

## Sorrento Therapeutics (Nasdaq: SRNE)

July 7, 2021

### BUY: Knee Pain – Non-Opioid Drug Advances to P2 POC Study

*Sorrento announced that a Phase 2 trial of RTX for OA pain has been given the go-ahead to advance to a Phase 2 study.*

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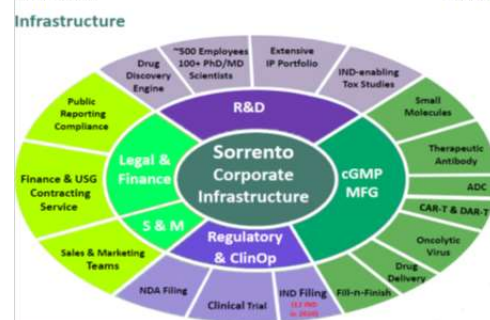
**The Phase 2 Study.** The trial is planned as a multi-center, double-blind, placebo- and active-controlled study. The idea is to assess the efficacy and safety of several dose groups of RTX to manage pain in patients with moderate-to-severe osteoarthritis of the knee pain. Given the durability of OA pain relief response to RTX demonstrated thus far, Sorrento has decided to include an active comparator (injectable corticosteroid) in the current trial protocol. Superiority data potentially generated by RTX against a widely used approved drug could be supportive for accelerated international registrations (Europe) and is required for pricing purposes in Europe.

**What's the basis for the study?** The Phase 1b data demonstrated RTX safety for a single intra-articular administration without dose-limiting toxicity (DLT) at any doses tested up to 30 ug. The study was designed to follow patients to day 84 (primary endpoint). Patients were also given the option to be followed for up to a year. Pain relief appeared to be very consistent among patients responding to the initial treatment, with a large proportion of the patients followed past Day 84 showing pain relief sustained beyond all time points assessed through one-year follow-up. Fast relief (starting within days, with optimal pain relief level achieved within weeks) and durability of the effect (past 84 days) confirm the clinical potential of the RTX drug for long-term control of pain associated with osteoarthritis of the knee. The data demonstrated significant efficacy supporting RTX as a candidate for long-term control of refractory OA pain, that is, significant pain relief observed in patients with advanced OA disease (Kellgren-Lawrence grade 3/4) and sustained pain relief lasting beyond six months.

**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.

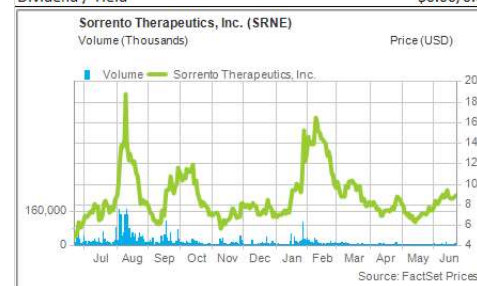
**Risks to our thesis** include the following: (1) commercial; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; and (7) intellectual property.

Current Price \$8.93  
Price Target \$19.00



Source: Sorrento

Stock Data			
52-Week Range	\$5.03	-	\$19.39
Shares Outstanding (mil.)	292.9		
Market Capitalization (mil.)	\$2,616		
Enterprise Value (mil.)	\$2,594		
Debt to Capital	0%		
Book Value/Share	\$2.41		
Price/Book	11.4		
Average Three Months Trading Volume (K)	5,286		
Insider Ownership	8.1%		
Institutional Ownership	26.9%		
Short Interest (mil.)	17.3%		
Dividend / Yield	\$0.00/0.0%		



**Exhibit 1. Income Statement (2020A–2030E)**

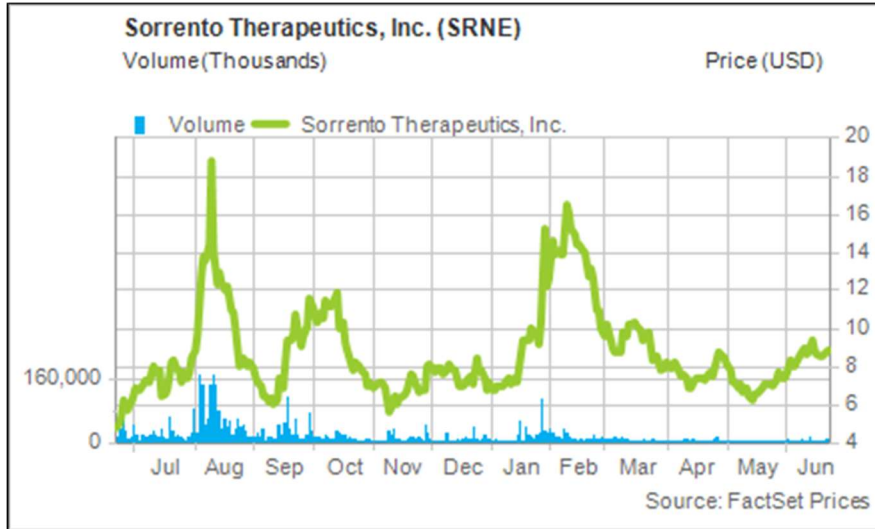
Sorrento Income Statement (\$ '000)																			
SRNE	1Q20A	2Q20A	3Q20A	4Q20A	2020A	1Q21E	2Q21E	3Q21E	4Q21E	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
COVID19 USA *											1,000,000	800,000	600,000	400,000	200,000	200,000	200,000	200,000	200,000
COVID 19 ROW *											1,000,000	800,000	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	3,103	3,238	3,508	3,643	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	-	-	-	-	-	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	3,103	3,238	3,508	3,643	13,492	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	931	971	1,052	1,093	4,047	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%	30%	30%	30%	30%
R&D	21,154	29,031	66,887	37,260	154,332	23,000	24,000	26,000	27,000	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	27,256	28,441	30,811	31,996	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	51,187	53,412	57,863	60,089	222,550	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)	(48,083)	(50,174)	(54,355)	(56,446)	(209,058)	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)														
Los s 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)	(48,083)	(50,174)	(54,355)	(56,446)	(209,058)	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)	(9,617)	(10,035)	(10,871)	(11,289)	(41,812)	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%	20%	20%	20%	20%	25%	28%	30%	33%	33%	33%	33%	33%	33%
Net Income (loss)	(69,180)	(84,993)	(87,109)	(73,128)	(314,410)	(38,467)	(40,139)	(43,484)	(45,157)	(167,247)	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)	(1,641)	(1,658)	(1,674)	(1,691)	(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)	(36,826)	(38,482)	(41,810)	(43,466)	(123,757)	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)	(0.15)	(0.16)	(0.17)	(0.18)	(0.67)	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	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	258,186	251,462	251,462	251,714	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462	251,462

Source: Company Reports and Dawson James \* Ownership & or Risk Adjustment - Revenue source cut by half (50%)

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  
 Update – Buy – June 23, 2021 – Price Target \$19.00  
 Update – Buy – July 7, 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: 30-Jun-21

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	<b># of Companies</b>	<b>% of Total</b>	<b># of Companies</b>	<b>% of Totals</b>
Market Outperform (Buy)	24	71%	4	17%
Market Perform (Neutral)	10	29%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>34</b>	<b>100%</b>	<b>4</b>	<b>12%</b>

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