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## Fortress Biotech (NASDAQ/FBIO)

August 18, 2023

### BUY: Reports 2<sup>nd</sup> Quarter: Revenues Up

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Fortress reported 2<sup>nd</sup> Quarter results: Revenues were \$17M (dermatology) up 40% from the same period a year ago and continuing to build as new products are added to the dermatology pipeline. The real Fortress story is the pipeline, which remains robust. Consolidated cash and equivalents were \$89M at the end of the quarter.

### Investment Highlights

**Dermatology** Journey Medical (DERM-not rated) announced positive topline data from the two DFD-29 (Minocycline Hydrochloride Modified Release Capsules, 40 mg) Phase 3 clinical trials for the treatment of rosacea and achieved the co-primary and all secondary endpoints with subjects completing the 16-week treatment with no significant safety issues. DFD-29 demonstrated statistical superiority compared to Oracea.

**PD-L1 Update:** Checkpoint (CKPT-not rated) submitted a BLA to the FDA for cosibelimab, its investigational anti-PD-L1 antibody, as a treatment for patients with metastatic or locally advanced cSCC who are not candidates for curative surgery or radiation, in January 2023.

**IV Tramadol:** In July 2023, Avenue (ATXI-not rated) reached an agreement with the FDA on key elements of the Phase 3 safety study, including the primary endpoint and statistical analysis approach, for intravenous (“IV”) tramadol, which is in development for the treatment of acute post-operative pain in a medically supervised setting.

**See the Fortress Press Release for the complete breakdown of the pipeline and future catalysts.**

**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.

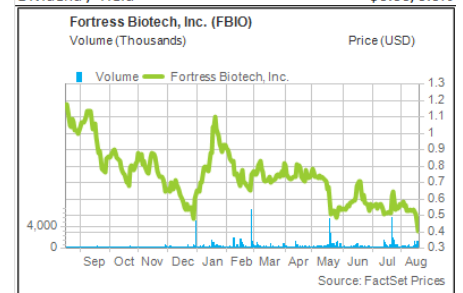
**Risks to our thesis include the following:** (1) commercial; (2) regulatory; (3) clinical; (4) financial; and (5) intellectual property. We review these and other risks in the Risk Analysis section of this report.

Current Price \$0.41  
Price Target \$24.00



Source: Fortress

Stock Data			
52-Week Range	\$0.40	-	\$1.24
Shares Outstanding (mil.)	132.8		
Market Capitalization (mil.)	\$54		
Enterprise Value (mil.)	-\$21		
Debt to Capital	138%		
Book Value/Share	\$1.03		
Price/Book	1.7		
Average Three Months Trading Volume (K)	661		
Insider Ownership	21.3%		
Institutional Ownership	12.4%		
Short interest (mil.)	0.5%		
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	1Q23A	2Q23A	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Probability Revenue Forecast: ('000)</b>																
Avenue Therapeutics: IV Tramadol end use sales			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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>																
Mustang Bio - Bubble Boy (MB-107)			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,125	\$ 101,250	\$ 150,938	\$ 268,125	\$ 255,938	\$ 230,625	\$ 195,000
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>																
Cyprium - CUTX-101 - Menke's Disease	0	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,938	\$ 30,375	\$ 45,281	\$ 80,438	\$ 76,781	\$ 69,188	\$ 58,500
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>																
Checkpoint (Cosibelimab PD-L1)	1	1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,025	\$ 60,075	\$ 100,125	\$ 100,125	\$ 100,125	\$ 100,125
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>																
CK-101 end use sales			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,500	\$ 67,500	\$ 112,500	\$ 112,500	\$ 112,500	\$ 112,500
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>																
Journey Medical Corporation (Dermatology)	34,921	44,531	63,134	65,246	11,089	16,961	17,225	26,496	71,771	78,948	86,842	95,527	105,079	115,587	127,146	139,861
Percent Owned by Fortress	100%	100%	100%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%
<b>Revenues Attributed back to Fortress</b>																
Other Revenue Back to Fortress	1,708	5,656	4,254	1,076	425	1,170	2,008	4,679	5,477	6,628	8,851	9,562	10,125	10,125	9,119	9,119
<b>Fortress Revenues</b>	36,629	45,599	68,791	70,995	12,165	17,386	9,266	14,461	53,278	64,190	213,790	420,402	617,622	667,063	713,128	756,719
Avenue Therapeutic (IV Tramadol) Royalties (4.5% on sales > \$325M) Associate Milestones			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mustang Bio - Bubble Boy (MB-107) Prob. Adj. Royalties - 4.5% Associate Milestones			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,290.63	\$ 4,556	\$ 6,792	\$ 12,066	\$ 11,517	\$ 10,378	\$ 8,775
Cyprium - CUTX-101 Menke's Disease - Prob. Adj. Royalties - 4.5% Associate Milestones			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ 5,625	\$ 16,875	\$ 28,125	\$ 28,125	\$ 28,125	\$ 28,125
Checkpoint (Cosibelimab PD-L1) - Prob. Adj. Royalties - 4.5% Associate Milestones			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,235	\$ 12,705	\$ 16,940	\$ 21,175
Checkpoint (CK-101 - TKI) - Prob. Adj. Royalties -25% Associate Milestones			\$ 2,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 35,000	\$ -	\$ -	\$ -
<b>Total Royalties &amp; Milestones</b>			72,666	4,748	12,429	17,386	-	-	29,815	63,291	82,366	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	6,449	7,767	-	-	14,216	-	-	-	-	-	-	-
%COGS	29%	33%	51%	47%	0%	0%	0%	0%	20%	0%	0%	0%	0%	0%	0%	0%
<b>Research and Development (Consolidated)</b>	75,236	64,108	113,240	134,199	35,276	32,139	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																
Other**		1,606														
Research and Development-licenses acquired	6,090	1,820	15,625	677	4,230	3	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	25,341	24,139	26,664	39,785	115,929	118,248	120,613	123,025	125,485	127,995	130,555	133,166
Fortress		23,341														
Avenue		2347														
Checkpoint		6518														
Journey Medical Corp. (SG&A)		25,659														
Mustang		6810														
Journey																
Other**		1,184	9540													
<b>Total Operating expenses</b>	147,448	142,146	257,332	279,307	71,296	67,941	63,485	78,023	271,765	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)	(58,867)	(50,105)	(54,219)	(63,561)	(226,753)	(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	1,036	715	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)	(4,296)	(6,425)	(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)	(47)	(512)	-	-	(15,297)	786	40,793	86,082	93,096	110,975	129,550	
Change in FV of subsidiary convertible note			(447)		6,678	(3,369)	-	-	-	-	-	-	-	-	-	-
Change in FV of investments	(27)	533			351	395										
Gain on deconsolidation of Caelum	18,476															
<b>Total Other Income</b>	9,159	(10,369)	24,188	(9,900)	3,722	(9,196)	(3,343)	(3,471)	(12,856)	(13,499)	(14,174)	(14,883)	(15,627)	(16,408)	(17,229)	(18,050)
<b>Pretax Income (Loss) from continuing operations</b>	(101,660)	(130,480)	(164,826)	(213,464)	(55,145)	(59,301)	(57,562)	(67,035)	(239,609)	(152,637)	5,243	226,627	430,409	445,811	492,499	516,200
Income Tax Benefit (Provision)			(447)													
<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)	(55,145)	(59,301)	(57,562)	(67,033)	(239,609)	(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	127,339	33,608	34,525	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)	(85,216)	(64,703)	(86,575)	(21,537)	(24,776)	(26,440)	(34,714)	(119,911)	(25,154)	101,069	285,253	437,781	438,065	454,100	466,271
<b>GAAP-EPS</b>	(0.73)	(0.76)	(0.79)	(0.97)	(0.21)	(0.24)	(0.24)	(0.31)	(1.01)	(0.23)	0.99	2.55	3.89	3.88	4.00	4.09
<b>GAAP-EPS (Dil)</b>	(0.60)	(0.76)	(0.79)	(0.97)	(0.21)	(0.24)	(0.24)	(0.31)	(1.01)	(0.23)	0.99	2.55	3.89	3.88	4.00	4.09
<b>Adjusted Non-GAAP EPS (Dil)</b>		(0.50)														
Wghtd Avg Shrs (Bas) - '000s	54,711	71,077	81,700	88,875	101,886	110,660	110,771	110,881	108,549	111,159	111,604	112,051	112,500	112,951	113,403	113,858
Wghtd Avg Shrs (Dil) - '000s	65,502	71,077	81,700	88,875	101,886	110,660	110,771	110,881	108,549	111,159	111,604	112,051	112,500	112,951	113,403	113,858

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).

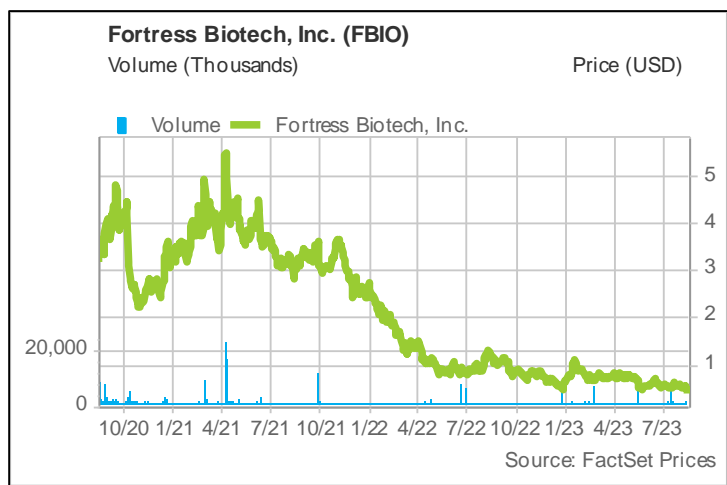
Source: Dawson James estimates and company reports

Companies that may be 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)
- Dr. Reddy’s Laboratories Ltd. (RDY-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  
Update – Buy July 3, 2023, Price Target \$24.00  
Update – Buy July 12, 2023, Price Target \$24.00  
Update – Buy July 26, 2023, Price Target \$24.00  
Update – Buy July 27, 2023, Price Target \$24.00  
Update – Buy August 9, 2023, Price Target \$24.00  
Update – Buy August 18, 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 3-Aug-23

	Company Coverage		Investment Banking	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	69%	3	8.60%
Market Perform (Neutral)	11	31%	3	8.60%
Market Underperform (Sell)	0	0%	0	0.00%
Total	35	100%	6	17.20%

#### **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.