

Member FINRA/SIPC

Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

Sorrento Therapeutics (Nasdaq: SRNE)

January 4, 2022

BUY: A Rapid Antigen Detection for Omicron-COVISTIX

Jason Kolbert

Senior Healthcare Analyst
jkolbert@dawsonjames.com

Sorrento announced that initial testing of COVISTIX on recombinant N proteins successfully demonstrated its ability to detect the Omicron variant, in addition to detecting the original SARS-CoV-2 virus and its other major variants such as the delta and delta-plus strains. Our optimistic view on Sorrento is highly dependent on the company's success to develop & commercialize both therapeutics and tests.

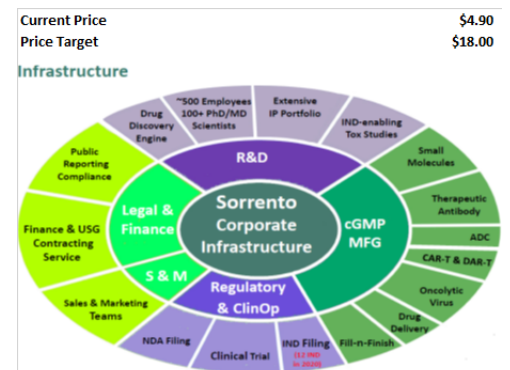
COVISTIX Detects Omicron: Sorrento has studied the ability of COVISTIX to detect the Omicron variant compared to other Emergency Use Authorization (EUA) approved, commercially available COVID-19 virus rapid antigen tests. Initial results demonstrate that COVISTIX was able to detect the Omicron N protein at a significantly lower level than other commercially available tests. Sorrento currently has the capacity to produce 30.0M COVISTIX tests a month and is currently building up its manufacturing capacity in the US. The company anticipates having a fully automated assembly line capable of producing 6.0M COVISTIX units per month up and running in 1Q22. Pending US and global demand, this capacity could potentially be increased to over 100M monthly in 2022.

Protease Inhibitors for COVID: Sorrento announced the publication of a series of novel SARS-CoV-2 main protease (MPRO) inhibitors for the potential treatment of COVID-19 patients infected with SARS-CoV-2 variants of concern, including omicron.

LOI for Business Combo.: Scilex Holding, a subsidiary of Sorrento Therapeutics, and Vickers Vantage Corp I announce the signing of a letter of intent for a proposed business combination, which provides for a pre-transaction equity value of Scilex of approximately \$1.5B, subject to adjustment, with expected gross proceeds of up to \$140M. Scilex is dedicated to the development and commercialization of non-opioid pain management products for treatment of acute and chronic pain. Scilex's commercial product ZTLIDO (lidocaine topical system) 1.8%, a non-opioid prescription lidocaine topical product approved by the FDA for the relief of pain associated with postherpetic neuralgia, shows continued sales growth of 35% year over year despite the continued impact of the COVID-19 pandemic.

Valuation. Our key assumption is that Sorrento successfully commercializes COVID tests and therapeutics. We assume a probability of success of 70% in our therapeutic models, which is in addition to the 30% discount rate in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum of the Parts (SOP) models. Our valuation conclusion is an equally-weighted average of these models rounded to the nearest whole number. We use an estimated fully diluted end-year share count (we assume capital raises). The conclusion of this method is an \$18.0 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.



Source: Sorrento

Stock Data		
52-Week Range	\$4.57	\$17.25
Shares Outstanding (mil.)		306.3
Market Capitalization (mil.)		\$1,501
Enterprise Value (mil.)		\$1,479
Debt to Capital		0%
Book Value/Share		\$2.41
Price/Book		11.4
Average Three Months Trading Volume (K)		18,782
Insider Ownership		7.6%
Institutional Ownership		28.2%
Short interest (mil.)		14.4%
Dividend / Yield		\$0.00/0.0%



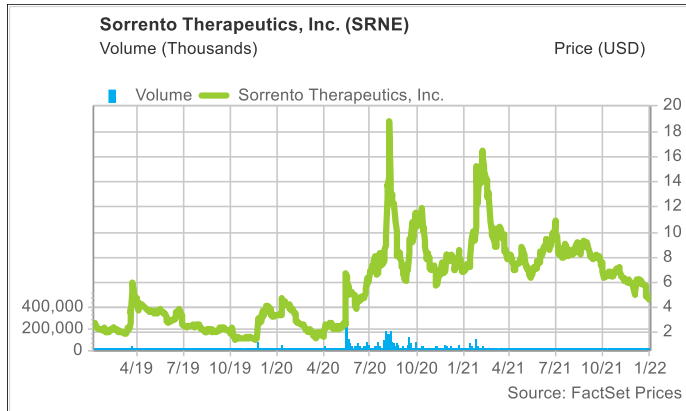
Exhibit 1. Income Statement

Sorrento Income Statement (\$ '000)															
SRNE	2020A	1Q21A	2Q21A	3Q21A	4Q21E	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
COVID19 (tests & therapeutics) USA *								2,800,000	2,100,000	1,400,000	700,000	700,000	700,000	700,000	700,000
COVID 19 ROW *								2,100,000	1,575,000	1,050,000	525,000	525,000	525,000	525,000	525,000
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	-	-	-	-	-	-	5,080,303	4,046,496	3,024,072	1,964,261	1,986,587	2,009,587	2,302,709	2,612,820
Total Revenues (Product Sales, Service and Therapeutics)	39,986	14,255	13,511	12,062	12,000	51,828	13,626	5,094,065	4,060,396	3,038,112	1,978,441	2,000,909	2,024,052	2,317,318	2,627,575
Expenses															
COGS	9,940	3,386	3,121	3,387	3,600	13,494	4,088	1,528,220	1,218,119	911,433	593,532	600,273	607,216	695,195	788,273
% 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	226,961	1,755,550	1,449,995	1,147,948	834,777	846,342	858,206	951,206	1,049,403
Operating Income (Loss) EBIT	(244,518)	(84,905)	(100,550)	(101,387)	(96,600)	(180,169)	(213,334)	3,338,516	2,610,401	1,890,164	1,143,664	1,154,567	1,165,846	1,366,112	1,578,172
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)	(213,334)	3,338,516	2,610,401	1,890,164	1,143,664	1,154,567	1,165,846	1,366,112	1,578,172
Taxes	(7,858)	(206)	(640)	550	-	(296)	-	333,852	391,560	378,033	228,733	254,005	279,803	327,867	378,761
Tax Rate	3%	0%	0%	0%	0%	0%	0%	10%	15%	20%	20%	22%	24%	24%	24%
Net Income (loss)	(314,410)	2,418	(166,699)	(119,995)	(96,600)	(381,205)	(213,334)	3,004,664	2,218,840	1,512,131	914,932	900,562	886,043	1,038,245	1,199,411
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)	(96,406)	(382,824)	(163,668)	2,314,215	1,709,156	1,165,016	705,200	694,164	683,014	800,241	1,198,586
Basic EPS	(1.30)	0.01	(0.57)	(0.40)	(0.32)	(1.29)	(0.71)	10.04	7.41	5.05	3.06	3.01	2.96	3.47	4.01
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
Fully Diluted Wgtd Avg 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
- Price Target Change – Buy – January 4, 2022 – Price Target \$18.00

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 December 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.

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.

Current as of... 20-Dec-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	68%	5	19%
Market Perform (Neutral)	12	32%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	38	100%	5	13%

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.