

## INSTITUTIONAL RESEARCH Biotechnology UPDATE REPORT

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## Fortress Biotech (NASDAQ/FBIO)

## **BUY: Journey Reports \$34.5M in Revenues**

Journey Medical (DERM-Not Rated) a Fortress partner company reported strong revenues, \$34.5M up sequentially from \$17.2M. The company reported positive topline results from its two Phase 3 clinical trials evaluating DFD-29 for the treatment of rosacea. Management expects to submit a New Drug Application ("NDA") to the FDA by year-end.

### **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.

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 valuecreating therapeutics. The platform value of the Fortress Machine should not be underestimated, and we believe that has happened, triggering the need for the 1:15 reverse split.

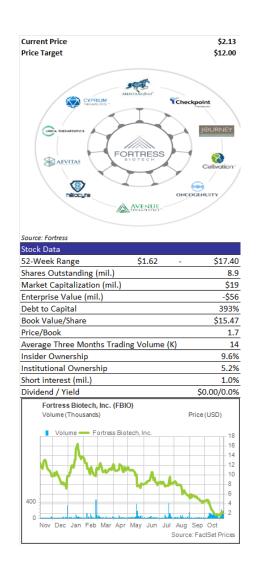
We believe the value of Fortress goes beyond just the sum of the parts of the therapeutics in its pipeline (there are many) and the multiple ownership stakes in its public companies. Fortress also has real value in the company's ability to discover and license product leveraging across the company's 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 \$12.0.

**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.

#### November 8, 2023

#### Jason Kolbert Managing Director & Senior Analyst jkolbert@dawsonjames.com





#### **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

Exhibit 1. Income Statement	2019A	2020A	20214	2022A	10224	20224	20225	4Q23E	2023E	2024E	20255	20265	20275	20285	2020E	20205
Probability Revenue Forecast: ('000)	2019A	2020A	2021A	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Avenue Therapeutics: IV Tramadol end use sales			s -	s -	s -	s - :	s -	s -	s -	s -	s -	s -	s -	s -	s -	s -
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			r - 1	-		-			-	-	-	-	-		r - I	-
Mustang Bio - Bubble Boy (MB-107)						\$- S			\$-	\$ 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	-		-					21,938	30,375	45,281	80,438	76,781 \$ 112,500	69,188	58,500 \$ 112,500
Cyprium -CUTX-101 - Menkes Disease Percent Owned by Fortress	89%	89%	\$ - 89%	89%	\$ - 89%	\$ - \$ 89%	<b>5 -</b> 89%	<b>5</b> - 89%	<b>\$</b> - 89%	<b>\$</b> - 89%	\$ 22,500 89%	\$ 67,500 89%	\$ 112,500 89%	\$ 112,500 89%	\$ 112,500 89%	\$ 112,500 89%
Revenues Attributed back to Fortress	09%	09%	09%	09%	89%	89%	89%	09%	69%	0970	20.025	60.075	100.125	100.125	100.125	100.125
CheckPoint (Cosibelimab PD-L1)				s -	s -	s - :	s -	s -	s -	s -	\$ 94,112	\$ 282,336		\$ 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						\$ - 5		s -	\$ -	\$ -	\$ 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	-					-		-		-	86,786	173,572		277,715	295,073	312,430
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 Revenues Attributed back to Fortress	100% 34,921	100% 44,531	100% 63.134	47% 30,666	47% 5,212	47% 7,972	47% 8,096	47% 12,453	47% 33,732	47% 37,105	47% 40,816	47% 44,898	47%	47% 54,326	47% 59,759	47% 65,734
Other Revenue Back to Fortress	1,708	44,531	5,656	4,254	1,076	425	1,170	2,008	4,679	5,147	5,662	6,228		7,536	8,290	9,119
Fortress Revenues	36,629	45,599	68,791	70,995	12,165	17.386	9.266	14,461	53,278	64,190	213,780	420,402		667,063	713,128	756,719
	30,023	43,388	00,731	70,885	12,105	17,500	3,200	14,401	55,270	04,130	213,700	420,402	017,022	007,003	713,120	730,713
															, P	
Avenue Therapeutic (IV Tramadol) Royalties (4.5% on sales > \$325M)															, P	
Associate Milestones			\$ -												, P	
															, P	
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													1		, <sup>,</sup>	
Cyprium - CUTX-101 Menke's Disease - Prob. Adj. Royalties - 4.5%				s .	s .	<	s - 2	s - 2	s -	\$ -	\$ 5.625	\$ 16.875	\$ 28.125	\$ 28,125	\$ 28.125	\$ 28,125
Associate Milestones				<b>3</b> -	<b>3</b> -	۵ - ·	Þ -	Þ -	φ -	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000		\$ 10,000	\$ 10,000
										φ 10,000	φ 10,000	φ 10,000	• 10,000	¢ 10,000	¢ 10,000	\$ 10,000
CheckPoint (Cosibelmab PD-L1) - Prob. Adj. Royalties - 4.5%				\$ -	s -	\$ - 5	\$-	\$-	\$-	\$-	\$-	\$-	\$ 4,235	\$ 12,705	\$ 16,940	\$ 21,175
Associate Milestones															, P	
									-	-					la	
CheckPoint (CK-101 - TKI) - Prob. Adj. Royalties -25% Associate Milestones			\$ 2,400		s -	\$ - S	\$-	ş -	\$ -	\$ - \$ 50,000	\$ 12,204 \$ 50,000	\$ 24,409 \$ 50,000	\$ 36,613 \$ 35,000	\$ 39,054	\$ 41,495	\$ 43,935
	-			4.748	\$ -	<b>3</b> - 3	¢ -	Þ -		\$ 50,000	\$ 50,000	\$ 50,000	\$ 35,000	<b>3</b> -		112.011
Total Royalties & Milestones	-		72,666	4,748	12,429	17,386	-	-	29,815	63,291	82,386	108,076	126,039	101,401	106,938	112,011
Expenses: Fortress															, P	
Costs of Goods Sold (Journey Medical)	10,532	14,594	32,084	30,775	6,449	7,767			14,216	-	-	-	-	-	<del>ا</del> ۲	
%COGS	29%	33%	51%	30,773 47%	0%	0%	- 0%	- 0%	20%	- 0%	- 0%	- 0%	0%	- 0%	- 0%	- 0%
Research and Development (Consolidated)	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													, P	
Checkpoint		11,735													, P	
Mustang		39,475													, P	
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
General and Administrative (Consolidated)	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													, P	
Checkpoint		6518													,	
Journey Medical Corp. (SG&A)		25,659														
Mustang		6810											1		, <sup>,</sup>	
Journey Other**		1,184	9540												/	
Total Operating expenses	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
Total Operating expenses (Adjusted)		69,164														
															, I	
Operating Income (Loss)	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
Operating Income (Loss) adjusted	-	(23,565)	-	- 1	-	-	- 1		- 1	-	-	-		-	- '	-
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)		(18,282)	(19,196)	(20,155)
Change in FV of derivative liability		(1,147)	39,294		(47)	(512)			,				,			
Change in FV of subsidiary convertible note			(447)		6,678	(3,369)							1		, <sup>,</sup>	
Change in FV of investments	(27)	533			351	395							1		, <sup>,</sup>	
Gain on deconsolidation of Caelum Total Other Income	18,476 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)	(18,090)
Pretax Income (loss from continuing operations)	(101,660)	(10,369)	(164,353)	(213,464)	(55,145)	(59,301)	(57,562)	(67,033)	(12,656) (239,609)	(13,499) (152,967)	(14,174) 5,243	226,627	430,409	(16,408) 443,314	(17,229) 482,499	(18,090) 518,200
Income Tax Benefit (Provision)	(101,000)	(100,100)	(447)	449	-	-	-	- (20,000)	- (200,000)	(15,297)	786	40,793		93,096	110,975	129,550
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	15%	18%	20%	21%	23%	25%
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GAAP Net Income (Loss)	(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
Addjusted (Non-GAAP) Loss Less: net loss attributable to non-controlling interests	61,700	(35,842) 55,264	100,123	127,338	33,608	34.525	31.121	32.318	119,698	112,516	105,765	99,419	93.454	87.847	82.576	77.621
Net Income (loss) attributable to common stockholders	(39,960)	(53,560)	(64,703)	(86,575)	(21,537)	34,525 (26,784)	(26,440)	(34,714)	(109,476)	(25,154)	110,221	285,253		438,065	454,100	466,271
			(04,703)	(0.97)	(0.21)	(0.24)	(3.58)	(4,70)	(103,470) (8,73)	(0.44)	1.91	4.92	7.52	7.50	7.74	7.92
GAAP-EPS	(0.73)	(0.76)														
GAAP-EPS GAAP-EPS (Dil)	(0.73) (0.60)	(0.76) (0.76)	(0.79)	(0.97)	(0.21)	(0.24)	(3.58)	(4.70)	(8.73)	(0.44)	1.91	4.92	7.52	7.50	7.74	7.92
GAAP-EPS GAAP-EPS (Dil) Adjusted Non-GAAP EPS (DIL)	(0.60)	(0.76) (0.50)	(0.79)	(0.97)	(0.21)	(0.24)	(3.58)	(4.70)								
GAAP-EPS GAAP-EPS (DII) Adjusted Non-GAAP EPS (DIL) Wgld Avg Shrs (Bas) - '000s	(0.60) 54,711	(0.76) (0.50) 71,077	(0.79) 81,700	(0.97) 88,875	(0.21) 101,886	(0.24) 110,660	(3.58) 7,385	(4.70) 7,392	56,831	57,486	57,716	57,947	58,179	58,412	58,646	58,881
GAAP-EPS GAAP-EPS (DII) Adjusted Non-GAAP EPS (DIL)	(0.60)	(0.76) (0.50)	(0.79)	(0.97)	(0.21)	(0.24)	(3.58)	(4.70)								

Source: Company reports and Dawson James

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).

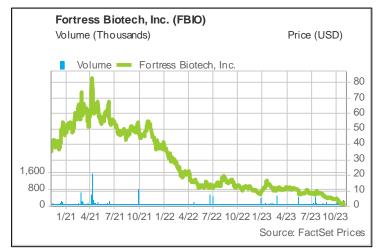
Cyprium Therapeutics (Private).

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

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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.

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

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.



#### **Rating Definitions:**

- **Buy:** the analyst believes the price of the stock will appreciate and produce a total return 1) 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:
- Sell: the analyst believes the price of the stock will decline by at least 20% over the next 3) 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			
	Company		Investment	
	Coverage		Banking	
				% of
Ratings Distribution	# of Companies	% of Total	# of Companies	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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#### **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.