

Fortress Biotech (NASDAQ/FBIO)

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BUY: Reports First Quarter Results – \$24M in Revenues, \$290M in Consolidated Cash

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Fortress, for us, is one of the most compelling biotech stories we have seen in many years. The company has \$290M in cash, revenues and more importantly an ownership stake in multiple Phase 3 products with significant potential. We see the best as still ahead with 30 ongoing clinical trials, four of which represent seven pivotal programs. Multiple catalysts are set to unfold over the rest of the year. The valuation today is depressed, the company has plenty of capital and multiple catalysts. As such, our positive outlook remains unchanged.

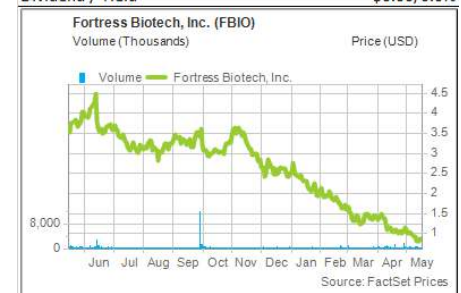
Investment Highlights (adapted from the press release);

- Journey Medical Update:** Journey currently has nine prescription dermatology products. In 2021 and early 2022, Journey Medical acquired and launched four prescription dermatology products, including Accutane®, Qbrexza®, Amzeeq®, and Zilxi®, and two product candidates, DFD-29 and FCD105. The company generated \$21M in first quarter.
- Cyprium Update.** On October 5, 2021, AstraZeneca acquired Caelum for an upfront payment of approximately \$150 million paid to Caelum shareholders, of which approximately \$56.9 million was paid to Fortress, net of Fortress' \$6.4 million portion of the \$15 million, 24-month escrow holdback amount and other miscellaneous transaction expenses. The agreement also provides for additional potential payments to Caelum shareholders totaling up to \$350 million, payable upon the achievement of regulatory and commercial milestones. Fortress is eligible to receive 42.4% of all potential milestone payments, totaling up to approximately \$212 million. There are two ongoing Phase 3 studies of CAEL-101 for AL amyloidosis. (ClinicalTrials.gov Identifiers: NCT04512235 and NCT04504825). CAEL-101 was sourced by Fortress and was developed by Caelum until the acquisition by AstraZeneca in October 2021.
- Please see the Fortress website for additional details on the remaining programs.

Current Price				\$0.86
Price Target				\$24.00
Commercial	Late Clinical	Early Clinical	Precinical	
Targem®	OUTX-101	MS-102	ATYS-001 Gene Therapy	
Jansyn®	Cosiderim	CK-101	AN-ATP7A Gene Therapy	
Eukorin®	CAEL-101	MS-101	Ant-GITR	
Cenocic®	H Transact	MS-105	Ant-CD4	
Lisocab®	MS-107	MS-103	CK-103	
Acotyne®**	MS-207	MS-106	CDVA-102	
Coreca®***	CDVA-101	MS-104	Control	
		MS-105	KRAS G12D Oncologes	
		BAER-101	Multiple Other Oncologes	
		Triplex		
		Dobnax		

Source: Fortress

Stock Data	
52-Week Range	\$0.79 - \$4.49
Shares Outstanding (mil.)	107.4
Market Capitalization (mil.)	\$92
Enterprise Value (mil.)	\$17
Debt to Capital	81%
Book Value/Share	\$1.03
Price/Book	2.3
Average Three Months Trading Volume (K)	560
Insider Ownership	11.0%
Institutional Ownership	20.8%
Short interest (mil.)	2.4%
Dividend / Yield	\$0.00/0.0%



Valuation: How to value Fortress? Fortress is a complex group of companies. Suffice to say; we model the contributions and Fortress holdings in many companies. Our valuation is based on an out-year 2030 share count. For each individual product, we make certain assumptions about the timing and probability of success and apply these assumptions to our model. We apply a probability of success in our therapeutic models. This ranges from as low as 30% to as high as 70% based on what we feel is the therapeutic risk that the product will advance. In addition to the success factor, we apply a 15% discount rate (r) in our Free Cash Flow to the Firm (FCFF), Discounted EPS (dEPS), and Sum of the Parts (SOP) models. We then average the result and round to the nearest whole number to derive our \$24.00 12-month price target.

Risks to our thesis include the following: (1) commercial; (2) regulatory; (3) clinical; (4) financial; and (5) intellectual property. We review these and other risks in the Risk Analysis section of this report.

Risk Analysis

In addition to the typical risks associated with development stage specialty pharmaceutical companies, potential risks specific to Fortress Biotech are as follows:

Financial risk. The company may need to raise capital in the marketplace in order to successfully push its products into the next phase, and there can be no assurances that the company will be able to successfully raise capital and/or do so on favorable terms.

Clinical and regulatory risk. Lead products must start and complete clinical trials. Trials may not produce results sufficient for regulatory approval.

Partnership risk. Fortress Biotech may seek partnerships for clinical development support and commercialization. We have no specific knowledge of any discussions with possible partners today, and there can be no assurances that the company will be able to secure a favorable partnership.

Commercial risk. There are no assurances that the company will be able to secure favorable pricing, commercially launch products, and achieve significant market share to become profitable.

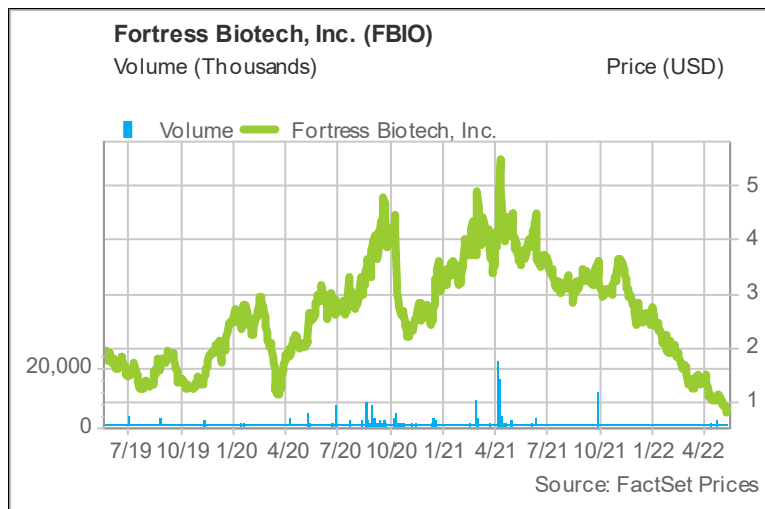
Legal and intellectual property risk. The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and or that the company may infringe on third parties' patents.

Companies mentioned in this report, working with Fortress and/or part of valuation discussion:

- Alexion (ALXN/NASDAQ)-Not covered.
- Astra Zeneca (AZN/NASDAQ) – Not Covered
- InvaGen Pharmaceuticals – (Private).
- St. Jude Children’s Research Hospital (Private).
- Mustang Bio (MBIO/NASDAQ) – Not covered.
- Checkpoint Therapeutics (CKPT/NASDAQ) – Not covered.
- Avenue Therapeutics (ATXI/ NASDAQ) – Not covered.
- Caelum Biosciences (Private).
- Journey Medical Corporation (DERM).
- Cyprium Therapeutics (Private).
- Fuji Yakuhin (subsidiary of Fuji-Japan – Not Covered)

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

- Initiated – Buy August 26, 2019, Price Target \$19.00
- Update – Buy September 17, 2019, Price Target \$19.00
- Update – Buy November 4, 2019, Price Target \$19.00
- Update – Buy December 11, 2019, Price Target \$19.00
- Update – Buy December 23, 2019, Price Target \$19.00
- Update – Buy January 15, 2020, Price Target \$19.00
- Update – Buy February 14, 2020, Price Target \$19.00
- Update – Buy February 20, 2020, Price Target \$19.00
- Update – Buy March 30, 2020, Price Target \$19.00
- Update – Buy May 14, 2020, Price Target \$19.00
- Update – Buy July 31, 2020, Price Target \$19.00
- Update – Buy September 8, 2020, Price Target \$19.00
- Price Target Change – Buy October 12, 2020, Price Target \$15.00
- Update – Buy October 20, 2020, Price Target \$15.00
- Price Target Change – Buy November 10, 2020, Price Target \$16.00
- Update – Buy December 14, 2020, Price Target \$16.00
- Update – Buy February 2, 2021, Price Target \$16.00
- Price Target Change – Buy February 17, 2021, Price Target \$21.00
- Price Target Change – Buy February 24, 2021, Price Target \$22.00

Price Target Change – Buy April 7, 2021, Price Target \$24.00
Update – Buy April 13, 2021, Price Target \$24.00
Update – Buy May 10, 2021, Price Target \$24.00
Update – Buy May 20, 2021, Price Target \$24.00
Update – Buy June 11, 2021, Price Target \$24.00
Update – Buy June 15, 2021, Price Target \$24.00
Update – Buy August 17, 2021, Price Target \$24.00
Update – Buy September 29, 2021, Price Target \$24.00
Update – Buy October 26, 2021, Price Target \$24.00
Update – Buy November 19, 2021, Price Target \$24.00
Update – Buy February 17, 2022, Price Target \$24.00
Update – Buy March 28, 2022, Price Target \$24.00
Update – Buy May 17, 2022, Price Target \$24.00

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Information about valuation methods and risks can be found in the “VALUATION” and “RISK ANALYSIS” sections of this report.

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Rating 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 16-May-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	72%	4	13%
Market Perform (Neutral)	12	28%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	4	9%

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.