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Sorrento Therapeutics (Nasdaq: SRNE)

June 7, 2021

BUY: COVI-STIX – Approved Point of Care Rapid Test, ASCO & ACEA, too

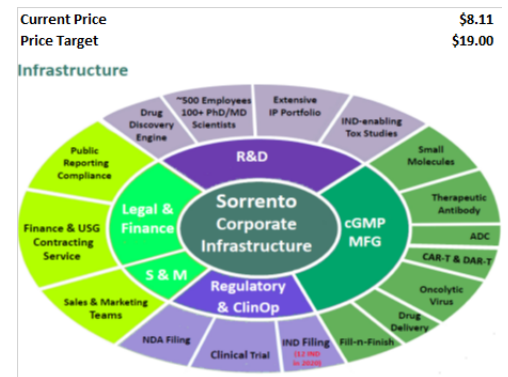
Sorrento announced that the Mexican Comisión Federal para la Protección contra Riesgos Sanitarios (COFEPRIS), the health regulatory authority for Mexico, has listed COVI-STIX on its official government website list of rapid antigen tests approved for emergency use in Mexico. Sorrento has initiated importation and commercial roll-out activities for Mexico and expects the product to be commercially available in-market within weeks. This approval is expected to form the foundation for similar clearances in other Latin American countries, including Brazil, in which Sorrento is currently conducting multiple therapeutic clinical trials.

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.

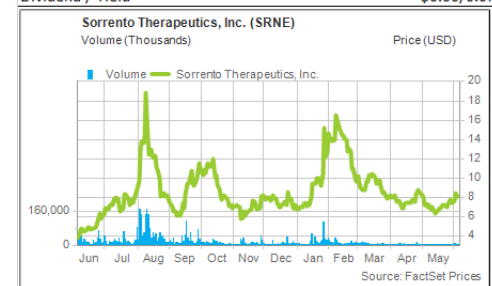
ASCO News – A Better Breast Cancer ADC-HER2 Positive. Sorrento announced that Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd., a license and development partner, will present posters at this year's American Society of Clinical Oncology (ASCO) meeting to be held June 5-6, 2021, releasing Phase 1 data for its HER2-ADC, A166. To generate this site-specific third-generation antibody drug conjugate (ADC), Kelun partnered with Levena Biopharma, a wholly owned subsidiary of Sorrento, which provided the patent-protected technologies for the generation and production of A166, including (1) a proprietary small molecule toxin, Duostatin-5, a tubulin inhibitor, (2) K-Lock, a site-specific conjugation technology and (3) an enzymatically cleavable linker. Compared to its commercial competitors, A166 demonstrated a better safety profile in the initial study and potentially better efficacy, as shown in the overall response rate (ORR) of 71.4% (A166) at 6.0 mg/kg vs DS-8201, which has an ORR of 60.9% (DS-8201) at 5.4 mg/kg.

Sorrento completes acquisition of ACEA Therapeutics – As a reminder, we review the question “What Does Sorrento Get?” The acquisition brings to Sorrento Abivertinib, AC0058, preclinical stage candidate AC0939, and ACEA's extensive proprietary library of small molecules (over 1,000,000 compounds), which potentially have applications for numerous human disease indications, including non-small cell lung cancer (NSCLC), B cell lymphomas, systemic lupus, rheumatoid arthritis, multiple sclerosis and viral infections.

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Stock Data			
52-Week Range	\$4.18	-	\$19.39
Shares Outstanding (mil.)	287.4		
Market Capitalization (mil.)	\$2,331		
Enterprise Value (mil.)	\$2,309		
Debt to Capital	0%		
Book Value/Share	\$2.41		
Price/Book	11.4		
Average Three Months Trading Volume (K)	19,781		
Insider Ownership	8.1%		
Institutional Ownership	27.0%		
Short interest (mil.)	18.6%		
Dividend / Yield	\$0.00/0.0%		



The Gem in the Portfolio: Abivertinib is a small molecule tyrosine kinase inhibitor (TKI) that selectively targets both a mutant form of the epidermal growth factor receptor (EGFR) and Bruton's tyrosine kinase (BTK); it was originally identified from ACEA's compound library. Abivertinib has the potential to improve outcomes in resistant prostate cancer, systemic lupus erythematosus, and various B cell lymphomas in addition to NSCLC, an indication for which a registrational/Phase 3 trial has been completed. It is currently being studied as a Phase 2 treatment for COVID-19-induced respiratory compromise in the US and Brazil. A second clinical candidate, AC0058, is a next generation BTK inhibitor, currently in a Phase 1b trial for Lupus patients in the US, which could potentially be expanded to other autoimmune diseases such as multiple sclerosis.

A Presence in China: The acquisition will also include ACEA's state-of-the-art cGMP facility located in Quzhou, China, on a 23-acre campus with five buildings. This facility has successfully manufactured multiple batches of the active pharmaceutical ingredient (API) and final product in capsules for Abivertinib and AC0058 for clinical studies. The ACEA facility currently has capacity to manufacture up to 5,000 kg/year of APIs and 50,000,000 capsules of final drug product.

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 FCF, 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.

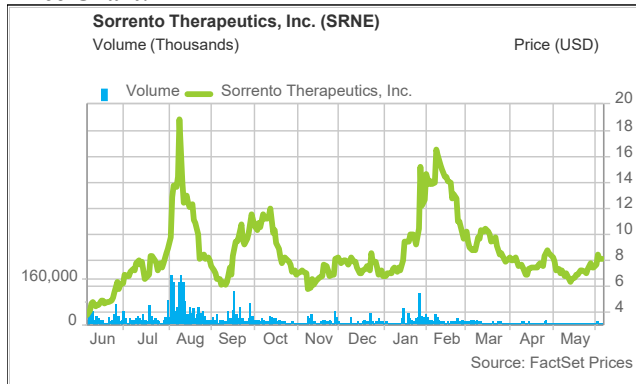
Exhibit 1. Income Statement.

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											
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
- Update – Buy – June 7, 2021 – Price Target \$19.00

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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.

As of: 17-May-21

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	71%	5	21%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	34	100%	5	15%

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