

## Fortress Biotech (NASDAQ/FBIO)

November 8, 2023

### 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.*

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### 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 value-creating 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.

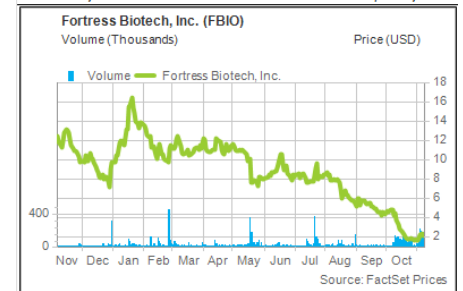
**Risks to our thesis include the following:** (1) commercial; (2) regulatory; (3) clinical; (4) financial; and (5) intellectual property. We review these and other risks in the Risk Analysis section of this report.

Current Price \$2.13  
Price Target \$12.00



Source: Fortress

Stock Data		
52-Week Range	\$1.62	- \$17.40
Shares Outstanding (mil.)	8.9	
Market Capitalization (mil.)	\$19	
Enterprise Value (mil.)	-\$56	
Debt to Capital	393%	
Book Value/Share	\$15.47	
Price/Book	1.7	
Average Three Months Trading Volume (K)	14	
Insider Ownership	9.6%	
Institutional Ownership	5.2%	
Short interest (mil.)	1.0%	
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.

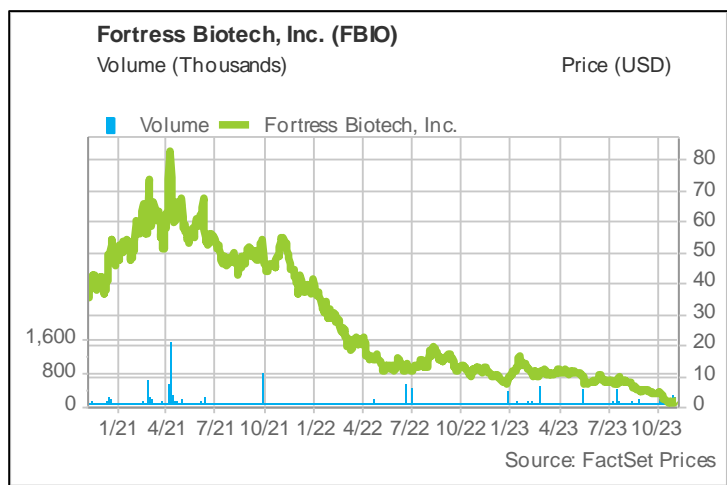


Companies that may be mentioned in this report, working with Fortress and/or part of valuation discussion:

- 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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- 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.

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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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