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

Sorrento Therapeutics (Nasdaq: SRNE)

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BUY: IntraNasal CoviShield

Jason Kolbert

Managing Director & Senior Analyst
jkolbert@dawsonjames.com

Sorrento announced that it has received clearance from the FDA for its investigational new drug application (IND) for intranasal (IN) STI-9199 (COVISHIELD) to study the safety and pharmacokinetics in healthy volunteers. The Phase 1 study is at a single clinical site in San Diego and will be followed by multinational (USA, UK and Mexico) Phase 2/3 trials. Sorrento plans to discuss with the FDA the most appropriate end-points for the pivotal study that could result in an Emergency Use Authorization (EUA), if the trials meet the efficacy end-points of the pivotal study.

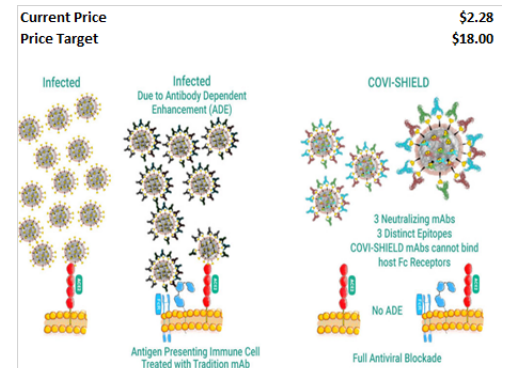
New Preclinical Results: CoviShield has demonstrated that pretreating an animal with intranasal neutralizing antibody (STI-9199) twenty-four (24) hours prior to being exposed to SARS-CoV-2 virus prevents productive infection in the treated animals. These data suggest that an individual who is at high risk of exposure to the SARS-CoV-2 virus could potentially be protected by taking STI-9199 nasal neutralizing antibody. The IND for the intranasal STI-9199 (COVISHIELD) product is now cleared by the FDA today to proceed.

What is CoviShield? It's a Neutralizing Antibody Cocktail. Sorrento is to bind to distinct epitopes on SARS-CoV-2 Spike protein. The antibody cocktail potentially creates a high barrier to emergence of resistant variants in treated individuals. COVISHIELD mAbs Fc regions are engineered to eliminate interactions with host Fc receptors, thereby decreasing risk of Antibody Dependent Enhancement of SARS-CoV-2 infection.

A Covid Portfolio: Sorrento is also developing potential antiviral therapies and vaccines against coronaviruses, including Abivertinib, COVI-AMG™, COVISHIELD™, COVI-MSCTM and COVIDROPS™; and diagnostic test solutions, including COVITRACK™ and COVISTIX™.

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	\$2.24	-	\$11.07
Shares Outstanding (mil.)	343.8		
Market Capitalization (mil.)	\$784		
Enterprise Value (mil.)	\$762		
Debt to Capital	0%		
Book Value/Share	\$2.41		
Price/Book	11.4		
Average Three Months Trading Volume (K)	9,651		
Insider Ownership	7.6%		
Institutional Ownership	30.3%		
Short interest (mil.)	13.2%		
Dividend / Yield	\$0.00/0.0%		

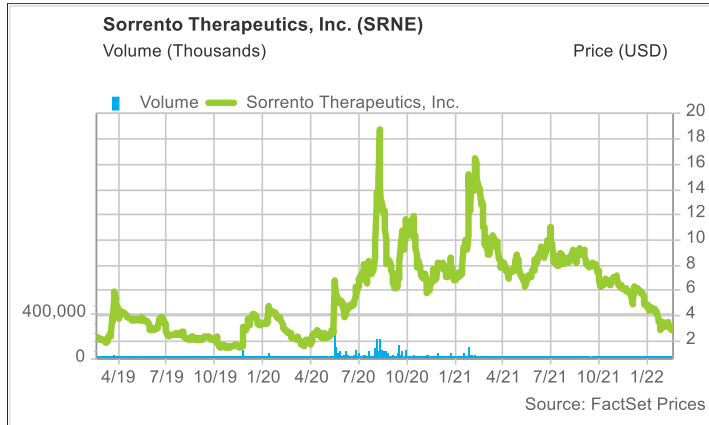


Exhibit 1. Income Statement

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

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

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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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