February 17, 2021, Price Target \$21.00
- Price Target Change – Buy February 24, 2021, Price Target \$22.00
- Price Target Change – Buy April 7, 2021, Price Target \$24.00

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Information about valuation methods and risks can be found in the "VALUATION" and "RISK ANALYSIS" sections of this report.

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Rating Definitions:

- 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.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	20	69%	6	30%
Market Perform (Neutral)	9	31%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	29	100%	6	21%

Analyst Certification:

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