

Member FINRA/SIPC

Toll-Free: 561-391-5555 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

Sorrento Therapeutics (Nasdaq: SRNE)

April 28, 2021

BUY: Sti-3031 (Anti-Pd-L1) for Urothelial Carcinoma

Two independent anti-PD-L1 mAbs are now in Phase 2 and Phase 3 clinical studies. A PD-L1 mAb (STI-3031/IMC-001) was licensed to ImmuneOncia Therapeutics, Inc., a JV between Sorrento and Seoul-based Yuhan Corporation. IMC-001 has completed a Phase 1b study in patients with metastatic or locally-advanced solid tumors and is nearing completion of a Phase 2, open-label, "Neo-Chance" study in patients with resectable gastric cancer, esophageal cancer and liver cancer. ImmuneOncia has also started to enroll patients in a Phase 2 study in relapsed or refractory extranodal NK/T cell lymphoma, nasal type. Sorrento has filed an IND in the U.S. and received clearance from the FDA to proceed with a Phase 2a study for STI-3031 for advanced urothelial carcinoma.

Sorrento & Partners: Clinical progress is now advancing Phase 1b through Phase 3 clinical trials for a number of fully human monoclonal antibodies for the treatment of various cancers (and COVID, too). We also note a second antibody, Socazolimab, is licensed to Lee's Pharmaceutical Holdings Limited in the Greater China territory and has been cleared to begin a multicenter Phase 3 trial as a potential first-line treatment for patients with extensive-stage small-cell lung cancer. Professor Shun Lu (Shanghai Chest Hospital) is the Principal Investigator.

Deep Pipeline: The advancement into multiple stages of clinical development supports the value of Sorrento's discovery pipeline (G-MAB™) library. This G-MAB library is based on the use of RNA transcription for amplification of the antibody variable domains from over 600 donors. These donors were from both sexes and of multiple ethnicities, leading to a broad diversity of antibodies. In-depth analysis of deep sequencing DNA data showed that the G-MAB library contains more than 20 quadrillion (10¹⁶) distinct antibody sequences.

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.

Jason H. Kolbert
 Head of Healthcare Research
 646-465-6891
 jkolbert@dawsonjames.com

Current Price				\$8.81
Price Target				\$19.00
Estimates	F2020A	F2021E	F2022E	
Expenses (\$000s)	\$ 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	
	F2020A	F2021E	F2022E	
EPS (diluted)	\$ (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	
EBITDA/Share	(\$1.35)	\$7.52	\$4.72	
EV/EBITDA (x)	-8.0	1.3	2.1	
Stock Data				
52-Week Range	\$2.18	-	\$19.39	
Shares Outstanding (mil.)				285.7
Market Capitalization (mil.)				\$2,517
Enterprise Value (mil.)				\$2,495
Debt to Capital				0%
Book Value/Share				\$2.41
Price/Book				11.4
Average Three Months Trading Volume (K)				110,292
Insider Ownership				8.3%
Institutional Ownership				28.2%
Short interest (mil.)				20.8%
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
Expenses															
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

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
- Update – Buy – April 28, 2021 – Price Target \$19.00

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has NOT engaged in investment banking relationships with SRNE in the prior twelve months, as a manager or co-manager of a public offering and has NOT received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has NOT received any other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of March 31, 2021, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts, or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation

that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

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

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

Ratings 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.

As of: 27-Apr-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	68%	5	24%
Market Perform (Neutral)	10	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	31	100%	5	16%

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.