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Sorrento Therapeutics (Nasdaq: SRNE)

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BUY: Removing Covid Estimates – Lowering Our Price Target from \$16.0 to \$5.0

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Sorrento reported 2nd Quarter results which prompted us to review our model and the associated assumptions. The Covid pandemic appears to be in the past with most folks now being vaccinated (vaccine & or natural immunity after exposure). The net result of this change is our target valuation falls from \$16.0 to \$5.0.

Sorrento reported 2nd quarter results. The company has \$11.4M in revenues and \$112M in expenses for a net operating loss of \$118M. Sorrento has \$133M in cash.

Sorrento does have a robust Covid portfolio but ... has the pandemic passed? The probability of government secured contracts appears to be a thing of the past. As a result we feel it's prudent to remove our Covid estimates. The impact is our price target falls from \$16.0 to \$5.0 Sorrento is also developing potential antiviral therapies and vaccines against coronaviruses, including Abivertinib, COVI-AMG™, COVISHIELD™, COVI-MSCT™ 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 15% discount rate in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum of the Parts (SOP) – 50%, 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 a \$5.0 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	\$1.15 - \$9.63
Shares Outstanding (mil.)	388.9
Market Capitalization (mil.)	\$825
Enterprise Value (mil.)	\$803
Debt to Capital	0%
Book Value/Share	\$2.41
Price/Book	18.6
Average Three Months Trading Volume (K)	11,710
Insider Ownership	1.5%
Institutional Ownership	46.9%
Short interest (mil.)	15.5%
Dividend / Yield	\$0.00/0.0%



Exhibit 1. Income Statement

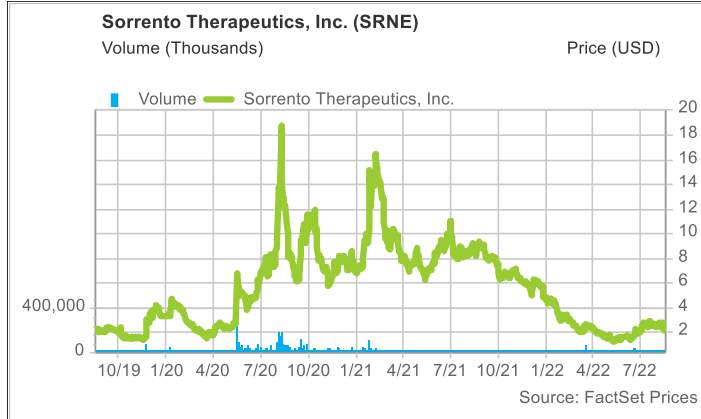
Sorrento Income Statement (\$ '000)															
SRNE	2020A	2021A	1Q22A	2Q22A	3Q22E	4Q22E	2022	2023	2024	2025	2026	2027	2028	2029	2030
COVID19 (tests & therapeutics) USA *			-	-	-	-									
COVID 19 ROW *			-	-	-	-									
Non - Opioid Pain Relief U.S.		-	-	-	-	-	-	51,515	106,142	164,021	211,218	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	2,870	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	8,591	-	-	18,581	180,303	371,496	574,072	739,261	761,587	784,587	1,077,709	1,387,820
Total Revenues (Product Sales, Service and Therapeutics)	39,986	52,904	18,385	11,461	11,690	11,924	53,460	204,957	396,397	599,223	764,663	787,243	810,500	1,103,880	1,414,253
Expenses															
COGS	9,940	13,031	2,878	5,702	5,816	5,932	20,328	61,487	118,919	179,767	229,399	236,173	243,150	331,164	424,276
% COGS	25%	24%	30%	50%	50%	50%	50%	30%	30%	30%	30%	30%	30%	30%	30%
R&D	154,332	206,922	66,857	48,467	54,876	56,986	211,060	215,282	172,225	137,780	110,224	88,179	89,943	91,742	93,577
Intangible	4,053	37,546	(1,066)	27,515	-	-	-	-	-	-	-	-	-	-	-
SG&A (net)	116,179	196,856	56,599	48,136	52,206	54,214	200,793	204,809	150,000	100,000	75,000	76,500	78,030	79,591	81,182
Total costs & expenses	284,504	454,355	125,268	129,822	112,898	117,133	432,182	481,578	441,144	417,547	414,623	400,852	411,123	502,497	599,035
Operating Income (Loss) EBIT	(244,518)	(401,451)	(106,883)	(118,361)	(101,208)	(105,209)	(378,722)	(276,620)	(44,747)	181,676	350,040	386,391	399,377	601,384	815,218
Oper Margin															
(Loss) or Gain on Securities	(7)	(300)	7,500	(2,700)	-	-	-	-	-	-	-	-	-	-	-
Loss on Partial Debt	1	(15,013)	68,354	(95,492)	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) on derivate liabilities	(1)	(6,695)	(5,262)	(471)	-	-	-	-	-	-	-	-	-	-	-
Loss gain on Fx		(973)	397	(561)	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	(20)	(28,000)	(3,249)	(2,314)	-	-	-	-	-	-	-	-	-	-	-
Interest Income		(10,096)	17	(1,418)	-	-	-	-	-	-	-	-	-	-	-
Other Income expenses - Financial Expenses (net)	(51,939)		67,757	(102,956)	-	-	-	-	-	-	-	-	-	-	-
Pre-tax income	(310,580)	(462,528)	(40,540)	(218,759)	(101,208)	(105,209)	(465,716)	(276,620)	(44,747)	181,676	350,040	386,391	399,377	601,384	815,218
Taxes	(7,858)	(33,642)	275	-	-	-	275	(27,662)	(6,712)	36,335	70,008	85,006	95,850	144,332	195,652
Tax Rate	3%	7%	0%	0%	0%	0%	0%	0%	0%	10%	15%	20%	21%	22%	23%
Net Income (loss)	(314,410)	(428,325)	(40,815)	(218,759)	(101,208)	(105,209)	(465,991)	(248,958)	(38,035)	145,340	280,032	301,385	303,526	457,052	619,566
Net Loss attributable to noncontrolling interests	(15,949.00)	(813.00)	(449)	0	0	0	-	-	-	-	-	-	-	-	-
Net Gain / Loss to Sorrento	(298,461)	(428,325)	(40,366)	(218,759)	(101,208)	(105,209)	(425,176)	(191,698)	(29,287)	111,912	215,625	232,066	233,715	351,930	619,566
Basic EPS	(1.30)	(1.45)	(0.12)	(0.54)	(0.25)	(0.26)	(1.18)	(0.62)	(0.09)	0.36	0.70	0.75	0.75	1.13	1.54
Basic Wght Average Shares Outstanding (thousands)	229,823	294,774	337,123	402,801	402,801	402,801	386,382	402,801	402,801	402,801	402,801	402,801	402,801	402,801	402,801
Fully Diluted Wght Avg Shrs outstanding (Thousands)	229,823	294,774	337,123	402,801	402,801	403,204	386,382	402,801	402,801	402,801	402,801	402,801	402,801	402,801	402,801

Source: Company Reports and Dawson James * Ownership & or Risk Adjustment - Revenue source cut by probability of success factor between 30 and 50%

Source: Dawson James

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
- Update – Buy – July 8, 2022 – Price Target \$16.00
- Update – Buy – July 20, 2022 – Price Target \$16.00
- Price Target Change – Buy – August 18, 2022 – Price Target \$5.00

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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 16-Aug-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	27	90%	4	15%
Market Perform (Neutral)	2	7%	0	0%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

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