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Sorrento Therapeutics (Nasdaq: SRNE)

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BUY: Reports 1Q22 Results - \$270M in Cash & Marketable Investments

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Sorrento Therapeutics reported revenues of \$18M versus expenses of \$125M. The company has plenty of resources with a market capitalization of half a billion and approximately \$270M in cash and investments. More importantly, we see a robust pipeline including a portfolio of covid therapeutics, pain, and cancer drugs too.

Levena Biopharma (a Sorrento Company), announces Positive Clinical Data for Its Out-Licensed A166 Product Candidate, A Third-Generation Anti-HER2-ADC, In Treating Heavily Pretreated HER2-Positive Breast Cancer Patients. A166 is a third-generation antibody drug conjugate (ADC) against HER2-positive breast cancer with Levena Biopharma’s proprietary tubulin inhibitor Duo-5 toxin, cleavable linker and site-specific K-Lock conjugation chemistry. A166 has demonstrated promising antitumor activity with clinically meaningful responses in heavily pretreated subjects with HER2-positive breast cancer. At a dose of 4.8 mg/kg, A166 demonstrated a 73.9% ORR as compared to the published data from Kadcyla® (Ado-Trastuzumab Emantsine) of 31.3% ORR, and the PFS with A166 was 12.3 months versus 6 months with Kadcyla.

Scilex (a Sorrento Company), Announces Pivotal Phase 3 SP-102 (SEMDEXA) Data Presentation At The American Society Of Interventional Pain (ASIPP) 2022 Annual Meeting. SP-102 (SEMDEXA) is the first non-opioid novel injectable corticosteroid gel formulation product in development for the treatment of lumbar radicular pain, and it contains no preservatives, surfactants, solvents, or particulates. The study met its primary endpoint with a highly statistically significant reduction in average daily leg pain in patients receiving SEMDEXA compared to placebo (p<0.001). Data demonstrated the utility of SEMDEXA in rapidly reducing sciatica pain with an extended effect for up to 99 days following a single epidural injection of SP-102 (SEMDEXA).

A Covid Portfolio: Sorrento is also developing potential antiviral therapies and vaccines against coronaviruses, including Abivertinib, COVI-AMG™, COVISHIELD™, COVI-MSC™ 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 \$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.



Source: Sorrento

Stock Data		
52-Week Range	\$1.50	\$11.07
Shares Outstanding (mil.)		343.8
Market Capitalization (mil.)		\$523
Enterprise Value (mil.)		\$501
Debt to Capital		0%
Book Value/Share		\$2.41
Price/Book		18.6
Average Three Months Trading Volume (K)		5,587
Insider Ownership		6.7%
Institutional Ownership		27.2%
Short interest (mil.)		15.6%
Dividend / Yield		\$0.00/0.0%

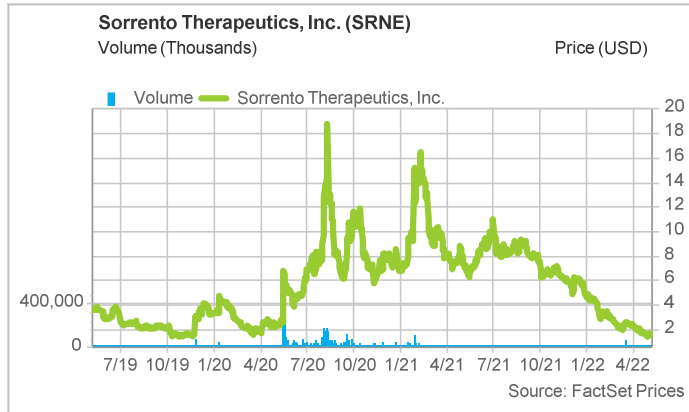


Exhibit 1. Income Statement

Sorrento Income Statement (\$ '000)															
SRNE	2020A	2021A	1Q22A	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	8,395	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	9,990	9,990	-	-	-	9,990	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	18,385	18,753	19,128	19,510	75,776	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	2,878	5,626	5,738	5,853	20,095	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	66,857	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	(1,066)												
SG&A (net)	116,179	196,856	56,599	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	125,268	104,471	112,820	117,054	431,949	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)	(106,883)	(85,718)	(93,692)	(97,543)	(356,173)	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)	7,500												
Loss on Partial Debt	1	(15,013)	68,354												
Gain (loss) on derivate liabilities	(1)	(6,695)	(5,262)												
Loss gain on Fx		(973)	397												
Interest Expense	(20)	(28,000)	(3,249)												
Interest Income		(10,096)	17												
Other Income expenses - Financial Expenses (net)	(51,939)		67,757												
Pre-tax income	(310,580)	(462,528)	(40,540)	(85,718)	(93,692)	(97,543)	(317,494)	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)	275	-	-	-	275	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)	(40,815)	(85,718)	(93,692)	(97,543)	(317,769)	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)	(40,366)	(85,264)	(93,234)	(97,080)	(275,578)	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)	(0.12)	(0.25)	(0.28)	(0.29)	(0.94)	8.42	6.11	4.03	2.25	2.21	2.17	2.61	3.08
Basic Wght Average Shares Outstanding (thousands)	229,823	294,774	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123
Fully Diluted Wgtd Avg Shrs outstanding (Thousands)	229,823	294,774	337,123	337,123	337,123	337,460	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123	337,123

Important Disclosures:

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
- Update – Buy – May 2, 2022 – Price Target \$16.00
- Update – Buy – May 9, 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 26-Apr-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	32	74%	4	13%
Market Perform (Neutral)	11	26%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	4	9%

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