

## Sorrento Therapeutics (Nasdaq: SRNE)

April 21, 2021

### BUY: COVI-MSC Establishes Safety in ARDS

Sorrento announced the completion of enrollment in its Phase 1B study of human allogeneic adipose-derived mesenchymal stem cells (COVI-MSC) infusions to treat COVID-19 induced acute respiratory failure (ARD) or acute respiratory distress syndrome (ARDS). The study met its primary objective: to demonstrate the safety of intravenous infusion of allogeneic adipose MSC cells in patients with COVID-19-induced ARD or ARDS.

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**Stem Cells in COVID** - This adipose-derived MSC study (MSC-COV-101) is a single arm, non-randomized Phase 1b study of the safety and preliminary efficacy of COVI-MSCs administered every other day for up to three infusions for a total of 1 x 106 cells/kg, with patients being followed for 28 days following the final infusion. A total of 10 patients (8 males/2 females; age range 24-65 years; 8 Caucasian/2 Asian; 7 Hispanic/Latino/3 non-Hispanic/Latino; height 64 to 70 inches; weight 66 to 130 kg) were enrolled and all were discharged from the hospital to home within three days of their last infusions. At baseline, all patients required oxygen supplementation and had PaO2/FiO2 ratios ranging from 135 to 256 (normal > 400). All patients had various medical co-morbidities in addition to obesity. The 10<sup>th</sup> patient had been under treatment for nearly 2 weeks without improvement and was discharged after the 2nd COVI-MSC infusion with oxygen saturations in the high 90s on room air. On follow-up, days later, the patient was still doing well.

**What's Next?** Sorrento will be working with the FDA once the full dataset is available to plan a placebo-controlled pivotal study to support an emergency use authorization (EUA) submission. The study is expected to be conducted across multiple sites in the United States and Brazil.

**Valuation.** We have not yet factored in the ACEA acquisition to our model. We assume Sorrento develops COVI-SHIELD (and non-opioid Pain Medication, RTX). We apply a probability of success of just 50%, but given the size of the indication, the valuation potential for COVID alone is significant. For Sorrento, we additionally apply a 30% discount rate. Our valuation conclusion is an equally weighted average of our FCFF, EPS, and sum-of-the-parts analysis rounded to the nearest whole number. We use an estimated fully diluted end-year share count (we assume a capital raise). The conclusion of this method is a \$19.00 price target.

**Risks to our thesis** include the following: (1) commercial; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; and (7) intellectual property. We review these and other risks in the risk section of this report.

Current Price				\$7.42
Price Target				\$19.00
<b>Estimates</b>	<b>F2020A</b>	<b>F2021E</b>	<b>F2022E</b>	
<b>Expenses (\$000s)</b>	\$ 284,504	\$ 1,122,550	\$ 826,961	
1Q March	\$ 50,884	\$ 258,187	\$ 190,201	
2Q June	\$ 56,735	\$ 269,412	\$ 198,471	
3Q September	\$ 93,823	\$ 291,863	\$ 215,010	
4Q December	\$ 83,062	\$ 303,089	\$ 223,279	
	<b>F2020A</b>	<b>F2021E</b>	<b>F2022E</b>	
<b>EPS (diluted)</b>	\$ (1.30)	\$ 6.02	\$ 3.54	
1Q March	\$ (0.36)	\$ 1.38	\$ 0.81	
2Q June	\$ (0.36)	\$ 1.44	\$ 0.85	
3Q September	\$ (0.35)	\$ 1.56	\$ 0.92	
4Q December	\$ (0.24)	\$ 1.62	\$ 0.96	
<b>EBITDA/Share</b>	(\$1.35)	\$7.52	\$4.72	
<b>EV/EBITDA (x)</b>	-6.8	1.1	1.8	
<b>Stock Data</b>				
52-Week Range	\$2.18	-	\$19.39	
Shares Outstanding (mil.)				285.7
Market Capitalization (mil.)				\$2,120
Enterprise Value (mil.)				\$2,098
Debt to Capital				0%
Book Value/Share				\$2.41
Price/Book				11.4
Average Three Months Trading Volume (K)				22,864
Insider Ownership				8.3%
Institutional Ownership				28.2%
Short interest (mil.)				19.6%
Dividend / Yield				\$0.00/0.0%



**Exhibit 1. Income Statement.**

Sorrento Income Statement (\$ '000)															
SRNE	1Q20A	2Q20A	3Q20A	4Q20A	2020A	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
COVID19 USA *						1,500,000	1,000,000	800,000	600,000	400,000	200,000	200,000	200,000	200,000	200,000
COVID 19 ROW *						1,500,000	1,000,000	800,000	600,000	400,000	200,000	200,000	200,000	200,000	200,000
Non - Opioid Pain Relief U.S.						-	-	51,515	106,142	164,021	211,218	217,596	224,168	307,917	396,520
Non - Opioid Pain Relief ROW						-	-	128,788	265,354	410,052	528,044	543,991	560,419	769,792	991,300
Service Revenues	2,473	3,213	3,879	3,793	13,358	13,492	13,626	13,763	13,900	14,039	14,180	14,322	14,465	14,609	14,756
Revenues	5,248	5,794	7,874	7,712	26,628	3,000,000	2,000,000	1,780,303	1,571,496	1,374,072	1,139,261	1,161,587	1,184,587	1,477,709	1,787,820
Total Revenues (Product Sales, Service and Therapeutics)	7,721	9,007	11,753	11,505	39,986	3,013,492	2,013,626	1,794,065	1,585,396	1,388,112	1,153,441	1,175,909	1,199,052	1,492,318	1,802,575
<b>Expenses</b>															
COGS	2,439	2,249	2,671	2,581	9,940	904,047	604,088	538,220	475,619	416,433	346,032	352,773	359,716	447,695	540,773
% COGS	31.6%	32%	32%	32%	25%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
R&D	21,154	29,031	66,887	37,260	154,332	100,000	102,000	104,040	106,121	108,243	110,408	112,616	114,869	117,166	119,509
Intangible	992	992	1,034	1,035	4,053										
SG&A (net)	26,299	24,463	24,265	41,152	116,179	118,503	120,873	123,290	125,756	128,271	130,836	133,453	136,122	138,845	141,622
Total costs & expenses	50,884	56,735	93,823	83,062	284,504	1,122,550	826,961	765,550	707,495	652,948	587,277	598,842	610,706	703,706	801,903
Operating Income (Loss) EBIT	(43,163)	(47,728)	(83,104)	(70,523)	(244,518)	1,890,942	1,186,666	1,028,516	877,901	735,164	566,164	577,067	588,346	788,612	1,000,672
Oper Margin															
(Loss) or Gain on Securities	(59)	2	0	50	(7)										
Loss on Partial Debt	(23,645)	(28,294)	(1)	51,941	1										
Gain (loss) on derivate liabilities	4,920	1,980	0	(6,901)	(1)										
Loss gain on Fx	(147)	124	(2,563)	2,586	(1)										
Interest Expense	(6,825)	(8,297)	(0)	15,102	(20)										
Interest Income	19	2													
Other Income expenses - Financial Expenses (net)	(25,737)	(34,483)	50	8,231	(51,939)										
Pre-tax income	(68,900)	(82,213)	(86,398)	(73,069)	(310,580)	1,890,942	1,186,666	1,028,516	877,901	735,164	566,164	577,067	588,346	788,612	1,000,672
Taxes	(276)	(6,618)	(421)	(543)	(7,858)	378,188	296,666	287,984	263,370	242,604	186,834	190,432	194,154	260,242	330,222
Tax Rate	0%	0%	0%	0%	3%	20%	25%	28%	30%	33%	33%	33%	33%	33%	33%
Net Income (loss)	(69,180)	(84,993)	(87,109)	(73,128)	(314,410)	1,512,753	889,999	740,531	614,530	492,560	379,330	386,635	394,192	528,370	670,450
Net Loss attributable to noncontrolling interests	(3,985)	(7,253)	(3,086)	(1,625)	(15,949.00)	(5,022.88)	(5,226.83)	(5,439.06)	(5,659.91)	(5,889.73)	(6,128.87)	(6,377.73)	(6,636.69)	(6,906.17)	(7,187)
Net Gain / Loss to Sorrento	(65,195)	(77,740)	(84,023)	(71,503)	(298,461)	1,169,843	690,526	575,648	478,848	385,161	298,213	304,086	310,164	413,751	663,263
Basic EPS	(0.36)	(0.36)	(0.35)	(0.24)	(1.30)	6.02	3.54	2.94	2.44	1.96	1.51	1.54	1.57	2.10	2.66
Basic Wght Average Shares Outstanding (thousands)	182,609	216,956	251,211	251,462	229,823	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462
Fully Diluted Wgtd Avg Shrs outstanding (Thousands)	182,609	216,956	257,670	257,928	229,823	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462

Source: Dawson James estimates, company reports

Companies mentioned in this report:

**Important Disclosures:**

**Price Chart:**



**Price target and ratings changes over the past three years:**

- Initiated – Buy – May 26, 2020 – Price Target \$24.00
- Update – Buy – June 2, 2020 – Price Target \$24.00
- Update – Buy – June 5, 2020 – Price Target \$24.00
- Update – Buy – June 10, 2020 – Price Target \$24.00
- Update – Buy – July 2, 2020 – Price Target \$24.00
- Update – Buy – July 20, 2020 – Price Target \$24.00
- Update – Buy – July 29, 2020 – Price Target \$24.00
- Update – Buy – August 26, 2020 – Price Target \$21.00
- Update – Buy – August 28, 2020 – Price Target \$21.00
- Update – Buy – September 17, 2020 – Price Target \$21.00
- Update – Buy – September 24, 2020 – Price Target \$21.00
- Update – Buy – September 29, 2020 – Price Target \$21.00
- Update – Buy – October 5, 2020 – Price Target \$21.00
- Update – Buy – November 9, 2020 – Price Target \$21.00
- Update – Buy – December 10, 2020 – Price Target \$21.00
- Update – Buy – December 23, 2020 – Price Target \$21.00
- Update – Buy – April 6, 2021 – Price Target \$19.00
- Update – Buy – April 21, 2021 – Price Target \$19.00

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- 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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As of: 19-Apr-21

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	20	67%	5	25%
Market Perform (Neutral)	10	33%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>30</b>	<b>100%</b>	<b>5</b>	<b>17%</b>

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