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## Fortress Biotech (NASDAQ/FBIO)

April 12, 2023

### BUY: Fortress: \$76M in Revenues & \$181M in Cash

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Fortress generated consolidated revenues of \$76M last year and closed the year with \$181M in cash and equivalents versus the company's market capitalization of just \$81M.

## Investment Highlights

**What is Fortress?** Fortress today is a company has nine marketed prescription pharmaceutical products as well as 21 plus programs in development by its majority-owned controlled partners. The company also owns significant minority ownership positions in companies. These product candidates run across multiple therapeutic areas from oncology, rare diseases and gene therapy to commercialized dermatology. Fortress creates value through its diversified pipeline combined with a cost-efficient operating structure that fosters efficient drug development.

### Potential Revenues and Cashflow Events

Partner Company	Assets	2021	2022	2023	2024	2025	2026+	Potential Peak Sales (Global)
Journey (DERM)	Commercial Portfolio: Obicorin, Anzemet, Targidol, etc. DFD-29 (oral small molecule) Phase 2 results for asthma in H1 2023	\$63.1M Net revenue	\$73.7M FY2022 Net revenue	■	■	■	■	●●
Castum*	CAEL-101 (oral anti-cancer mAb) Phase 1 trials for AL amyloidosis	\$56.9M Monoclonal			▲	▲	▲	●●●
Checkpoint (CKPT)	CPD-002 (anti-PD-L1 mAb) MGA approved for melanoma and locally advanced NSCLC				■	(Asia)		●●●
Cyprium*	CPD-002 (anti-PD-L1 mAb) Phase 2 trial in ASIA in NSCLC (collaboration)	\$8M Monoclonal		▲	■		■	●
Mustang (MBIO)	MB-107 (gene therapy) Phase 1 Phase 2 trial for newly diagnosed NSCLC planned 2023 MB-207 (gene therapy) Phase 1 Phase 2 trial for previously transplanted NSCLC planned 2023 MB-108 (CAR-T + monoclonal mAb) IND filing for GBM planned 2023 MB-106 (CD20 CAR-T) Phase 1/2 multicenter trial ongoing					▲	■	●●●
Urtica	Dolimand (ORBIT1 inhibitor) Phase 1 trial ongoing						■	●●●

Source: Fortress

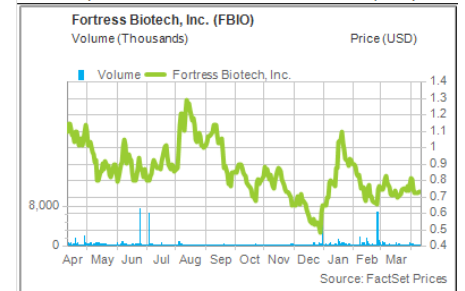
**Valuation: How to value Fortress?** Fortress is a complex group of companies. Suffice to say; we model the contributions and Fortress holdings in many companies. Our valuation is based on an out-year 2030 share count. For each individual product, we make certain assumptions about the timing and probability of success and apply these assumptions to our model. We apply a probability of success in our therapeutic models. This ranges from as low as 30% to as high as 70% based on what we feel is the therapeutic risk that the product will advance. In addition to the success factor, we apply a 15% discount rate (r) in our Free Cash Flow to the Firm (FCFF), Discounted EPS (dEPS), and Sum of the Parts (SOP) models. We then average the result and round to the nearest whole number to derive our \$24.00 12-month price target.

**Risks to our thesis include the following:** (1) commercial; (2) regulatory; (3) clinical; (4) financial; and (5) intellectual property. We review these and other risks in the Risk Analysis section of this report.

Current Price	\$0.74		
Price Target	\$24.00		
Commercial	Late Clinical	Early Clinical	Practical
Obicorin*	CPD-002	Dolimand	AAV-07A Gene Therapy
Anzemet*	CAEL-101*	ADD1	In vivo CAR T Technology
Zinc*	MB-107	MB-101	MB-103
Targidol*	MB-207	MB-110	CK-103
Castum*	DFD-29	MB-101	CK-102
Targidol*	Cobalimab	MB-102	CK-103
Elmited	Obicorin	MB-103	AAV-07A Gene Therapy
Emerging Products	Tropic	MB-104	Contra
	In Transact	MB-105	CEVA-102
	CEVA-101	MB-106	CEVA-0
		MB-108	

Source: Fortress

Stock Data		
52-Week Range	\$0.48 -	\$1.33
Shares Outstanding (mil.)	110.5	
Market Capitalization (mil.)	\$81	
Enterprise Value (mil.)	\$6	
Debt to Capital	91%	
Book Value/Share	\$1.03	
Price/Book	1.7	
Average Three Months Trading Volume (K)	228	
Insider Ownership	21.4%	
Institutional Ownership	17.1%	
Short interest (mil.)	0.9%	
Dividend / Yield	\$0.00/0.0%	



**Risk Analysis**

In addition to the typical risks associated with development-stage specialty pharmaceutical companies, potential risks specific to Fortress Biotech are as follows:

**Financial risk.** The company may need to raise capital in the marketplace in order to successfully push its products into the next phase, and there can be no assurances that the company will be able to successfully raise capital and/or do so on favorable terms.

**Clinical and regulatory risk.** Lead products must start and complete clinical trials. Trials may not produce results sufficient for regulatory approval.

**Partnership risk.** Fortress Biotech may seek partnerships for clinical development support and commercialization. We have no specific knowledge of any discussions with possible partners today, and there can be no assurances that the company will be able to secure a favorable partnership.

**Commercial risk.** There are no assurances that the company will be able to secure favorable pricing, commercially launch products, and achieve significant market share to become profitable.

**Legal and intellectual property risk.** The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and or that the company may infringe on third parties' patents.

**Exhibit 1. Income Statement**

	2019A	2020A	2021A	2022A	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Probability Revenue Forecast: ('000)</b>																
<b>Avenue Therapeutics: IV Tramadol end use sales</b>																
Percent Owned by Fortress	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
<b>Revenues Attributed back to Fortress</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Mustang Bio - Bubble Boy (MB-107)</b>																
Percent Owned by Fortress	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
<b>Revenues Attributed back to Fortress</b>	0	0	0	0	0	0	0	0	21,938	30,375	45,281	80,438	76,781	69,188	58,500	58,500
<b>Cyprium - CUTX-101 - Menkes Disease</b>																
Percent Owned by Fortress	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%
<b>Revenues Attributed back to Fortress</b>	1	1	1	1	1	1	1	1	20,025	60,075	100,125	100,125	100,125	100,125	100,125	100,125
<b>CheckPoint (Cosibelimab PD-L1)</b>																
Percent Owned by Fortress	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
<b>Revenues Attributed back to Fortress</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>CK-101 end use sales</b>																
Percent Owned by Fortress	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
<b>Revenues Attributed back to Fortress</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Journey Medical Corporation (Dermatology)</b>																
Percent Owned by Fortress	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Revenues Attributed back to Fortress</b>	34,921	44,531	63,134	65,246	16,507	18,660	17,225	19,378	71,771	78,948	86,842	95,527	105,079	115,587	127,146	139,861
<b>Other Revenue Back to Fortress</b>	1,708	1,068	5,656	4,254	1,076	1,123	1,170	1,310	4,679	5,147	5,662	6,228	6,851	7,536	8,290	9,119
<b>Fortress Revenues</b>	36,629	45,599	68,791	70,995	8,835	9,893	9,266	10,418	38,412	64,190	213,780	420,402	617,622	667,063	713,128	756,719
<b>Avenue Therapeutic (IV Tramadol) Royalties (4.5% on sales &gt; \$325M)</b>																
Associate Milestones			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Mustang Bio - Bubble Boy (MB-107) Prob. Adj. Royalties - 4.5%</b>																
Associate Milestones			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,290.63	\$ 4,556	\$ 6,792	\$ 12,066	\$ 11,517	\$ 10,378	\$ 8,775
<b>Cyprium - CUTX-101 Menke's Disease - Prob. Adj. Royalties - 4.5%</b>																
Associate Milestones			\$ -	\$ -	\$ 2,300	\$ 2,700	\$ 2,200	\$ 2,800	\$ 10,000	\$ 10,000	\$ 5,625	\$ 16,875	\$ 28,125	\$ 28,125	\$ 28,125	\$ 28,125
<b>CheckPoint (Cosibelimab PD-L1) - Prob. Adj. Royalties - 4.5%</b>																
Associate Milestones			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,235	\$ 12,705	\$ 16,940	\$ 21,175
<b>CheckPoint (CK-101 - TKI) - Prob. Adj. Royalties -25%</b>																
Associate Milestones			\$ 2,400	\$ -	\$ 11,500	\$ 13,500	\$ 11,000	\$ 14,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 35,000	\$ -	\$ 41,495	\$ 43,935
<b>Total Royalties &amp; Milestones</b>	-	-	72,666	4,748	13,800	16,200	13,200	16,800	60,000	63,291	82,386	108,076	126,039	101,401	106,938	112,011
<b>Expenses:</b>																
<b>Fortress</b>																
Costs of Goods Sold (Journey Medical)	10,532	14,594	32,084	30,775	-	-	-	-	-	-	-	-	-	-	-	-
%COGS	29%	33%	51%	47%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Research and Development (Consolidated)</b>	75,236	64,108	113,240	134,199	32,409	33,818	36,636	38,045	140,909	147,954	155,352	163,120	171,276	179,839	188,831	198,273
Fortress			2,780													
Avenue			2,866													
Checkpoint			11,735													
Mustang			39,475													
Journey			1,806													
Other**			6,090													
Research and Development- licenses acquired	6,090	1,820	15,625	677	163	171	185	192	711	746	784	823	864	907	953	1,000
<b>General and Administrative (Consolidated)</b>	55,590	61,166	86,843	113,656	28,982	30,142	26,664	30,142	115,929	118,248	120,613	123,025	125,485	127,995	130,555	133,166
Fortress			23,341													
Avenue			2,347													
Checkpoint			6,518													
Journey Medical Corp. (SG&A)			25,659													
Mustang			6,810													
Journey			1,184													
Other**			9540													
<b>Total Operating expenses</b>	147,448	142,146	257,332	279,307	61,555	64,130	63,485	68,379	257,549	266,948	276,748	286,968	297,625	308,742	320,339	332,439
<b>Total Operating expenses (Adjusted)</b>		69,164														
<b>Operating Income (Loss)</b>	110,819	(96,546)	(188,541)	(203,564)	(38,920)	(38,037)	(41,019)	(41,161)	(159,137)	(139,468)	19,417	241,510	446,036	459,722	499,727	536,290
<b>Operating Income (Loss) adjusted</b>	-	(23,565)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income (expense), net	2,559	2,687	649	1,398	338	352	382	396	1,468	1,541	1,618	1,699	1,784	1,873	1,967	2,065
Interest expense and financing fee	(11,849)	(12,441)	(15,308)	(13,642)	(3,295)	(3,438)	(3,724)	(3,868)	(14,324)	(15,040)	(15,792)	(16,582)	(17,411)	(18,282)	(19,196)	(20,155)
Change in FV of derivative liability		(1,147)	39,294	(447)												
Change in FV of subsidiary convertible note																
Change in FV of investments	(27)	533														
Gain on deconsolidation of Caelum	18,476															
<b>Total Other Income</b>	9,159	(10,369)	24,188	(9,900)	(2,957)	(3,085)	(3,343)	(3,471)	(12,856)	(13,499)	(14,174)	(14,883)	(15,627)	(16,408)	(17,229)	(18,090)
<b>Pretax Income (Loss from continuing operations)</b>	(101,660)	(130,480)	(164,353)	(213,464)	(41,877)	(41,122)	(44,362)	(44,632)	(171,994)	(162,967)	5,243	228,627	430,409	443,314	482,499	518,200
Income Tax Benefit (Provision)			(447)	449						(15,297)	786	40,793	86,082	93,096	110,975	129,550
<b>Tax Rate</b>	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	15%	18%	20%	21%	23%	25%
<b>GAAP Net Income (Loss)</b>	(101,660)	(130,480)	(164,826)	(213,913)	(41,877)	(41,122)	(44,362)	(44,632)	(171,994)	(137,670)	4,457	185,834	344,327	350,218	371,524	388,650
<b>Adjusted (Non-GAAP) Loss</b>		(35,842)														
Less: net loss attributable to non-controlling interests	61,700	55,264	100,123	127,338	27,530	28,727	31,121	32,318	119,698	112,516	105,765	99,419	93,454	87,847	82,576	77,621
<b>Net Income (loss) attributable to common stockholders</b>	(39,960)	(53,560)	(64,703)	(86,575)	(14,347)	(12,395)	(13,240)	(12,314)	(52,296)	(25,154)	110,221	285,253	437,781	438,065	454,100	466,271
<b>GAAP-EPS</b>	(0.73)	(0.76)	(0.79)	(0.97)	(0.16)	(0.14)	(0.15)	(0.14)	(0.58)	(0.28)	1.22	3.14	4.80	4.78	4.93	5.05
GAAP-EPS (Dil)	(0.60)	(0.76)	(0.79)	(0.97)	(0.16)	(0.14)	(0.15)	(0.14)	(0.58)	(0.28)	1.22	3.14	4.80	4.78	4.93	5.05
Adjusted Non-GAAP EPS (Dil)		(0.50)														
Wgt'd Avg Shrs (Bas.) - '000s	54,711	71,077	81,700	88,875	89,703	89,793	89,883	89,973	89,838	90,198	90,559	90,922	91,286	91,652	92,019	92,387
Wgt'd Avg Shrs (Dil) - '000s	65,502	71,077	81,700	88,875	89,703	89,793	89,883	89,973	89,838	90,198	90,559	90,922	91,286	91,652	92,019	92,387

Source: Company reports and Dawson James

\*\* Includes the following partner companies: Aevitas, Cellvation, Cyprium, Helocyte and Tarnid (a Fortress partner company that discontinued development and terminated the related licenses and clinical trial agreements with the University of North Carolina at Chapel Hill for all three of its preclinical product candidates).

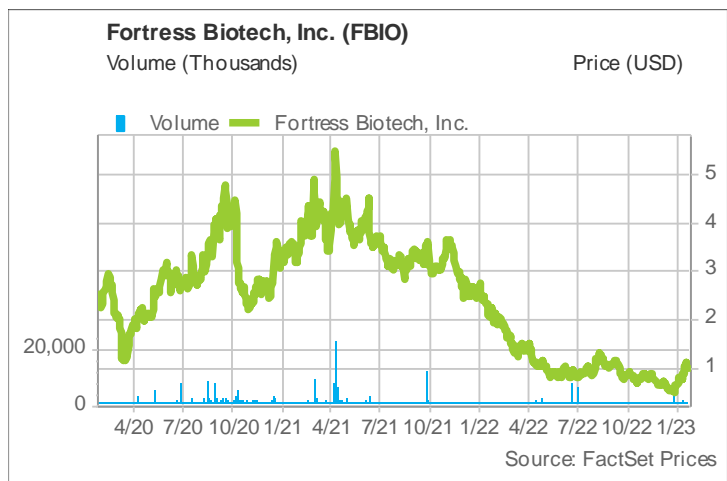
Source: Dawson James estimates and company reports

Companies mentioned in this report, working with Fortress and/or part of valuation discussion:

- Alexion (ALXN/NASDAQ)-Not covered.
- Astra Zeneca (AZN/NASDAQ) – Not Covered
- InvaGen Pharmaceuticals – (Private).
- St. Jude Children’s Research Hospital (Private).
- Mustang Bio (MBIO/NASDAQ) – Not covered.
- Checkpoint Therapeutics (CKPT/NASDAQ) – Not covered.
- Avenue Therapeutics (ATXI/ NASDAQ) – Not covered.
- Caelum Biosciences (Private).
- Journey Medical Corporation (DERM).
- Cyprium Therapeutics (Private).
- Fuji Yakuhin (subsidiary of Fuji-Japan – Not Covered)

**Important Disclosures:**

**Price Chart:**



Price target and rating changes over the past three years:

- Initiated – Buy August 26, 2019, Price Target \$19.00
- Update – Buy September 17, 2019, Price Target \$19.00
- Update – Buy November 4, 2019, Price Target \$19.00
- Update – Buy December 11, 2019, Price Target \$19.00
- Update – Buy December 23, 2019, Price Target \$19.00
- Update – Buy January 15, 2020, Price Target \$19.00
- Update – Buy February 14, 2020, Price Target \$19.00
- Update – Buy February 20, 2020, Price Target \$19.00
- Update – Buy March 30, 2020, Price Target \$19.00
- Update – Buy May 14, 2020, Price Target \$19.00
- Update – Buy July 31, 2020, Price Target \$19.00
- Update – Buy September 8, 2020, Price Target \$19.00
- Price Target Change – Buy October 12, 2020, Price Target \$15.00
- Update – Buy October 20, 2020, Price Target \$15.00
- Price Target Change – Buy November 10, 2020, Price Target \$16.00
- Update – Buy December 14, 2020, Price Target \$16.00
- Update – Buy February 2, 2021, Price Target \$16.00
- Price Target Change – Buy February 17, 2021, Price Target \$21.00
- Price Target Change – Buy February 24, 2021, Price Target \$22.00

Price Target Change – Buy April 7, 2021, Price Target \$24.00  
Update – Buy April 13, 2021, Price Target \$24.00  
Update – Buy May 10, 2021, Price Target \$24.00  
Update – Buy May 20, 2021, Price Target \$24.00  
Update – Buy June 11, 2021, Price Target \$24.00  
Update – Buy June 15, 2021, Price Target \$24.00  
Update – Buy August 17, 2021, Price Target \$24.00  
Update – Buy September 29, 2021, Price Target \$24.00  
Update – Buy October 26, 2021, Price Target \$24.00  
Update – Buy November 19, 2021, Price Target \$24.00  
Update – Buy February 17, 2022, Price Target \$24.00  
Update – Buy March 28, 2022, Price Target \$24.00  
Update – Buy May 17, 2022, Price Target \$24.00  
Update – Buy August 11, 2022, Price Target \$24.00  
Update – Buy October 7, 2022, Price Target \$24.00  
Update – Buy January 25, 2023, Price Target \$24.00  
Update – Buy April 12, 2023, Price Target \$24.00

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### **Information about valuation methods and risks can be found in the “VALUATION” and “RISK ANALYSIS” sections of this report.**

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#### **Rating 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 17-Mar-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	1	3%
Market Perform (Neutral)	11	31%	2	6%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

**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.