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## Fortress Biotech (NASDAQ/FBIO)

November 13, 2023

### **BUY: Fortress Raises \$10M w/Participation by Directors/Officers. Adjusting for Dilution we Lower Our Price Target from \$12 to \$10.**

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Fortress announced a capital raise of approximately \$10M – 5.9M shares with an equal number of five-year warrants. We note that the press release states: “Certain directors and officers of the company participated in the offering and purchased an aggregate amount of approximately \$2.9M of units at the same purchase price”. In other words, the raise is really an opportunity to own the stock. Adjusting for dilution, the price target falls from \$12 to \$10.

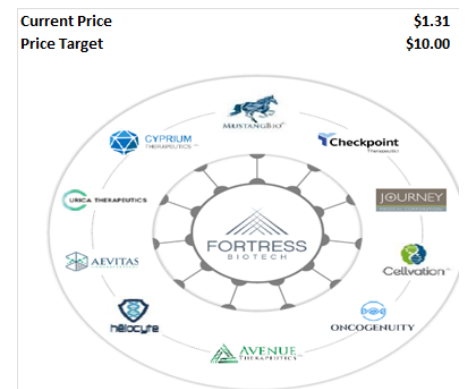
### Investment Highlights

**Fortress Raises Capital:** The company has cash already - \$78M, so why now and raise just \$10M? We don’t exactly know the answer, but we suspect management views the raise as an opportunity to both add capital to the balance sheet and personally invest in the company alongside with a handful of strategic investors.

**A Unique Model That Manages Risk but Keeps the Upside.** We have known the senior management of Fortress for more than a decade and have the highest respect for the track record of this team to create shareholder value while finding, developing to key inflection points and finally commercializing value-creating therapeutics. The platform value of the Fortress Machine should not be underestimated. We believe the value of Fortress goes beyond just the sum of the parts of the therapeutics in its pipeline (there are many) and the multiple ownership stakes in its public companies. Fortress also has real value in the company’s ability to discover and license product leveraging across the company’s infra-structure (access to a pool of CEO/CFO/CMO/CSO’s and the right boards) as well as established vendors (CRO’s, investment banks, regulatory expertise) to create the next company.

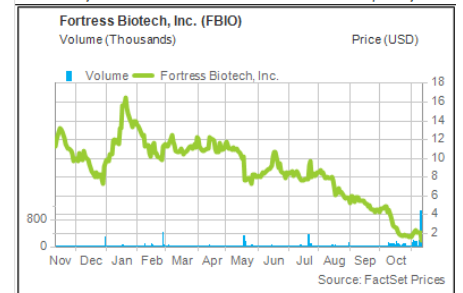
**Valuation: How to value Fortress?** Fortress is a complex group of companies. Suffice to say; we model the contributions and Fortress holdings in many companies. Our valuation is based on an out-year 2030 share count. For each individual product, we make certain assumptions about the timing and probability 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 30% 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 12-month price target of \$10.0.

**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.



Source: Fortress

Stock Data			
52-Week Range	\$1.24	-	\$17.40
Shares Outstanding (mil.)	8.9		
Market Capitalization (mil.)	\$12		
Enterprise Value (mil.)	-\$63		
Debt to Capital	634%		
Book Value/Share	\$15.47		
Price/Book	1.7		
Average Three Months Trading Volume (K)	14		
Insider Ownership	6.5%		
Institutional Ownership	3.4%		
Short interest (mil.)	1.9%		
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	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%
Revenues Attributed back to Fortress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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%
Revenues Attributed back to Fortress	0	0	0	0	0	0	0	0	21,938	30,375	45,281	80,438	76,781	69,188	58,500	58,500
Cyprum -CUTX-101 - Menkes Disease			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,500	\$ 67,500	\$ 112,500	\$ 112,500	\$ 112,500	\$ 112,500
Percent Owned by Fortress	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%	89%
Revenues Attributed back to Fortress	1	1	1	1	1	1	1	1	20,025	60,075	100,125	100,125	100,125	100,125	100,125	100,125
CheckPoint (Cosibelimab PD-L1)			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,112	\$ 282,336	\$ 376,448	\$ 470,559	\$ 564,671	\$ 658,783
Percent Owned by Fortress	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Revenues Attributed back to Fortress	-	-	-	-	-	-	-	-	-	-	30,116	90,347	120,463	150,579	180,695	210,811
CK-101 end use sales			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 271,206	\$ 542,413	\$ 813,619	\$ 867,861	\$ 922,102	\$ 976,343
Percent Owned by Fortress	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Revenues Attributed back to Fortress	34,921	44,531	63,134	65,246	11,089	16,961	17,225	26,496	71,771	78,948	86,786	173,572	260,358	277,715	295,073	312,430
Journey Medical Corporation (Dermatology)			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,842	\$ 95,527	\$ 115,587	\$ 127,146	\$ 139,861	\$ 139,861
Percent Owned by Fortress	100%	100%	100%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%
Revenues Attributed back to Fortress	34,921	44,531	63,134	30,666	5,212	7,972	8,096	12,453	33,732	37,105	40,816	44,898	49,387	54,326	59,759	65,734
Other Revenue Back to Fortress	1,708	1,068	5,656	4,254	1,076	425	1,170	2,008	4,679	5,147	5,662	6,228	6,851	7,536	8,290	9,119
<b>Fortress Revenues</b>	<b>36,629</b>	<b>45,599</b>	<b>68,791</b>	<b>70,995</b>	<b>12,165</b>	<b>17,386</b>	<b>9,266</b>	<b>14,461</b>	<b>53,278</b>	<b>64,190</b>	<b>213,780</b>	<b>420,402</b>	<b>617,622</b>	<b>667,063</b>	<b>713,128</b>	<b>756,719</b>
Avenue Therapeutic (IV Tramadol) Royalties (4.5% on sales > \$325M)			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Associate Milestones			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mustang Bio - Bubble Boy (MB-107) Prob. Adj. Royalties - 4.5%			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,290.63	\$ 4,556	\$ 6,792	\$ 12,066	\$ 11,517	\$ 10,378	\$ 8,775
Associate Milestones			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cyprum - CUTX-101 Menke's Disease - Prob. Adj. Royalties - 4.5%			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,625	\$ 16,875	\$ 28,125	\$ 28,125	\$ 28,125	\$ 28,125
Associate Milestones			-	-	-	-	-	-	-	-	10,000	10,000	10,000	10,000	10,000	10,000
CheckPoint (Cosibelimab PD-L1) - Prob. Adj. Royalties - 4.5%			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,235	\$ 12,705	\$ 16,940	\$ 21,175
Associate Milestones			-	-	-	-	-	-	-	-	-	-	-	-	-	-
CheckPoint (CK-101 - TKI) - Prob. Adj. Royalties -25%			\$ 2,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,204	\$ 24,409	\$ 36,613	\$ 39,054	\$ 41,495	\$ 43,935
Associate Milestones			-	-	-	-	-	-	-	-	50,000	50,000	50,000	50,000	50,000	50,000
<b>Total Royalties &amp; Milestones</b>	<b>-</b>	<b>-</b>	<b>72,666</b>	<b>4,748</b>	<b>12,429</b>	<b>17,386</b>	<b>-</b>	<b>-</b>	<b>29,815</b>	<b>63,291</b>	<b>82,386</b>	<b>108,076</b>	<b>126,039</b>	<b>101,401</b>	<b>106,938</b>	<b>112,011</b>
<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>	<b>75,236</b>	<b>64,108</b>	<b>113,240</b>	<b>134,199</b>	<b>35,276</b>	<b>32,139</b>	<b>36,636</b>	<b>38,045</b>	<b>140,909</b>	<b>147,954</b>	<b>155,352</b>	<b>163,120</b>	<b>171,276</b>	<b>179,839</b>	<b>188,831</b>	<b>198,273</b>
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>	<b>55,590</b>	<b>61,166</b>	<b>86,843</b>	<b>113,656</b>	<b>25,341</b>	<b>24,139</b>	<b>26,664</b>	<b>39,785</b>	<b>115,929</b>	<b>118,248</b>	<b>120,613</b>	<b>123,025</b>	<b>125,485</b>	<b>127,995</b>	<b>130,555</b>	<b>133,166</b>
Fortress		23,341	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Avenue		2,347	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Checkpoint		6,518	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Journey Medical Corp. (SG&A)		25,659	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mustang		6,810	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Journey		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other**		1,184	9540	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating expenses</b>	<b>147,448</b>	<b>142,146</b>	<b>257,332</b>	<b>279,307</b>	<b>71,296</b>	<b>67,941</b>	<b>63,485</b>	<b>78,023</b>	<b>271,765</b>	<b>266,948</b>	<b>276,748</b>	<b>286,968</b>	<b>297,625</b>	<b>308,742</b>	<b>320,339</b>	<b>332,439</b>
<b>Total Operating expenses (Adjusted)</b>	<b>-</b>	<b>69,164</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating Income (Loss)</b>	<b>110,819</b>	<b>(96,546)</b>	<b>(188,541)</b>	<b>(203,564)</b>	<b>(58,867)</b>	<b>(50,105)</b>	<b>(54,219)</b>	<b>(63,561)</b>	<b>(226,753)</b>	<b>(139,468)</b>	<b>19,417</b>	<b>241,510</b>	<b>446,036</b>	<b>459,722</b>	<b>499,727</b>	<b>536,290</b>
<b>Operating Income (Loss) adjusted</b>	<b>-</b>	<b>(23,565)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
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)	(15,712)	(16,582)	(17,411)	(18,282)	(19,196)	(20,155)
Change in FV of derivative liability		(1,147)	39,294	(47)	(47)	(512)										
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>	<b>9,159</b>	<b>(10,369)</b>	<b>24,188</b>	<b>(9,900)</b>	<b>3,722</b>	<b>(9,196)</b>	<b>(3,343)</b>	<b>(3,471)</b>	<b>(12,856)</b>	<b>(13,499)</b>	<b>(14,174)</b>	<b>(14,883)</b>	<b>(15,627)</b>	<b>(16,408)</b>	<b>(17,229)</b>	<b>(18,090)</b>
<b>Pretax Income (loss from continuing operations)</b>	<b>(101,660)</b>	<b>(130,480)</b>	<b>(164,353)</b>	<b>(213,464)</b>	<b>(55,145)</b>	<b>(59,301)</b>	<b>(57,562)</b>	<b>(67,033)</b>	<b>(239,609)</b>	<b>(152,967)</b>	<b>5,243</b>	<b>226,627</b>	<b>430,409</b>	<b>443,314</b>	<b>482,499</b>	<b>518,200</b>
Income Tax Benefit (Provision)			(447)	449	-	-	-	-	(15,297)	786	40,793	86,082	93,096	86,082	110,975	129,550
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	15%	18%	20%	21%	23%	25%
<b>GAAP Net Income (Loss)</b>	<b>(101,660)</b>	<b>(130,480)</b>	<b>(164,800)</b>	<b>(213,913)</b>	<b>(55,145)</b>	<b>(59,301)</b>	<b>(57,562)</b>	<b>(67,033)</b>	<b>(239,609)</b>	<b>(137,670)</b>	<b>4,457</b>	<b>185,834</b>	<b>344,327</b>	<b>350,218</b>	<b>371,524</b>	<b>388,650</b>
<b>Adjusted (Non-GAAP) Loss</b>	<b>61,700</b>	<b>55,264</b>	<b>100,123</b>	<b>127,338</b>	<b>33,608</b>	<b>34,525</b>	<b>31,121</b>	<b>32,318</b>	<b>119,698</b>	<b>112,516</b>	<b>105,765</b>	<b>99,419</b>	<b>93,454</b>	<b>87,847</b>	<b>82,576</b>	<b>77,621</b>
Less: net loss attributable to non-controlling interests	(39,960)	(53,560)	(64,703)	(86,575)	(21,537)	(26,784)	(26,440)	(34,714)	(109,476)	(25,154)	110,221	285,253	437,781	438,065	454,100	466,271
<b>Net Income (loss) attributable to common stockholders</b>	<b>(77,960)</b>	<b>(28,296)</b>	<b>(64,680)</b>	<b>(64,177)</b>	<b>(17,929)</b>	<b>(22,259)</b>	<b>(21,320)</b>	<b>(22,416)</b>	<b>(90,158)</b>	<b>(13,638)</b>	<b>85,066</b>	<b>108,581</b>	<b>106,633</b>	<b>101,762</b>	<b>117,424</b>	<b>122,379</b>
<b>GAAP-EPS</b>	<b>(0.73)</b>	<b>(0.76)</b>	<b>(0.79)</b>	<b>(0.97)</b>	<b>(0.21)</b>	<b>(0.24)</b>	<b>(0.35)</b>	<b>(0.26)</b>	<b>(6.65)</b>	<b>(0.40)</b>	<b>1.73</b>	<b>4.46</b>	<b>6.82</b>	<b>6.80</b>	<b>7.02</b>	<b>7.18</b>
GAAP-EPS (Dil)	(0.60)	(0.76)	(0.79)	(0.97)	(0.21)	(0.24)	(0.35)	(0.26)	(5.84)	(0.36)	1.58	4.08	6.24	6.22	6.42	6.57
Adjusted Non-GAAP EPS (DIL)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
Wgtd Avg Shrs (Bas) - '000s	54,711	71,077	81,700	88,875	101,886	110,660	7,385	13,292	58,306	63,400	63,654	63,909	64,165	64,422	64,681	64,940
Wgtd Avg Shrs (Dil) - '000s	65,502	71,077	81,700	88,875	101,886	110,660	7,385	13,292	59,781	69,315	69,593	69,872	70,152	70,433	70,715	70,998

Source: Company reports and Dawson James

\*\* Includes the following partner companies: Aevitas, Cellvion, Cyprum, Helocyte and Tamid (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).

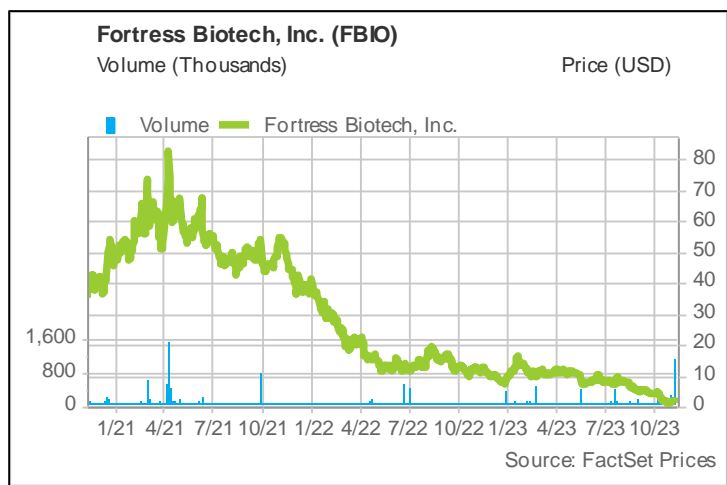
Source: Dawson James estimates and company reports

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  
Price Target Change – Buy October 10, 2023, Price Target \$12.00  
Update – Buy October 19, 2023, Price Target \$12.00  
Update – Buy November 8, 2023, Price Target \$12.00  
Price Target Change – Buy November 13, 2023, Price Target \$10.00

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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-Nov-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	64.70%	3	8.80%
Market Perform (Neutral)	12	35.30%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	5	14.70%

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