

Member FINRA/SIPC

Toll-Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 101 North Federal Highway - Suite 600 ♦ Boca Raton, FL 33432

## Sorrento Therapeutics (SRNE) – Neutral Rated

March 1, 2023

### Sorrento Owns a Majority of Scilex; What's its Value?

Jason Kolbert

Managing Director & Senior Analyst  
jkolbert@dawsonjames.com

*Is Scilex \$1.2B Market Cap inflated? The company reported unaudited numbers - the company estimates that: ZTlido gross sales for February 2023 were in the range of \$8.6M to \$8.8M and gross sales for the month were ~\$17M. As such, it's a bit difficult to understand the \$1.2B market cap that the company has today, however we do not follow Scilex.*

### 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%, 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.** Last month, on 2.13.23, we lowered our rating from Buy to Neutral and removed 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 it to say we do not see Sorrento as a bankrupt company, just considering that the company still owns the majority of Scilex, although we are concerned that Scilex's valuation looks inflated.

**Risks to our thesis** include the following: (1) commercial; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; and (7) intellectual property.

Current Price	\$0.31
Price Target	NA

Product	Program	IND	Phase 1	Phase 2	Phase 3 Pivotal	NDA	Approval	Keying Milestones
Non-Opioid Pain Management	Resiniferatoxin (RXT) (Resiniferatoxin) (Resiniferatoxin)				SOON(S)			Launched in the U.S. in October 2024
	Scilex SP-102 (Injectable Dexamethasone Sodium Phosphate Viscous Gel)				SOON(S)			Informed U.S. rights in late 2022. Plan to launch in the U.S. in 2023
	Scilex SP-103 (Triple-Strength Lidocaine Topical System)				Fast Track and Pre NDA			Results from pivotal Phase 3 trial will be primary and secondary endpoints
	Scilex SP-104 (Delayed Burst Release Low Dose Naltrexone Hydrochloride Capsule)				Fast Track			Initiated Phase 3 trial in the second quarter of 2022
	Scilex SP-104 (Delayed Burst Release Low Dose Naltrexone Hydrochloride Capsule)				Prepare Phase 2 Trial			Completed multiple Phase 1 trials. Plan to initiate Phase 2 trial in the Q4-2022

Source: Scilex

#### Stock Data

52-Week Range	\$0.16	-	\$3.09
Shares Outstanding (mil.)	471.9		
Market Capitalization (mil.)	\$144		
Enterprise Value (mil.)	\$122		
Debt to Capital	0%		
Book Value/Share	\$2.41		
Price/Book	18.6		
Average Three Months Trading Volume (K)	8,838		
Insider Ownership	1.9%		
Institutional Ownership	45.6%		
Short interest (mil.)	6.8%		
Dividend / Yield	\$0.00/0.0%		



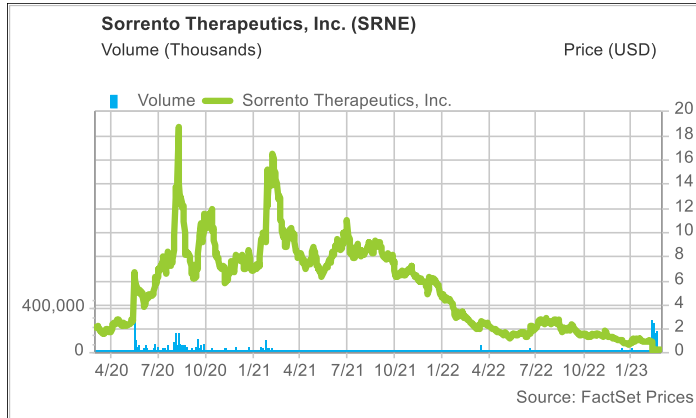
**Exhibit 1. Income Statement**

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
- Update – Neutral – March 1, 2023 – Price Target NA

Dawson James Securities, Inc. (the "Firm") is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

The Firm does not make a market in the securities of the subject company(s). The Firm has NOT engaged in investment banking relationships with SRNE in the prior twelve months, as a manager or co-manager of a public offering and has NOT received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has not received other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of January 30, 2023, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts, or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm 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.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

**Ratings 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 22-Feb-23

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	68%	1	3%
Market Perform (Neutral)	11	32%	2	6%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>34</b>	<b>100%</b>	<b>3</b>	<b>9%</b>

**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.