Sorrento Therapeutics (Nasdaq: SRNE) – Buy Rated

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Sorrento Declares Stock Dividend of 76M Scilex Shares

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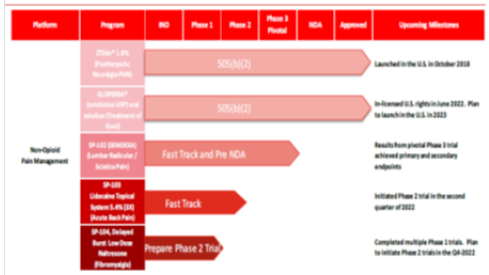
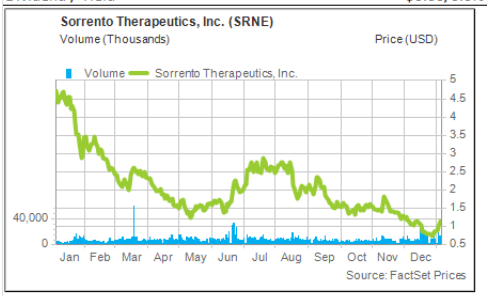
On 29-Dec-22, the board of Sorrento Therapeutics declared a stock dividend consisting of an aggregate of 76.0M shares of common stock of Scilex Holding Company (SCLX-Not Rated) held by the company. We have not yet addressed the implications of this dividend in our model – as we need to better understand the ownership and participation which remains for Sorrento post-dividend.

Current Price	**$1.16**
Price Target	**$5.00**



Source: Scilex

Stock Data			
52-Week Range	$0.74	-	$4.80
Shares Outstanding (mil.)			471.9
Market Capitalization (mil.)			$547
Enterprise Value (mil.)			$525
Debt to Capital			0%
Book Value/Share			$2.41
Price/Book			18.6
Average Three Months Trading Volume (K)			5,874
Insider Ownership			1.8%
Institutional Ownership			35.2%
Short interest (mil.)			12.6%
Dividend / Yield			$0.00/0.0%



Investment Highlights

Scilex Holding Company (SCLX-Not Rated) was previously a majority-owned (58%) subsidiary of Sorrento Therapeutics. Recall that Scilex is focused on the treatment of acute and chronic pain. The focus is on **Non-Opioid Pain Management therapies**. Resiniferatoxin is a toxin that ablates afferent nerves. It is being developed for pain associated with knee replacement deferment / Osteoarthritis knee pain and Terminal Cancer Pain. Knee replacement pivotal studies are expected this year. In addition, Scilex is also developing Scilex SP-102 as an epidural steroid injection for the treatment of sciatica pain, which as many of us unfortunately know is a blockbuster market.

Scilex lead product is ZTlido (lidocaine topical system) 1.8%, is a prescription lidocaine topical product approved by the FDA for the relief of pain associated with Post-Herpetic Neuralgia (PHN), which is a form of post-shingles nerve pain. Scilex in-licensed the exclusive right to commercialize Gloperba (colchicine USP) oral solution, an FDA-approved prophylactic treatment for painful gout flares in adults, in the U.S. Scilex is planning to commercialize Gloperba in 2023 and is well-positioned to market and distribute the product.

Scilex's three product candidates are SP-102 (injectable dexamethasone sodium phosphate viscous gel product containing 10 mg dexamethasone), or SEMDEXA, a novel, viscous gel formulation of a widely used corticosteroid for epidural injections to treat lumbosacral radicular pain, or sciatica, with FDA Fast Track status. If approved by the FDA, the company expects SP-102 to be the first FDA-approved non-opioid epidural injection to treat lumbosacral radicular pain, or sciatica, with the potential to replace 12 million off-label epidural steroid injections administered each year in the US. SP-103 (lidocaine topical system) 5.4%, a triple-strength formulation of ZTlido, for the treatment of low back pain, with FDA Fast Track status. SP-104, 4.5 mg Delayed Burst Release Low Dose Naltrexone Hydrochloride (DBR-LDN) Capsule, for the treatment of chronic pain, fibromyalgia.

Valuation. We assume a probability of success of 50% in our pain therapeutic model, 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) 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.

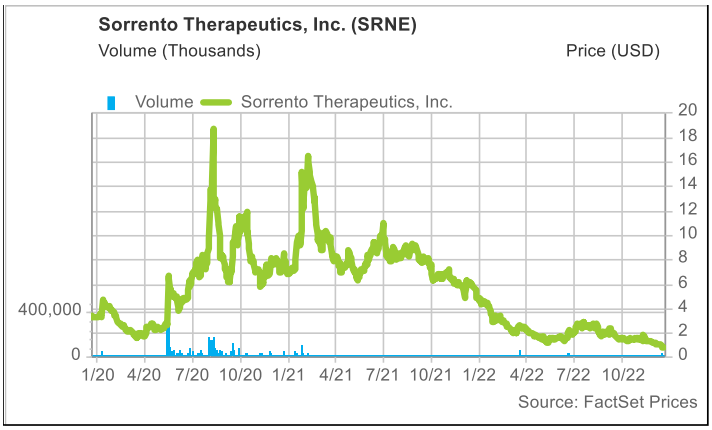
Exhibit 1. Income Statement

Sorrento Income Statement ($ '000)															
SRNE	**2020A**	**2021A**	**1Q22A**	**2Q22A**	**3Q22A**	**4Q22E**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
COVID19 (tests & therapeutics) USA *			-	-	-	-									
COVID 19 ROW *			-	-	-	-									
Non - Opioid Pain Relief U.S. **		-			-	-	-	-	53,071	109,347	168,974	217,596	224,168	307,917	396,520
Non - Opioid Pain Relief ROW **		-			-	-	-	-	132,677	273,368	422,435	543,991	560,419	769,792	991,300
Service Revenues	13,358	24,169	8,395	2,870	3,751	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	8,591	-	-	18,581	-	185,748	382,715	591,409	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	17,400	17,748	64,994	24,655	210,649	407,865	616,811	787,243	810,500	1,103,880	1,414,253
Expenses															
COGS	9,940	13,031	2,878	5,702	8,268	8,433	25,281	7,396	63,195	122,360	185,043	236,173	243,150	331,164	424,276
% COGS	25%	24%	30%	50%	48%	48%	48%	30%	30%	30%	30%	30%	30%	30%	30%
R&D	154,332	206,922	66,857	48,467	67,989	56,986	211,060	215,282	172,225	137,780	110,224	88,179	89,943	91,742	93,577
Intangible & Other	4,053	37,546	(1,066)	27,515	427										
SG&A (net)	116,179	196,856	56,599	48,136	50,159	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	126,843	119,634	437,135	427,487	385,420	360,140	370,268	400,852	411,123	502,497	599,035
Operating Income (Loss) EBIT	(244,518)	(401,451)	(106,883)	(118,361)	(109,443)	(101,886)	(372,141)	(402,832)	(174,771)	47,725	246,544	386,391	399,377	601,384	815,218
Oper Margin															
(Loss) or Gain on Securities	(7)	(300)	7,500	(2,700)	500										
Loss on Partial Debt	1	(15,013)	68,354	(95,492)	(16,084)										
Gain (loss) on derivate liabilities	(1)	(6,695)	(5,262)	(471)	33,433										
Loss gain on Fx		(973)	397	(561)	610										
Interest Expense	(20)	(28,000)	(3,249)	(2,314)	(792)										
Interest Income		(10,096)	17	(1,418)	74										
Other Income expenses - Financial Expenses (net)	(51,939)		67,757	(102,956)	17,741										
Pre-tax income	(310,580)	(462,528)	(40,540)	(218,759)	(91,702)	(101,886)	(452,887)	(402,832)	(174,771)	47,725	246,544	386,391	399,377	601,384	815,218
Taxes	(7,858)	(33,642)	275	-	(953)	-	(678)	(40,283)	(26,216)	9,545	49,309	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)	(90,749)	(101,886)	(452,209)	(362,549)	(148,555)	38,180	197,235	301,385	303,526	457,052	619,566
Net Loss attributable to noncontrolling interests	(15,949.00)	(813.00)	(449)		(1,049)	(1,059)	(2,108.49)	(3,274.89)	(3,407.86)	(3,546.24)	(3,690.23)	(3,840.06)	(3,995.99)	(4,158.24)	(4,327)
Net Gain / Loss to Sorrento	(298,461)	(428,325)	(40,366)	(218,759)	(89,576)	(100,826)	(409,161)	(275,888)	(110,980)	32,945	155,561	235,906	237,711	356,088	615,239
Basic EPS	(1.30)	(1.45)	(0.12)	(0.54)	(0.20)	(0.23)	(1.09)	(0.80)	(0.33)	0.08	0.44	0.67	0.67	1.01	1.37
Basic Wght Average Shares Outstanding (thousands)	229,823	294,774	337,123	402,801	451,621	451,621	410,792	451,621	451,621	451,621	451,621	451,621	451,621	451,621	451,621
Fully Diluted Wgtd Avg Shrs outstanding (Thousands)	229,823	294,774	337,123	402,801	451,621	452,073	410,792	451,621	451,621	451,621	451,621	451,621	451,621	451,621	451,621

Source: Company Reports and Dawson James * Ownership & or Risk Adjustment - Revenue source cut by probability of success factor between 30 and 50%, ** Sorrento is a majority owner of Scilex (SCLX)

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
Update – Buy – September 27, 2022 – Price Target $5.00
Update – Buy – November 23, 2022 – Price Target $5.00
Update – Buy – December 22, 2022 – Price Target $5.00
Update – Buy – December 23, 2022 – Price Target $5.00

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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-Jan-23

	Company Coverage		**Investment Banking**	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	70%	1	5%
Market Perform (Neutral)	8	27%	1	13%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	2	7%

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