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## Sorrento Therapeutics (Nasdaq: SRNE) – Lowering from Buy to Neutral

February 13, 2023

### Sorrento Subsidiary Scintilla Files for Chapter 11 Protection

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Sorrento has a number of 8k filings – an update on the Nant arbitration and a noted Chapter 11 filing around its wholly-owned subsidiary Scintilla Pharmaceuticals. We are not attorneys so “gaming out” what this means is outside of our analytical scope. As such we are lowering our rating from buy to Neutral and removing our target valuation.

### Investment Highlights

**Is Sorrento Bankrupt?** We don’t believe so. Remember, as of the Sept. 30<sup>th</sup> quarter, Sorrento reported \$70M in cash and \$47.1M of equivalents and recall that Sorrento owns just over half of Scilex (SCLX-Not Rated). Scilex today has a market capitalization of well over a billion dollars. **We see the news of a “Chapter 11 Filing” as Sorrento’s attempt to reorganize/restructure the company and avoid paying out any dollars associated with the Nant Litigation. (8k filings):**

To protect the company's business and maximize its value, on 13-Feb-23, the company and its wholly owned direct subsidiary, Scintilla Pharmaceuticals, Inc., commenced voluntary proceedings under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas.

**Please see Sorrento’s 8k filings for more information:** Briefly, Sorrento has been engaged in arbitration against NantCell, Inc. and Immunotherapy NANTibody LLC relating to alleged breaches of the April 21, 2015 Exclusive License Agreement entered into between Sorrento and NantCell. On December 2, 2022, the arbitrator in that arbitration issued an award granting contractual damages and pre-award interest in the amounts of \$156M to NantCell and \$16,6M to NANTibody, exclusive of post-award, prejudgment interest.

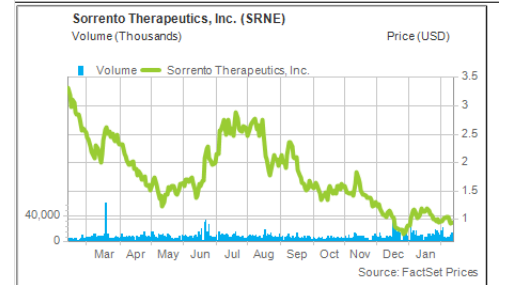
**Valuation.** We lower our rating from Buy to Neutral and remove our price target. We do have a complete model for Sorrento however, given the complexity of these filings and ongoing litigation with NantCell we feel it is outside our analytical scope to game out how this all plays out. Suffice to say we do not see Sorrento as a bankrupt company and see these legal efforts as the next step in the company managing its litigation with Nant.

**Risks to our thesis** include the following: (1) Ongoing litigation and or bankruptcy filing - reorganization; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; and (7) intellectual property.



**Stock Data**

52-Week Range	\$0.74	-	\$3.22
Shares Outstanding (mil.)	471.9		
Market Capitalization (mil.)	\$444		
Enterprise Value (mil.)	\$422		
Debt to Capital	0%		
Book Value/Share	\$2.41		
Price/Book	18.6		
Average Three Months Trading Volume (K)	13,819		
Insider Ownership	1.9%		
Institutional Ownership	38.9%		
Short interest (mil.)	13.7%		
Dividend / Yield	\$0.00/0.0%		



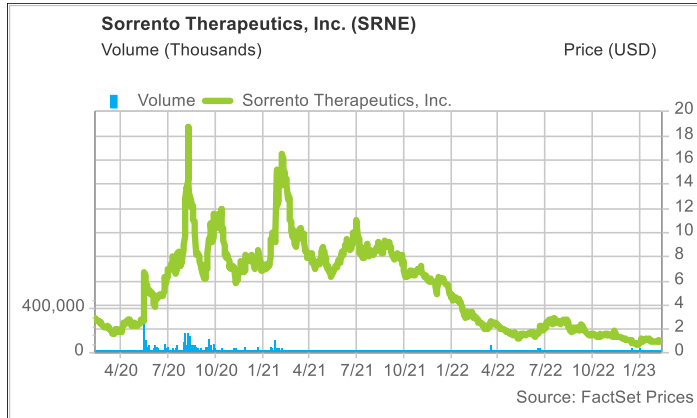
**Exhibit 1. Income Statement**

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	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
<b>Expenses</b>															
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 Wght 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
- Update – Buy – January 5, 2023 – Price Target \$5.00
- Update – Buy – January 30, 2023 – Price Target \$5.00
- Rating Change – Buy to Neutral – February 13, 2023 – Price Target NA

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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 13-Feb-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	67%	1	5%
Market Perform (Neutral)	10	30%	2	20%
Market Underperform (Sell)	1	3%	0	0%
<b>Total</b>	<b>33</b>	<b>100%</b>	<b>3</b>	<b>9%</b>

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