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Fortress Biotech (NASDAQ/FBIO)

November 19, 2021

BUY: Journey is Public – \$150M

Journey Medical (DERM-Not Rated) is now public with a \$150M market cap. We assume Fortress retains 45-50% of the company. The net effect is a wash in terms of our valuation metrics. Fortress reported the third quarter. On an adjusted basis the company reported non-GAAP net income of \$43.7M or \$0.54 cents per share. Fortress consolidated cash, equivalents and restricted cash totaled \$254M which reflect \$57M paid to Fortress as a result of Caelum being acquired by Astra Zeneca's Alexion.

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Investment Highlights

Most Recent results: Fortress reported product revenues (mainly from Journey) of \$21M. On a GAAP basis this translated into a loss of \$45M but properly adjusted (Non-GAAP) Fortress reported a bottom line of \$43M or \$0.54 cents per share.

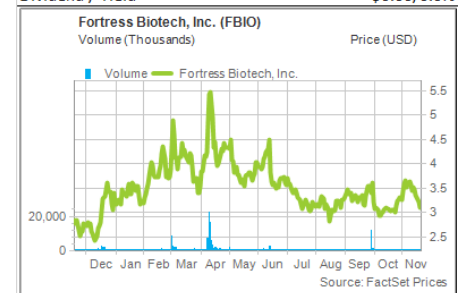
Valuation: How to value Fortress? As a reminder, Fortress, as the controlling entity, reports consolidated statements. Our valuation expenses are based on GAAP numbers, but we recognize this is conservative. If we substituted non-GAAP projections, it would actually result in a higher valuation. There 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.

| | |
|---------------|---------|
| Current Price | \$3.09 |
| Price Target | \$24.00 |

| Commercial | Late Clinical | Early Clinical | Preliminary |
|---------------|---------------|----------------|---------------------------|
| Targate \$ | OUTX-101 | MB-102 | ATYS-001 Gene Therapy |
| Janssen \$ | Covalimid | OK-101 | AM-ATP1A Gene Therapy |
| Custom \$ | CAEL-101 | MB-101 | Anti-GITR |
| Concise \$ | IV Translax | MB-105 | Anti-CDX |
| Ligand \$ | MB-107 | MB-103 | OK-103 |
| Acuity \$ ** | MB-207 | MB-106 | CEVA-102 |
| Clonal \$ *** | CEVA-101 | MB-104 | Contax |
| | | MB-105 | KRAS G12D Oncologues |
| | | BAER-101 | Multiple Other Oncologues |
| | | Triplex | |
| | | Domrad | |

Source: Fortress

| Stock Data | |
|---|-----------------|
| 52-Week Range | \$2.36 - \$6.10 |
| Shares Outstanding (mil.) | 99.6 |
| Market Capitalization (mil.) | \$308 |
| Enterprise Value (mil.) | \$233 |
| Debt to Capital | 24% |
| Book Value/Share | \$1.03 |
| Price/Book | 3.0 |
| Average Three Months Trading Volume (K) | 252 |
| Insider Ownership | 23.8% |
| Institutional Ownership | 25.3% |
| Short interest (mil.) | 1.1% |
| Dividend / Yield | \$0.00/0.0% |



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 Analysis section of this report.

Please find Important Disclosures beginning on Page 4.

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.

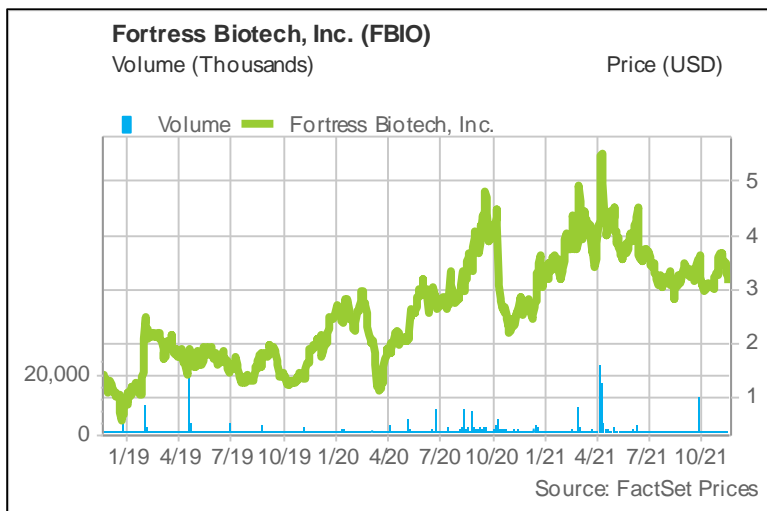
Legal and intellectual property risk. The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and or that the company may infringe on third parties' patents.

Companies mentioned in this report, working with Fortress and/or part of valuation discussion:

- Alexion (ALXN/NASDAQ)-Not covered.
- Astra Zeneca (AZN/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 (DERM).
- Cyprium Therapeutics (Private).
- Fuji Yakuhin (subsidiary of Fuji-Japan – Not Covered)

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
Update – Buy April 13, 2021, Price Target \$24.00
Update – Buy May 10, 2021, Price Target \$24.00
Update – Buy May 20, 2021, Price Target \$24.00
Update – Buy June 11, 2021, Price Target \$24.00
Update – Buy June 15, 2021, Price Target \$24.00
Update – Buy August 17, 2021, Price Target \$24.00
Update – Buy September 29, 2021, Price Target \$24.00
Update – Buy October 26, 2021, Price Target \$24.00
Update – Buy NOVEMBER 19, 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.

Current as of... 15-Nov-21

| | Company Coverage | | Investment Banking | |
|-----------------------------|-------------------------|------------|---------------------------|-------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 25 | 69% | 5 | 20% |
| Market Perform (Neutral) | 11 | 31% | 0 | 0% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0% |
| Total | 36 | 100% | 5 | 14% |

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.