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

Dyadic (DYAI-NASDAQ) – Buy-Rated

March 21, 2022

Jason H. Kolbert

Managing Director & Senior Analyst
jkolbert@dawsonjames.com

Sorrento and Dyadic’s Collaboration is a Bust

Dyadic and Sorrento (SRNE-Buy Rated) had previously entered into a binding term sheet to which the parties were to enter into an Intellectual Property License agreement. As reported; “due to a disagreement between the parties concerning the timing, and terms and conditions, for the entry into the License agreement, the parties have mutually agreed to terminate the Term Sheet effective 17-Mar-22”. Dyadic has not incurred any early termination penalties.

Investment Highlights

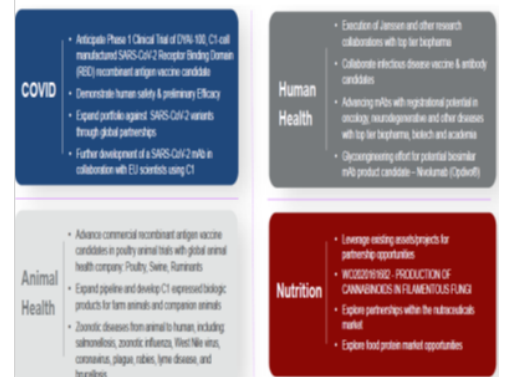
Our comment: We are disappointed to learn that Sorrento and Dyadic are not working together. Initially, we believe, the focus was on Covid vaccines but the longer-term potential was for Dyadic’s platform to become part of Sorrento’s efforts. That hasn’t happened and is a bit disappointing.

We continue to assume multiple collaborations occur over the next few years across various segments such as Nutrition, Human Health, Animal Health, and Covid, just as the company presented in their January 2022 slide deck. What we really hope to see is these efforts translate into a commercial product which then translates into ongoing royalties/revenue streams. Regarding Covid, our concern is that Dyadic may have “missed the window.”

Valuation: If we flip a coin four times, the reality is we have no idea how many times it will be heads vs. tails. The same thing is true regarding our ability to predict the next partnership or license deal. If we flip a coin a hundred times, we can expect about half of the tosses to be heads (or tails). For Dyadic, we broadly evaluate the utility of the C1 platform across several market segments such as the Pharma and Biotechnology areas, Biosimilars, Vaccines, and Industrial markets. For this modeling exercise, we apply a +/- 80% discount (or 20% +/- the probability of success) factor to determine the revenue stream. This discount is in addition to our (r) discount rate that we use in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum of the Parts (SOP) models. For this rate, we select r = 15%. Our model uses a fully diluted projected out-year (2030) share count. Our three models (FCFF, dEPS, and SOP) are then equal-weighted, averaged, and rounded to the nearest whole number to derive our 12-month price target of \$6.00.

Risks include: Partnership, commercialization, financial, clinical and regulatory, and legal and intellectual property.

Current Price **\$3.50**
Price Target **\$6.00**



- COVID:**
 - Anticipate Phase 1 Clinical trial of DYAI-101, C1 cell manufactured SARS-CoV-2 Receptor Binding Domain (RBD) recombinant antigen vaccine candidate
 - Demonstrate human safety & preliminary Efficacy
 - Expand pipeline against SARS-CoV-2 variants through global partnerships
 - Further development of a SARS-CoV-2 mRNA in collaboration with EU scientists using C1
- Human Health:**
 - Execution of Johnson and other research collaborations with top tier biopharma
 - Collaborate infectious disease vaccine & antibody candidates
 - Advancing efforts with regulatory potential in oncology, neurodegenerative and other diseases with top tier biopharma, tech and academia
 - Ongoing research effort for potential bioactive mRNA product candidate – “Winkman” (DYadic)
- Animal Health:**
 - Advance commercial recombinant antigen vaccine candidates in poultry animal trials with global animal health company Pharity, Sars, Humants
 - Expand pipeline and develop C1 expressed biologic products for farm animals and companion animals
 - Zoonotic diseases from animal to human, including salmonellosis, avian influenza, West Nile virus, coronavirus, plague, rabies, Lyme disease, and brucellosis
- Nutrition:**
 - Leverage existing assets/projects for partnership opportunities
 - **INDUSTRIAL - PRODUCTION OF CHANGEMAKERS IN FILAMENTOUS FUNGI**
 - Explore partnerships within the nutraceutical market
 - Explore food protein market opportunities

Source: Dyadic

| Stock Data | | | |
|---|-------------|---|--------|
| 52-Week Range | \$3.15 | - | \$8.78 |
| Shares Outstanding (mil.) | 28.1 | | |
| Market Capitalization (mil.) | \$98 | | |
| Enterprise Value (mil.) | \$61 | | |
| Debt to Capital | 0% | | |
| Book Value/Share | \$1.76 | | |
| Price/Book | 5.2 | | |
| Average Three Months Trading Volume (K) | 934 | | |
| Insider Ownership | 29.5% | | |
| Institutional Ownership | 14.0% | | |
| Short interest (mil.) | 2.5% | | |
| Dividend / Yield | \$0.00/0.0% | | |



Exhibit 1. Income Statement

| DYAL: Income Statement (\$000) | | | | | | | | | | | | | | | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|--------------|-----------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| ..YE December 31 | 2018A | 2019A | 2020A | 1Q21A | 2Q21A | 3Q21A | 4Q21E | 2021E | 1Q22E | 2Q22E | 3Q22E | 4Q22E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
| Revenue: | | | | | | | | | | | | | | | | | | | | | |
| Research & Development Revenue | 1,295 | 1,681 | 1,602 | 461 | 937 | 693 | (457) | 1,634 | 383 | 400 | 417 | 467 | 1,667 | 1,700 | 1,734 | 1,769 | 1,804 | 1,840 | 1,877 | 1,914 | 1,953 |
| Total Product Sales | 1,295 | 1,681 | 1,602 | 461 | 937 | 693 | (457) | 1,634 | 383 | 400 | 417 | 467 | 1,667 | 1,700 | 1,734 | 1,769 | 1,804 | 1,840 | 1,877 | 1,914 | 1,953 |
| Industrial Milestone Revenues | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Industrial Royalty Revenues | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,100 | 8,700 | 11,835 | 15,620 | 20,062 | 24,866 | 28,842 | 31,396 |
| Vaccine & Related Milestone Revenues | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,000 | 1,500 | 1,500 | 4,500 | 3,000 | 3,000 | 4,500 | 10,500 |
| Vaccine & Related Royalty Revenues | - | - | - | - | - | - | - | - | - | - | - | - | - | 6,600 | 11,700 | 14,205 | 17,387 | 23,655 | 31,519 | 36,490 | 41,580 |
| Pharma and Bio Related Milestone Revenues | - | - | - | - | - | - | - | - | 690 | 720 | 750 | 840 | 3,000 | 4,500 | 3,000 | 3,000 | 7,500 | 3,000 | 3,000 | 4,500 | 10,500 |
| Pharma and Bio Related Royalty Revenues | - | - | - | - | - | - | - | - | 2,536 | 2,646 | 2,756 | 3,087 | 11,025 | 14,100 | 18,705 | 23,987 | 29,355 | 36,019 | 41,890 | 47,880 | 55,502 |
| Total Revenue | 1,295 | 1,681 | 1,602 | 461 | 937 | 693 | (457) | 1,634 | 3,226 | 3,366 | 3,506 | 3,927 | 14,025 | 30,300 | 43,605 | 54,527 | 74,363 | 85,737 | 104,276 | 122,212 | 149,478 |
| Expenses: | | | | | | | | | | | | | | | | | | | | | |
| Cost of research and development revenue | 1,027 | 1,460 | 1,425 | 391 | 830 | 393 | (159) | 1,453 | 341 | 356 | 371 | 415 | 1,482 | 1,512 | 1,542 | 1,573 | 1,605 | 1,637 | 1,670 | 1,703 | 1,737 |
| Research & Development | 2,102 | 3,088 | 3,868 | 1,808 | 2,209 | 1,902 | (1,973) | 3,945 | 926 | 966 | 1,006 | 1,127 | 4,024 | 4,105 | 4,187 | 4,271 | 4,356 | 4,443 | 4,532 | 4,623 | 4,715 |
| Research & Development (related party) | 1,216 | 869 | 187 | - | - | - | 191 | 191 | 45 | 47 | 49 | 55 | 195 | 199 | 203 | 207 | 211 | 215 | 220 | 224 | 228 |
| General & Administrative | 4,523 | 5,520 | 6,085 | 1,554 | 1,748 | 1,693 | 1,212 | 6,206 | 1,456 | 1,519 | 1,583 | 1,773 | 6,331 | 6,457 | 6,586 | 6,718 | 6,852 | 6,990 | 7,129 | 7,272 | 7,417 |
| Foreign Currency Exchange | 21 | 28 | 62 | 28 | 18 | 30 | (12) | 64 | 15 | 16 | 16 | 18 | 65 | 66 | 67 | 69 | 70 | 72 | 73 | 75 | 76 |
| Total Expenses | 8,888 | 10,964 | 11,628 | 3,781 | 4,804 | 4,017 | (742) | 11,860 | 2,782 | 2,903 | 3,024 | 3,387 | 12,097 | 12,339 | 12,586 | 12,838 | 13,095 | 13,356 | 13,624 | 13,896 | 14,174 |
| Operating Income (Loss) | (7,592) | (9,283) | (10,026) | (3,321) | (3,867) | (3,324) | 285 | (10,226) | 443 | 463 | 482 | 540 | 1,928 | 17,961 | 31,019 | 41,689 | 61,268 | 72,380 | 90,652 | 108,315 | 135,304 |
| Settlement of Litigation | - | - | 285 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest Income, net | 895 | 985 | 447 | 27 | 21 | 1,609 | 285 | (8,570) | 443 | 463 | 482 | 540 | 1,928 | 17,961 | 31,019 | 41,689 | 61,268 | 72,380 | 90,652 | 108,315 | 135,304 |
| Total Other Income | (6,698) | (8,298) | (9,294) | (3,294) | (3,846) | (1,715) | 285 | (8,570) | 443 | 463 | 482 | 540 | 1,928 | 17,961 | 31,019 | 41,689 | 61,268 | 72,380 | 90,652 | 108,315 | 135,304 |
| Pretax Income | (6,698) | (8,298) | (9,294) | (3,294) | (3,846) | (1,715) | 285 | (10,226) | 443 | 463 | 482 | 540 | 1,928 | 17,961 | 31,019 | 41,689 | 61,268 | 72,380 | 90,652 | 108,315 | 135,304 |
| Income Tax Benefit (Provision) | 1,006 | 12 | 31 | - | - | - | - | - | - | - | - | - | - | 1,796 | 4,653 | 8,338 | 13,479 | 17,371 | 22,663 | 29,245 | 39,238 |
| Tax Rate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 10% | 15% | 20% | 22% | 24% | 25% | 27% | 29% |
| Gain (Loss) from discontinued operations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| GAAP Net Income (Loss) | (5,692) | (8,310) | (9,325) | (3,294) | (3,846) | (1,715) | 285 | (8,570) | 443 | 463 | 482 | 540 | 1,928 | 16,165 | 26,366 | 33,352 | 47,789 | 55,009 | 67,989 | 79,070 | 96,066 |
| GAAP-EPS | (0.21) | (0.31) | (0.34) | (0.12) | (0.14) | (0.06) | 0.01 | (0.31) | 0.02 | 0.02 | 0.02 | 0.02 | 0.07 | 0.57 | 0.93 | 1.17 | 1.67 | 1.91 | 2.36 | 2.73 | 3.30 |
| GAAP-EPS (Dil) | (0) | (0.31) | (0.34) | (0.12) | (0.14) | (0.06) | 0.01 | (0.31) | 0.02 | 0.02 | 0.02 | 0.02 | 0.07 | 0.55 | 0.89 | 1.12 | 1.59 | 1.83 | 2.25 | 2.61 | 3.16 |
| Wgtd Avg Shrs (Bas) - '000s | 27,673 | 27,003 | 27,472 | 27,533 | 27,645 | 28,079 | 28,107 | 27,841 | 28,135 | 28,163 | 28,191 | 28,220 | 28,177 | 28,290 | 28,404 | 28,517 | 28,632 | 28,746 | 28,862 | 28,977 | 29,093 |
| Wgtd Avg Shrs (Dil) - '000s | 27,673 | 27,003 | 27,472 | 27,533 | 27,645 | 28,079 | 28,360 | 27,841 | 28,135 | 28,163 | 30,691 | 30,998 | 28,177 | 28,290 | 28,404 | 28,517 | 28,632 | 28,746 | 28,862 | 28,977 | 29,093 |

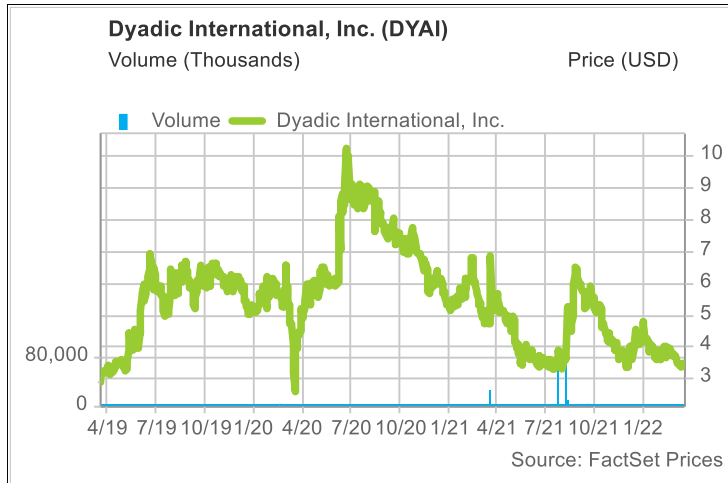
Source: Dawson James estimates, company reports

Companies related to Dyadic and/or mentioned in this report:

Syngene
Sorrento Therapeutics, Inc. - Buy-rated
Medytox

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

- Initiated – Buy – October 14, 2019 – Price Target \$14.00
- Update – Buy – November 4, 2019 – Price Target \$14.00
- Update – Buy – November 22, 2019 – Price Target \$14.00
- Update – Buy – January 27, 2020 – Price Target \$14.00
- Update – Buy – February 26, 2020 – Price Target \$14.00
- Update – Buy – April 20, 2020 – Price Target \$14.00
- Update – Buy – June 10, 2020 – Price Target \$14.00
- Update – Buy – July 9, 2020 – Price Target \$14.00
- Price Target Change – Buy – August 25, 2020 – Price Target \$12.00
- Update – Buy – October 23, 2020 – Price Target \$12.00
- Update – Buy – December 4, 2020 – Price Target \$12.00
- Update – Buy – March 18, 2021 – Price Target \$12.00
- Update – Buy – March 22, 2021 – Price Target \$12.00
- Price Target Change – Buy – May 17, 2021 – Price Target \$6.00
- Update – Buy – May 26, 2021 – Price Target \$6.00
- Update – Buy – July 27, 2021 – Price Target \$6.00
- Update – Buy – August 11, 2021 – Price Target \$6.00
- Update – Buy – August 18, 2021 – Price Target \$6.00
- Update – Buy – November 11, 2021 – Price Target \$6.00
- Update – Buy – December 29, 2021 – Price Target \$6.00
- Update – Buy – February 10, 2022 – Price Target \$6.00
- Update – Buy – March 21, 2022 – Price Target \$6.00

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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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Current as of... 15-Mar-22

| | Company Coverage | | Investment Banking | |
|-----------------------------|-------------------------|-------------|---------------------------|-------------|
| Ratings Distribution | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 31 | 74% | 4 | 13% |
| Market Perform (Neutral) | 11 | 26% | 0 | 0% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0% |
| Total | 42 | 100% | 4 | 10% |

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