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Sorrento Therapeutics (Nasdaq: SRNE)

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BUY: Reports 2021 Results; \$60M in Revenues & \$126M in Cash

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Sorrento's strategic objectives are outlined in the annual report as follows: 1. Continue to develop products through a deliberate process to fill identified unmet needs and advance them rapidly into the clinic for studies. 2. Collaborating with key opinion leaders and leading clinical and research institutes to enhance the company's clinical development plans. 3. Active programs that utilize the company's antibodies for DAR-T, the antibody-drug conjugate platform (using Sorrento's covalent linker technology), ADNAB platform, and its SOFUSA DoseConnect lymphatic delivery device to treat various oncology indications. These include active programs for the spectrum of COVID-19 infections and in Pain. Sorrento continues to progress RTX, an ultrapotent TRPV-1 agonist, into Phase 3 for the treatment of intractable pain in advanced cancer and moderate-to-severe knee osteoarthritis. 4. Pipeline development (active preclinical programs). 5. Manufacturing in-house. 6. Strategic partnerships. We have adjusted our model for YE 2021 results which adjust our projected price target to \$16.0 from \$18.0



Source: Sorrento

Stock Data		
52-Week Range	\$2.04	\$11.07
Shares Outstanding (mil.)		343.8
Market Capitalization (mil.)		\$750
Enterprise Value (mil.)		\$728
Debt to Capital		0%
Book Value/Share		\$2.41
Price/Book		18.6
Average Three Months Trading Volume (K)		5,226
Insider Ownership		7.6%
Institutional Ownership		30.6%
Short interest (mil.)		13.4%
Dividend / Yield		\$0.00/0.0%



What is Sorrento? The “core” technology around the company is its antibody-centric compounds created using the company’s proprietary G-MAB™ library coupled with targeted delivery modalities to generate the next generation of cancer therapeutics. Sorrento’s fully human antibodies include PD-1, PD-L1, CD38, CD47, BCMA, CTLA-4, CD123, CD47, LAG3, ROR1, VEGFR2, CCR2 and CD137 and SARS-CoV-2 neutralizing antibodies, among others. In addition the company also has programs in autoimmune, inflammatory, viral and neurodegenerative diseases & pain.

Non-opioid Pain Management: Sorrento’s product RTX is a non-opioid naturally-occurring product that specifically targets transient receptor potential vanilloid-1 (“TRPV1”). Depending on the site of injection, RTX can ablate or destroy targeted nerves (e.g., an epidural injection) or temporarily defunctionalize them (peripheral injections such as intra-articular). Sorrento has shown positive top-line results from a Phase 3 (SP-102) pivotal trial SP-102 (SEMDEXA™) and has received Fast Track status from the FDA.

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 \$16.0 price target.

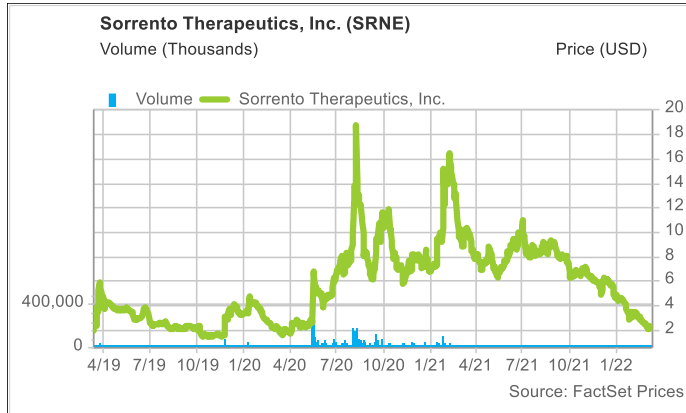
Risks to our thesis include the following: (1) commercial; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; and (7) intellectual property.

Exhibit 1. Income Statement

Sorrento Income Statement (\$ '000)															
SRNE	2020A	2021A	1Q22E	2Q22E	3Q22E	4Q22E	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	24,169	5,614	5,859	6,347	6,591	24,411	24,655	24,901	25,150	25,402	25,656	25,912	26,172	26,433
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	52,904	14,540	14,831	15,128	15,430	59,929	5,104,957	4,071,397	3,049,223	1,989,663	2,012,243	2,035,500	2,328,880	2,639,253
Expenses															
COGS	9,940	13,031	4,362	4,449	4,538	4,629	17,979	1,531,487	1,221,419	914,767	596,899	603,673	610,650	698,664	791,776
% COGS	25%	24%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
R&D	154,332	206,922	48,544	50,655	54,876	56,986	211,060	215,282	219,587	223,979	228,459	233,028	237,688	242,442	247,291
Intangible	4,053	37,546													
SG&A (net)	116,179	196,856	46,182	48,190	52,206	54,214	200,793	204,809	208,905	213,083	217,345	221,692	226,126	230,648	235,261
Total costs & expenses	284,504	454,355	99,088	103,294	111,620	115,829	429,832	1,951,578	1,649,912	1,351,829	1,042,703	1,058,393	1,074,464	1,171,754	1,274,328
Operating Income (Loss) EBIT	(244,518)	(401,451)	(84,548)	(88,463)	(96,493)	(100,399)	(369,904)	3,153,380	2,421,485	1,697,393	946,961	953,851	961,036	1,157,126	1,364,925
Oper Margin															
(Loss) or Gain on Securities	(7)	(300)													
Loss on Partial Debt	1	(15,013)													
Gain (loss) on derivate liabilities	(1)	(6,695)													
Loss gain on Fx		(973)													
Interest Expense	(20)	(28,000)													
Interest Income		(10,096)													
Other Income expenses - Financial Expenses (net)	(51,939)														
Pre-tax income	(310,580)	(462,528)	(84,548)	(88,463)	(96,493)	(100,399)	(369,904)	3,153,380	2,421,485	1,697,393	946,961	953,851	961,036	1,157,126	1,364,925
Taxes	(7,858)	(33,642)	-	-	-	-	-	315,338	363,223	339,479	189,392	209,847	230,649	277,710	327,582
Tax Rate	3%	7%	0%	0%	0%	0%	0%	10%	15%	20%	20%	22%	24%	24%	24%
Net Income (loss)	(314,410)	(428,325)	(84,548)	(88,463)	(96,493)	(100,399)	(369,904)	2,838,042	2,058,263	1,357,915	757,569	744,003	730,387	879,416	1,037,343
Net Loss attributable to noncontrolling interests	(15,949.00)	(813.00)	(449)	(454)	(458)	(463)	(1,375.50)	(1,431.35)	(1,489.47)	(1,549.94)	(1,612.88)	(1,678.37)	(1,746.52)	(1,817.43)	(1,891)
Net Gain / Loss to Sorrento	(298,461)	(428,325)	(84,099)	(88,009)	(96,034)	(99,936)	(283,980)	2,186,723	1,586,352	1,047,144	584,941	574,561	564,145	678,968	1,035,452
Basic EPS	(1.30)	(1.45)	(0.28)	(0.30)	(0.32)	(0.34)	(1.24)	9.48	6.88	4.54	2.53	2.49	2.44	2.94	3.46
Basic Wgtd Average Shares Outstanding (thousands)	229,823	294,774	299,276	299,276	299,276	299,276	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	294,774	299,875	299,276	299,276	299,575	299,276	299,276	299,276	299,276	299,276	299,276	299,276	299,276	299,276

Source: Company Reports and Dawson James * Ownership & or Risk Adjustment - Revenue source cut by half (50%)

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
- Update – Buy – March 4, 2022 – Price Target \$18.00
- Update – Buy – March 14, 2022 – Price Target \$16.00

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- 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... 3-Mar-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	76%	4	13%
Market Perform (Neutral)	10	24%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	41	100%	4	10%

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