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## Sorrento Therapeutics (Nasdaq: SRNE)

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### BUY: What Happens When Omicron Meets Delta?

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*We had a fascinating conversation with Henry Ji, the CEO of Sorrento about mAb therapy to treat COVID and the potential impact of these new variants. We conclude that new mAb therapies are needed. It's been estimated that Omicron could be up to 200x more infectious than the Delta variant. What happens if these two variants combine?*

### Multiple Programs Targeting COVID

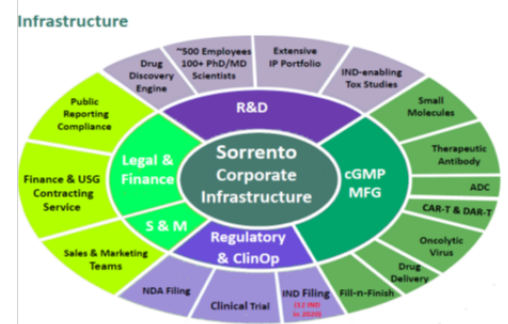
- COVITRACE™ (Diagnostic Test for the Detection of SARS-CoV-2 in Nasal Swab and Saliva)
- COVISTIX™ (Antigen Test for the Detection of SARS-CoV-2 Virus in Nasal Swab)
- COVITRACK™ Platinum (Antibody Test for the Detection of Antibodies to SARS-CoV-2 in Blood)
- COVIGUARD™ (Neutralizing Antibody – STI 1499)
- COVI-AMG™ (Affinity Matured COVI-GUARD Neutralizing Antibody – STI 2020)
- COVIDROPS™ (Intranasal COVI-AMG Neutralizing Antibody – STI 2099)
- COVISHIELD™ (Neutralizing Antibody Cocktail)
- COVIDTRAP™ (ACE2 Receptor Decoy – STI 4398)
- ABIVERTINIB (Cytokine Storm – STI 5656)
- SALICYN-30 (Anti-viral – STI 2030)
- COVI-MSC (Acute Respiratory Distress Syndrome – STI 8282)

**Abivertinib (STI-5656) for COVID.** This is currently in a Phase 2 study in Brazilian Subjects Hospitalized Due to COVID-19 with cytokine storm. The study is looking at the potential clinical benefits of the drug associated with its broad ability (mode of action) to reduce the inflammatory cytokine storm. The dose that was tested was the same as in the U.S. Phase 2 trial, but the trial protocol in Brazil includes patients at earlier stages of the disease, with a drug administration regimen of only 7 days (versus 14 days for more advanced patients in the U.S.). Closing enrollment for both studies is a significant milestone. In two to three months, the company expects to be able to disclose top-line data. If positive, the results of the two parallel and independently run clinical trials should provide valuable insights into the ability of Abivertinib to help patients with pulmonary distress associated with cytokine storm induced by COVID-19.

**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 FCFE, 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 \$5.93  
Price Target \$19.00



Source: Sorrento

Stock Data		
52-Week Range	\$4.69 -	\$17.25
Shares Outstanding (mil.)		306.3
Market Capitalization (mil.)		\$1,817
Enterprise Value (mil.)		\$1,795
Debt to Capital		0%
Book Value/Share		\$2.41
Price/Book		11.4
Average Three Months Trading Volume (K)		2,559
Insider Ownership		7.5%
Institutional Ownership		27.8%
Short interest (mil.)		14.8%
Dividend / Yield		\$0.00/0.0%



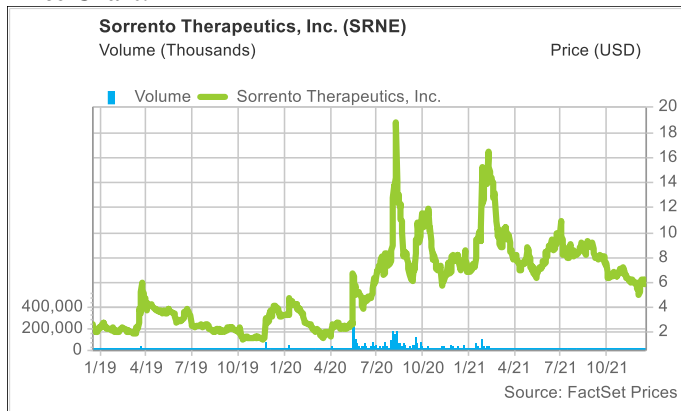
**Exhibit 1. Income Statement (2020A–2030E)**

Sorrento Income Statement (\$ '000)															
SRNE	2020A	1Q21A	2Q21A	3Q21A	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	13,358	7,232	7,854	7,562	3,643	13,492	13,626	13,763	13,900	14,039	14,180	14,322	14,465	14,609	14,756
Revenues	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)	39,986	14,255	13,511	12,062	12,000	51,828	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	9,940	3,386	3,121	3,387	3,600	13,494	604,088	538,220	475,619	416,433	346,032	352,773	359,716	447,695	540,773
% COGS	25%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
R&D	154,332	51,345	54,506	60,573	60,000	100,000	102,000	104,040	106,121	108,243	110,408	112,616	114,869	117,166	119,509
Intangible	4,053	1,034	4,971	12,125											
SG&A (net)	116,179	43,394	51,463	48,448	45,000	118,503	120,873	123,290	125,756	128,271	130,836	133,453	136,122	138,845	141,622
Total costs & expenses	284,504	99,160	114,061	113,449	108,600	231,997	826,961	765,550	707,495	652,948	587,277	598,842	610,706	703,706	801,903
Operating Income (Loss) EBIT	(244,518)	(84,905)	(100,550)	(101,387)	(96,600)	(180,169)	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	(7)	2,200	(300)	(1,800)		100									
Loss on Partial Debt	1	(540)	(1)	(13,483)		(14,024)									
Gain (loss) on derivate liabilities	(1)	(2,366)	(2,016)			(4,382)									
Loss gain on Fx		94,431	(63,901)	(300)		30,230									
Interest Expense	(20)	(419)	(22)	(2,900)		(3,341)									
Interest Income		(6,189)	(550)	97		(6,642)									
Other Income expenses - Financial Expenses (net)	(51,939)														
Pre-tax income	(310,580)	2,212	(167,340)	(119,773)	(96,600)	(381,501)	1,186,666	1,028,516	877,901	735,164	566,164	577,067	588,346	788,612	1,000,672
Taxes	(7,858)	(206)	(640)	550	(19,320)	(19,616)	296,666	287,984	263,370	242,604	186,834	190,432	194,154	260,242	330,222
Tax Rate	3%	20%	20%	20%	20%	5%	25%	28%	30%	33%	33%	33%	33%	33%	33%
Net Income (loss)	(314,410)	2,418	(166,699)	(119,995)	(77,280)	(361,885)	889,999	740,531	614,530	492,560	379,330	386,635	394,192	528,370	670,450
Net Loss attributable to noncontrolling interests	(15,949.00)	(92)	(84)	(192)	(194)	(561.92)	(599.41)	(623.75)	(649.07)	(675.43)	(702.85)	(731.39)	(761.09)	(791.99)	(824)
Net Gain / Loss to Sorrento	(298,461)	2,510	(166,615)	(119,803)	(77,086)	(363,504)	685,899	570,833	473,837	379,946	292,787	298,440	304,289	407,637	669,626
Basic EPS	(1.30)	0.01	(0.57)	(0.40)	(0.26)	(1.23)	2.97	2.47	2.05	1.65	1.27	1.29	1.32	1.77	2.24
Basic Wght Average Shares Outstanding (thousands)	229,823	280,604	290,003	299,276	299,276	292,290	299,276	299,276	299,276	299,276	299,276	299,276	299,276	299,276	299,276
Fullly Diluted Wtdt Avn Shrs outstanding (Thousands)	229,823	297,909	290,003	299,276	299,575	292,290	299,276	299,276	299,276	299,276	299,276	299,276	299,276	299,276	299,276

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
- Update – Buy – July 21, 2021 – Price Target \$19.00
- Update – Buy – August 6, 2021 – Price Target \$19.00
- Update – Buy – October 28, 2021 – Price Target \$19.00
- Update – Buy – December 9, 2021 – Price Target \$19.00
- Update – Buy – December 17, 2021 – Price Target \$19.00

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- 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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Current as of... 14-Dec-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	68%	5	20%
Market Perform (Neutral)	12	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	37	100%	5	14%

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