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Sorrento Therapeutics (Nasdaq: SRNE)

February 18, 2022

BUY: Sorrento Acquires (majority) Ownership in Diagnostic Maker Zhengzhou Fortune Bioscience

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Sorrento Therapeutics announced the acquisition of a majority ownership of Zhengzhou Fortune Bioscience Co., Ltd.. (private – not rated). This acquisition is in response to increasing global demand for Sorrento's COVISTIX COVID-19 VIRUS Rapid Antigen Detection Test.

FortuneBio specializes in the manufacture of lateral flow diagnostic tests with numerous approved products marketed in over 20 countries for pregnancy tests, fecal occult blood test, and drug abuse test kits. FortuneBio has an ISO 13885 facility and is capable of producing tens of millions of lateral flow tests per month. FortuneBio is currently expanding production capabilities to meet COVISTIX demand worldwide. Sorrento has invested and becomes a majority owner with an option to acquire 100% of FortuneBio, a diagnostic product manufacturer with dozens of approved diagnostic products on the market, and is currently Sorrento's exclusive OEM manufacturer for COVISTIX.

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. The initial order looks like 10M tests (COVISTIX) scheduled to be delivered to Mexico in February.

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.

Current Price \$2.88
 Price Target \$18.00



Source: Sorrento

Stock Data			
52-Week Range	\$2.80	-	\$14.04
Shares Outstanding (mil.)			306.3
Market Capitalization (mil.)			\$882
Enterprise Value (mil.)			\$860
Debt to Capital			0%
Book Value/Share			\$2.41
Price/Book			11.4
Average Three Months Trading Volume (K)			3,676
Insider Ownership			7.6%
Institutional Ownership			30.3%
Short interest (mil.)			15.1%
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

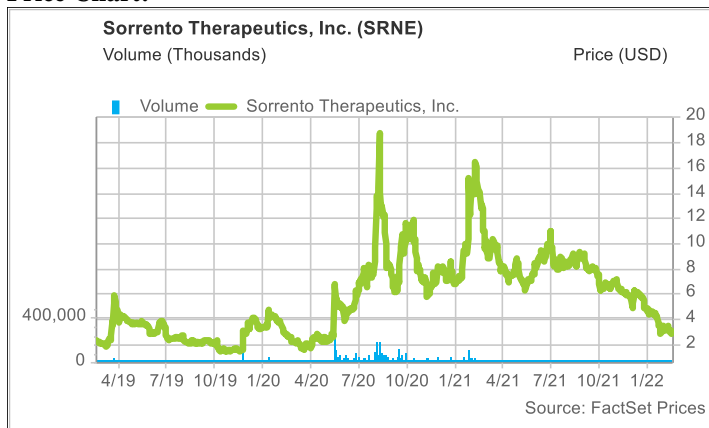
Source: Dawson James estimates, company reports

Important Disclosures:

Companies Mentioned in his report

Zhengzhou Fortune Bioscience (private- not rated)

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
- Update – Buy – January 20, 2022 – Price Target \$18.00
- Update – Buy – January 25, 2022 – Price Target \$18.00
- Update – Buy – February 18, 2022 – Price Target \$18.00

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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... 8-Feb-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	76%	6	19%
Market Perform (Neutral)	10	24%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	41	100%	6	15%

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