B | RILEY Securities
Member FINRA/SIPC | a B. Riley Financial company

Scilex Holding Company (SCLX – $1.01*)

Healthcare: Biotech
Buy; $4.00 PT; $157.5M Market Cap
Company Update
Friday, November 24, 2023

Operationally Executing Towards Removal of Key Overhangs on Pain Portfolio and Balance Sheet. Reit. Buy; $4 PT.

Mayank Mamtani
646-885-5463
mmamtani@brileyfin.com

William Wood, Ph.D.
703.312.1748
wwood@brileyfin.com

Madison El-Saadi, Ph.D.
713-403-3981
melsaadi@brileyfin.com

STOCK DATA	
Market Cap (mil)	$157.5
52-Week Range	$0.90–$16.90
3-Month ADTV	934,474
Shares Outstanding (mil)	155.9
Float (%)	57.5
Short Interest	4,875,102
Fiscal Year-End	December

FINANCIAL DATA			
FY	2022A	2023E	2024E
EPS	$(0.17)	$(0.85)	$(0.61)

BALANCE SHEET DATA	
	3Q23
Cash & Equivalents	$2.0
Current Assets	$25.5
Total Assets	$80.5
Total Liabilities	$243.2
Total Debt	$122.2
Shareholders' Equity	$(162.7)

$ in millions.

Summary and Recommendation

Pain therapeutics' specialist SCLX (Buy – $4 PT) recently released 3Q23 results, via 11/14 10-Q filing, noting return of growth in 4Q for ZTlido net revenues as (1) downward gross-to-net price pressure ease, which originally drove 3Q sales decline (20% q/q), and (2) unit volume driven growth re-accelerates as a result of 2Q re-launch focused on gabapentin combination setting (10/13 initiation); this is also notably visible in Bloomberg Symphony Health monthly retail prescription volume growth data (Exhibit 1). Additional pipeline/operational highlights included: (1) SP-102 positive FDA type C meeting de-risking of 505(b)(2) NDA filing for sciatica indication in follow-up to SCLX conducting an additional Ph. III open-label safety study (not efficacy), which remains on track for 1H24 initiation; (2) SP-103 (triple strength formulation of ZTlido) Ph. II randomized, double-blind, placebo-controlled trial in moderate-to-severe acute lower back pain (n=75) demonstrating favorable safety and tolerability alongside achieving pain reduction in those with higher severity of muscle spasms over the first week, with SCLX formalizing plans for late-stage development in chronic neck pain; (3) Elyxyb acute migraine launch execution progressing well (ahead of plan) alongside SCLX also preparing for upcoming Gloperba gout pain (slightly delayed) launch in 2024. Elyxyb's fast-onset of action and lack of cardiovascular-related contraindications on label enables robust positioning as an alternative to triptan therapy, as also supported by recent SCLX-sponsored market research study focused on neurologists, headache specialist and PCPs (n=150). Lastly, balance sheet overhang removal also remains a key priority via (1) anticipated sale of recently purchased SCLX's shares from Sorrento, and (2) expedited repayment of Oramed's senior secured promissory note (~$102M), possibly by 3/19/24 initial penny warrants' vesting date. We believe the current EV of <3x projected 2025E revenues aptly bakes in any inherent balance sheet risks.

Key Points

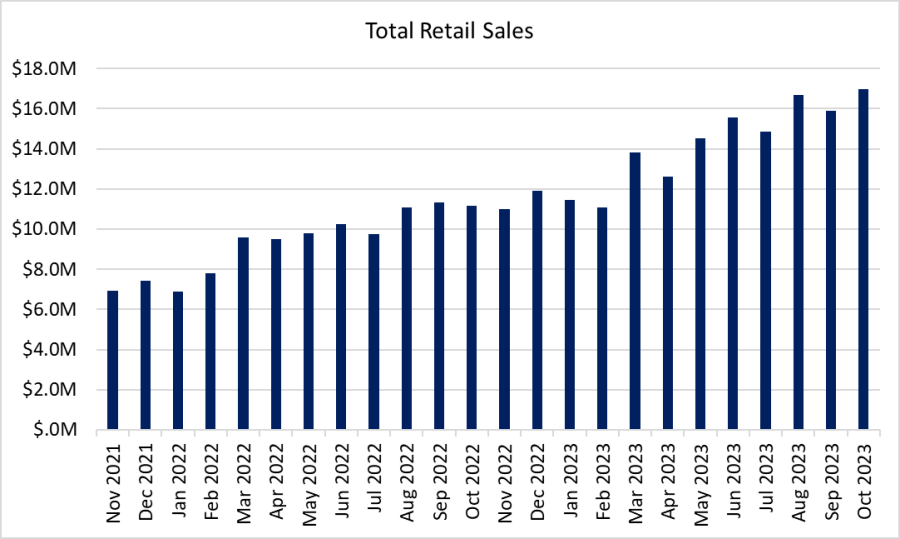
- **ZTlido sustainable growth dynamics encouraging.** Recently reported preliminary unaudited revenues for October indicate gross/net sales of $14.5M-$15.5M/$4M-$5M, implying YTD net sales of $35M-$40M, representing 15-32% growth y/y compared to the $30.4M net sales for 2022 YTD through October'22. These growth trends are also reflected in Bloomberg Symphony Health prescription data, with 3Q volume indicating 11.0% growth q/q, and 47.2% growth y/y. ZTlido has gained meaningful market share in a steadily growing lidocaine patch market over the past four years, primarily driven by strong payer coverage. The recently launched sales campaign focuses on using ZTlido as an add-on to gabapentinoid, which is backed by clinical data demonstrating stronger analgesia; enabling SLCX to tap a larger TAM (~50M unit volume/year) where an improved customer mix, i.e., Medicare focused, allows for improved gross-to-net dynamics. Recently, on 11/15 and 11/17, SCLX announced two new patents for ZTildo 1.8% had been issued by the U.S. Patent and Trademark Office, further strengthening the proprietary lidocaine topical system's IP protection.
- **De-risked late-stage development for SP-102 in sciatica treatment.** On the heels of the recent positive Type C meeting with FDA for SP-102, SCLX is on track for its NDA filing and a potential first epidural steroid injection (ESI) approval for sciatica in the U.S. SCLX previously generated positive primary and secondary efficacy data from the pivotal Ph. III C.L.E.A.R. randomized placebo-controlled study of SP-102. The study demonstrated statistically significant reductions in the change in average daily pain in the affected leg over 4 weeks i.e., LS mean of -0.52 vs placebo (p-0.002), with additional statistically significant results in in the change in average daily pain in the affected leg over 4 weeks i.e., LS

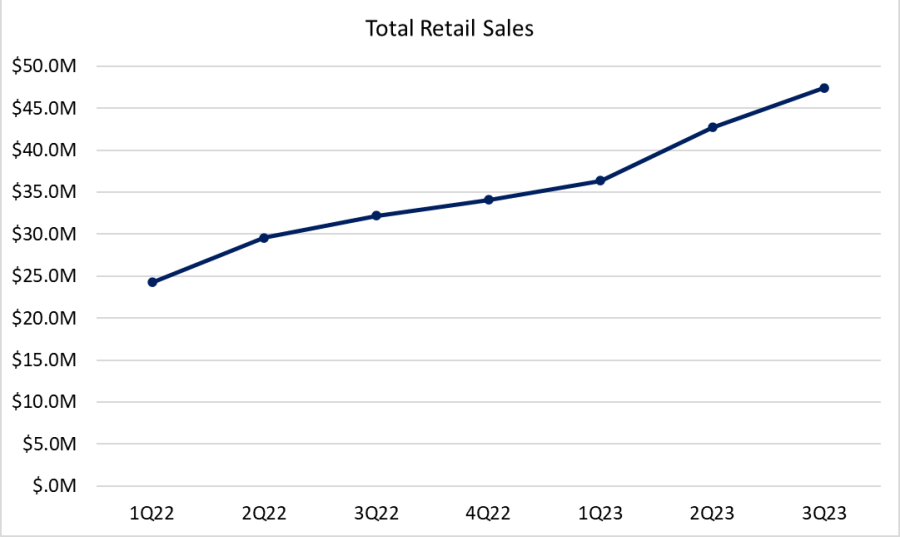
(continued on page 2)

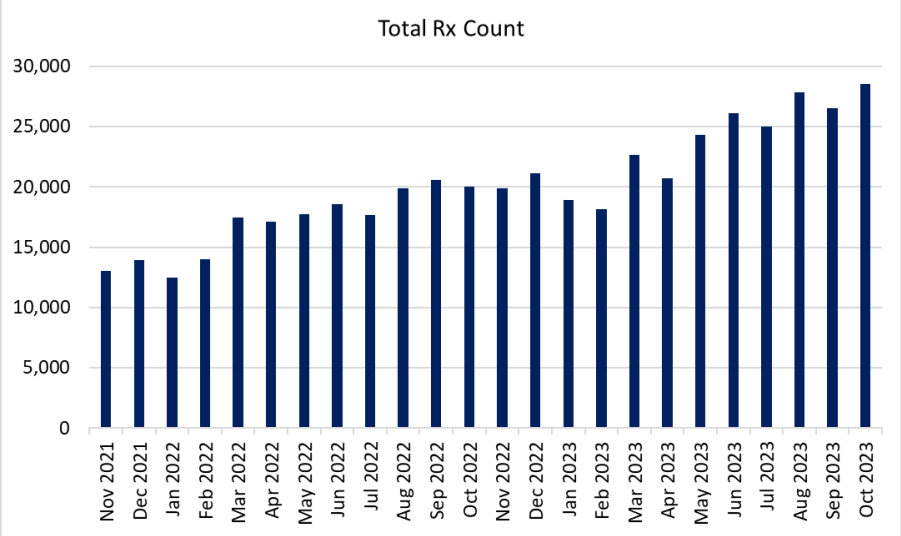
mean of -0.52 vs placebo (p-0.002), with additional statistically significant results in Disability Index, global change, worst pain in affected leg, average daily lower back pain, and brief pain inventory for pain severity. Importantly, time to repeat injections of 84 vs. 58 days (SP-102 vs placebo; p=0.001), implies reduced physician and patient burden, translating to healthcare cost savings. Overall, we view SP-102 as de-risked with a potential market of 12M+ ESI unit volume, the majority of which is for lumbar radiculopathy/sciatica management by interventional pain physicians as a non-surgical, non-opioid alternative. SCLX plans to initiate an open-label safety and efficacy trial (n= ~700) in 1H24 for SP-102 to fulfill FDA guidance/expectations of adequate safety dataset prior to NDA filing and for product registration. Enrollment is expected to complete in 2025.

- **SP-103 aimed at maximizing value of lidocaine topical system in highly prevalent forms of musculoskeletal (nociceptive) pain, with focused initial late-stage development in chronic neck pain.** SCLX published new SP-103 data, a 5.4% lidocaine topical system (3x the strength of ZTlido, with the same adhesive formulation) demonstrating that SP-103 improved skin penetration, delivering drug into muscle tissue more effectively than ZTlido (Birngruber et al, *Pharmaceutics*, 2023). The research examined drug penetration in the dermis, subcutaneous adipose tissue, and muscle comparing SP-103 to control, a topical pain relief gel Pennsaid (2% diclofenac) *ex-vivo* in explanted porcine tissue, and also *in-vivo* in anesthetized domestic pigs adding the Ztilido 1.8% as well. *Ex vivo* data demonstrated that diclofenac was below the lower limit of quantification (LLOQ) in the muscle whereas SP-103 achieved levels of 39.3±29.1 nM 6h post treatment suggesting greater diffusive transport of SP-103 even without systemic blood circulation (Exhibit 2). In the in vivo experiments, while Pennsaid concentrations in the muscle (8.6±1.7mm) remained around the LLOQ levels throughout the 24-hour study course, SP-103 was able to reach a concentration almost 5-fold higher than that by ZTlido at 24 hours, i.e., SP-103: 23.4±34.7 nM vs ZTlido: 4.9±1.4 nM (Exhibit 3). 24-hour AUC of lidocaine concentrations in the muscle showed that SP-103 was significantly higher than that of ZTlido (p=0.008), although no statistical significance was observed when compared to control (Pennsaid, no lidocaine), possibly due to small sample size. These data support the preliminary analysis of the Ph. II SP-103 randomized, placebo-controlled study reported in September, performed in 75 subjects with moderate to severe acute lower back pain (SP-103 n=38, placebo n=37) that (1) SP-103 was safe and well tolerated; (2) 3x the strength in lidocaine did not lead to systemic toxicity or increased reactions at the application site; and (3) a reduction in pain by the Sum of Pain Intensity Differences (SPID-7) analysis over the first week (–1.5 point [95% CI: –0.2, 3.2]) in a subpopulation of patients with more severe muscle spasms. A separate investigator-initiated study of ZTlido in chronic non-radicular neck pain showed preliminary promising results of reduction in average daily pain over one-month treatment period of ZTlido. Based on these preclinical and clinical datasets, SCLX plans to develop SP-103 in chronic neck pain, with an expected EOP2 meeting with FDA after the completion of data analysis of the above mentioned two clinical studies. A Ph. III study for SP-103 is expected to initiate in 2024.
- **Additional revenue streams emerging from Elyxyb and Gloperba,.** Following the in-licensing of the U.S./Canadian rights to Elyxyb (celecoxib, oral solution) in 1Q23 and the U.S. launch in 2Q23, SCLX recently announced the increase of Elyxyb manufacturing to meet the rising demand and has produced the first commercial batch of SCLX labeled Elyxyb. Elyxyb oral solution is a prescription NSAID for acute migraine treatment with or without aura. Recently, SCLX conducted a market research study (n=150) of neurologist, headache specialists, and primary care physicians that highlighted 93% of clinicians treating migraine reported having moderate to extremely high unmet needs for alternative options to triptan therapy (5-HT1B/1D receptor agonist). In particular, clinicians need drug options for migraine patients who either do not respond well or have contraindications to triptan. Elyxyb has the potential to address these, given that (1) it achieved significant pain relief within 45 minutes in ~50% patients (47.7% at 45 minutes post-dose vs. 37.1% by placebo, p=0.021) (Lipton et al, *J Pain Res*, 2021); (2) 46.2% of Elyxyb-treated patients achieved pain free at 2 hours vs. 31.1% in placebo group (p<0.001); (3) a post-hoc analysis indicated its superiority in pain freedom rates (60 min through 3 hr post dosing) to oral CGRP antagonists, ubrogepant 100mg and rimegepant 75mg (Exhibit 4); and (4) triptan drugs are contraindicated in patients with history of coronary artery disease, stroke, transient ischemic attack, or hemiplegic/basilar migraine, or in patients with peripheral vascular disease, whereas Elyxyb does not have these limitations (although it is contraindicated in CABG setting). Separately, SCLX expects to commercialize Gloperba in 1Q24, which is anticipated to bring meaningful revenues entering into 2025. Gloperba is FDA-approved colchicine USP oral solution for prophylaxis of gout flares. The unmet need in the gout therapeutic area lies in the GI side effects and patient compliance. Gloperba oral solution enables easier doing adjustment and reduction, which may be able to reduce side effects and could improve disease management.
- **3Q23 EPS of $($0.63) came in below our/Street estimates of ($0.19)/($0.17).** This was primarily due to the premium on redemption of preferred stock ($52.6M) representing a dividend to the preferred stockholder. R&D expenses of $4.1M (+229% y/y) were higher than our/Street estimates of $3.5M/$3.3M, driven by planning of Ph. II SP-104 trial and Ph. III SP-102 trial. SG&A expenses of $40.4M (+151% y/y) were higher than our/Street estimates of $25.6M/$27.3M, primarily driven by a $12.3M increase in advisory expenses (including an aggregate of $9.4M fees to the Hudson Bay Parties) and a $6.8M increase in personnel expense resulting from headcount increase. SCLX ended the quarter with cash and cash equivalents of ~$2M and net accounts receivable/inventory of ~$20M. SCLX entered into Securities Purchase Agreement with Oramed on 9/21 and issued to Oramed an 18-month senior secured promissory note with principal amount of $101.875M. Mgmt. reaffirmed its commitment to repay the outstanding principal in full by Mar'24, as it evaluates a number of strategic financing options including sale of securities that SCLX repurchased from Sorrento.

Exhibit 1. Bloomberg Symphony Health Retail Data Indicate Resumption of Durable Growth of ZTlido Sales

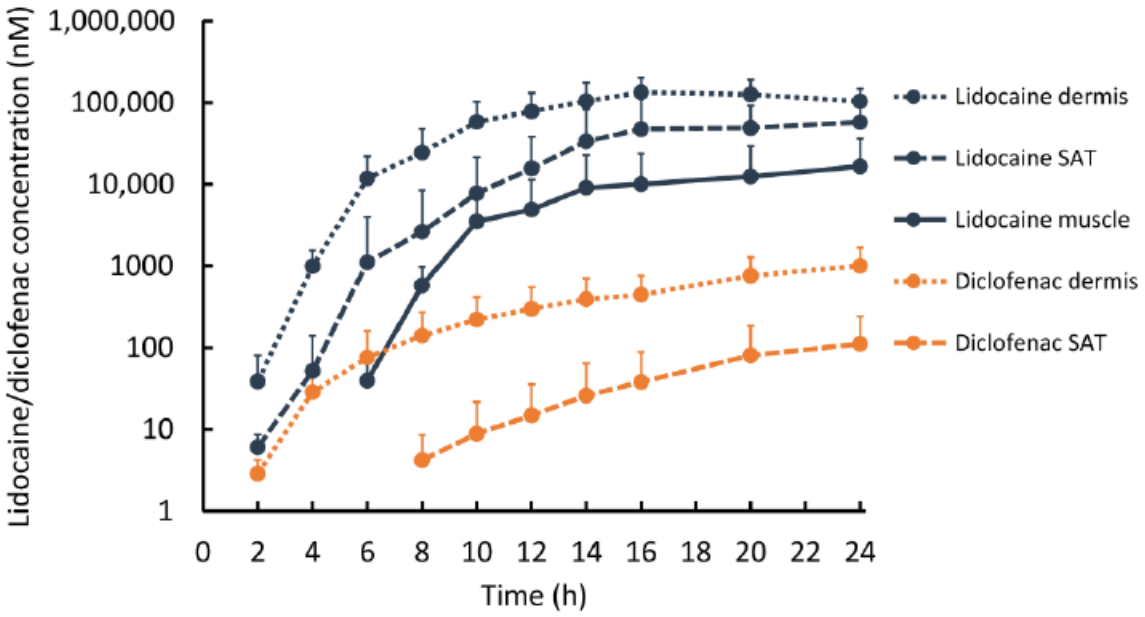






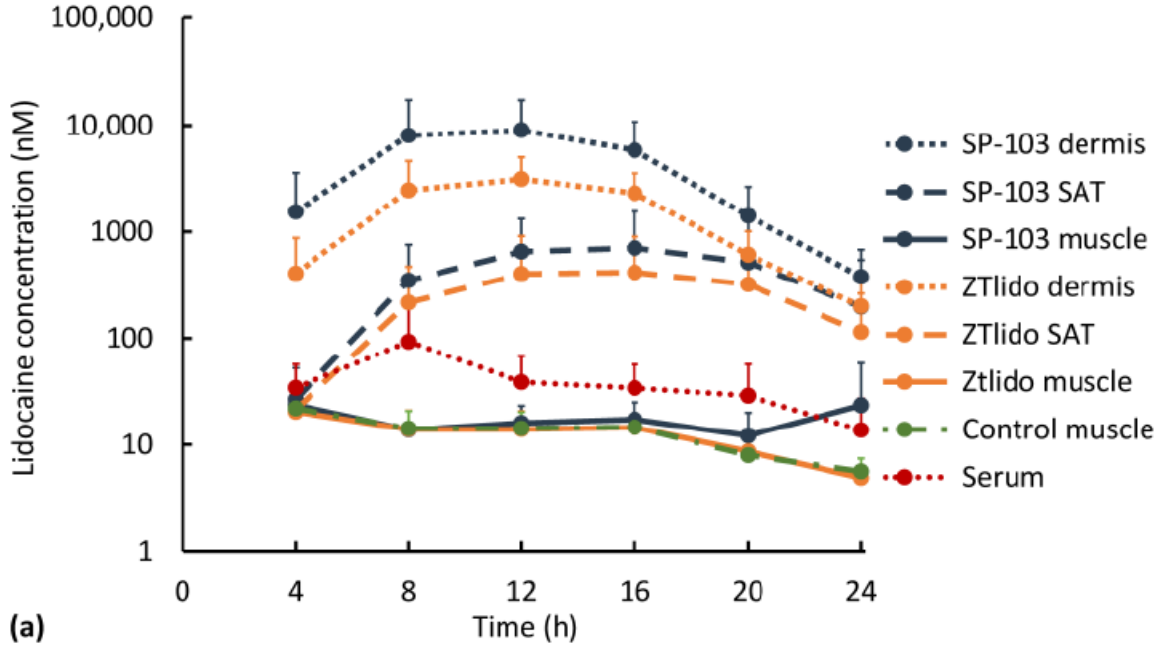
Source: Bloomberg/Symphony Health; B. Riley Securities Research

Exhibit 2. Ex Vivo Results Confirm SP-103's Potent Muscle Tissue Penetration



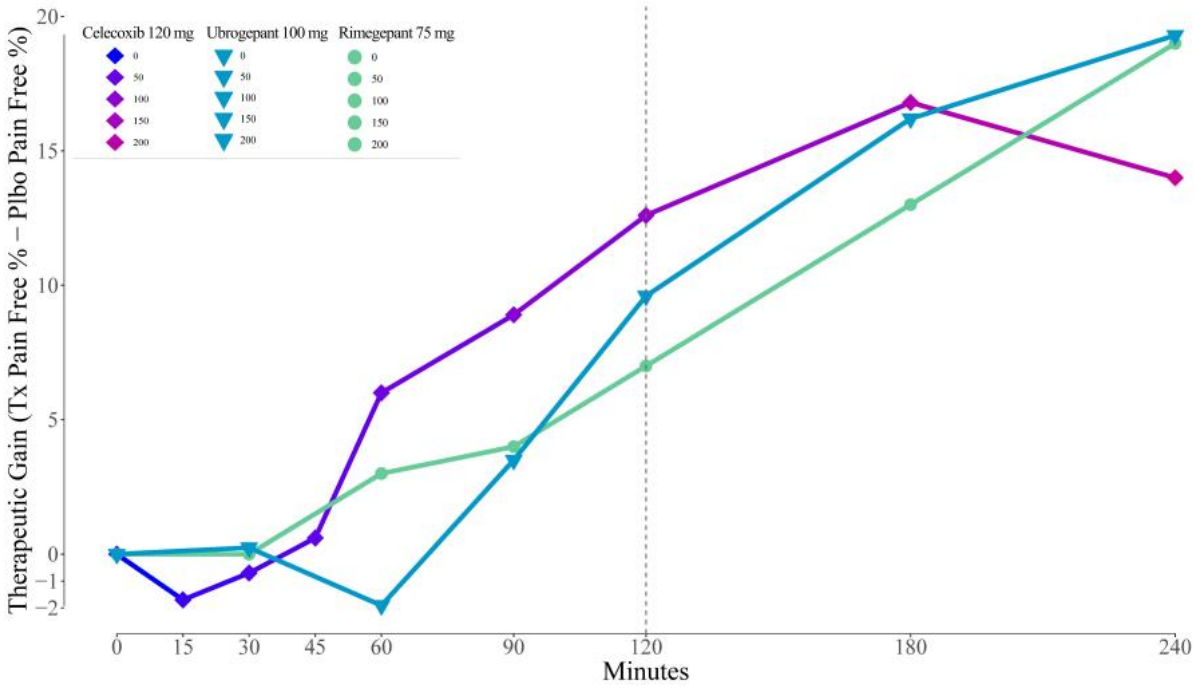
Source: Birngruber et al, Pharmaceutics, 2023

Exhibit 3. In Vivo Experiments Demonstrate SP-103 Led to Almost 5-Fold Higher Lidocaine Concentration in the Muscle at 24 Hours than ZTlido



Source: Birngruber et al, Pharmaceutics, 2023

Exhibit 4. Elyxyb More Likely Led to Pain Free from 60 Minutes through 3 Hours Post-Dose, Compared to CGRP Receptor Antagonists



Source: Tepper et al, poster presented at BRAINWeek 2023

Valuation

We base our Buy rating and 12-month price target of $4 per share on a discounted cash flow (DCF) analysis of revenue and cash flow projected through 2030. Our DCF analysis applies a WACC-calculated 12% discount rate and a 2% terminal growth rate, in line with other clinical-stage biotech companies. For 2030, the final projected year of our model, we forecast $470M in total risk-adjusted revenue.

Risks

History of operating losses. The company has a history of operating losses. Although SCLX has achieved profitability (adjusted EBITDA) in recent quarters, there are no assurances that the company will meet its goals or be able to sustain profitability in future periods.

Financial results. The company has raised money via public offerings several times in the past and may need to do so again if it cannot sustain positive cash flow.

Adoption of assets. If the adoption of SCLX's various assets fails to materialize, or does so at a slower rate than we estimate, our valuation could be materially affected.

Unfavorable clinical trial data. If the products developed by company's spinouts are unable to produce favorable clinical data or are unable to receive regulatory approval, the opportunity for the products could diminish, and our valuation could be adversely affected.

Regulatory risks. The company's compounding facilities are regulated on both the state and federal levels and have seen significant regulatory changes in recent years. If new, unfavorable regulations are instituted, this could have a negative effect on SCLX's operations.

Limited capital. SCLX is a small company with limited resources, which may force it to scale back on aggressive sales and marketing efforts. SCLX may also need to raise capital to sustain operations, which could further dilute existing shareholders.

Intense competition. Many larger companies also focus on SCLX's markets. These companies could develop new, more effective technologies that could decrease SCLX's ability to obtain market share. They could force SCLX and its various spinouts into litigation, which could meaningfully impact FCF and potentially limit commercial opportunities.

Intellectual property. The strength, maintenance, and defense of SCLX's patents, trademarks, and other intellectual property are critical in protecting the company from patent infringement. Should certain key patents be found invalid or expire, this could prevent SCLX's products from reaching their peak commercial potential.

Loss of management and other key employees. The loss of certain employees and executives could disrupt operations and severely impact the company.

Scilex Holdings, Inc. (SCLX)
Income Statement

$ in millions, except EPS	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Revenue	23.6	31.3	38.0	10.6	12.6	10.1	10.7	44.0	11.5	13.8	16.5	15.7	57.4	79.1	121.3
Product revenue	23.6	31.3	38.0	10.6	12.6	10.1	10.7	44.0	11.5	13.8	16.5	15.7	57.4	79.1	121.3
Cost of sales	(2.1)	(3.6)	(10.8)	(3.6)	(4.2)	(3.4)	(3.6)	(14.8)	(3.8)	(4.5)	(5.5)	(5.2)	(19.0)	(19.8)	(17.0)
Gross profit	21.4	27.7	27.2	7.0	8.4	6.7	7.1	29.2	7.7	9.2	11.1	10.5	38.5	59.3	104.3
Intangible Amortization	(3.7)	(3.7)	(3.9)	(1.0)	(1.0)	(1.0)	(1.8)	(4.9)	(2.0)	(2.2)	(2.4)	(2.7)	(9.3)	(13.6)	(13.6)
Research and development	(10.0)	(9.2)	(9.1)	(2.7)	(3.2)	(4.1)	(4.9)	(14.9)	(5.9)	(7.0)	(9.1)	(11.9)	(33.9)	(23.8)	(7.1)
Sales, general and administrative	(43.0)	(50.6)	(64.9)	(28.7)	(27.0)	(40.4)	(27.3)	(123.4)	(27.5)	(27.8)	(28.1)	(29.5)	(112.9)	(124.2)	(136.6)
Operating income (loss)	(35.3)	(35.8)	(50.6)	(25.5)	(22.8)	(38.8)	(26.8)	(113.9)	(27.7)	(27.8)	(28.6)	(33.5)	(117.7)	(102.2)	(53.0)
Change in fair value of derivative liabilities	0.8	(0.3)	8.3	(5.3)	(0.1)	4.2	4.4	3.3	4.5	4.5	4.6	4.7	18.4	20.2	0.0
Gain on settlement of debt	0.0	(40.5)	28.6	0.0	(3.7)	(0.4)	(0.5)	(4.7)	(0.5)	(0.5)	(0.5)	(0.5)	(1.9)	(1.7)	0.0
Interest income (expenses)	(13.1)	(11.8)	(9.6)	0.0	(0.0)	(0.5)	(3.7)	(4.2)	(3.5)	(3.1)	(2.5)	(1.9)	(11.1)	(1.3)	0.0
Other income (loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Loss) gain on foreign currency exchange	0.0	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income before income taxes	(47.6)	(88.4)	(23.4)	(30.7)	(26.7)	(35.5)	(26.7)	(119.6)	(27.2)	(26.9)	(26.9)	(31.2)	(112.3)	(85.1)	(53.0)
Provision for income taxes	0.1	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	(5.3)
Net income from continuing operations	(47.5)	(88.4)	(23.4)	(30.8)	(26.6)	(35.5)	(26.7)	(119.6)	(27.2)	(26.9)	(26.9)	(31.2)	(112.3)	(85.1)	(58.3)
Premium on redemption of Preferred Stock	0.0	0.0	0.0	0.0	0.0	(52.6)	0.0	(52.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deemed Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (loss) to common stockholders	(47.5)	(88.4)	(23.4)	(30.8)	(26.6)	(88.2)	(26.7)	(119.6)	(27.2)	(26.9)	(26.9)	(31.2)	(112.3)	(85.1)	(58.3)
Basic EPS attributable to common stockholders	(0.36)	-0.67	-0.17	-0.22	-0.19	-0.63	-0.19	-0.85	-0.15	-0.15	-0.15	-0.17	(0.61)	-0.36	-0.20
Diluted EPS attributable to common stockholders	(0.36)	-0.67	-0.17	-0.22	-0.19	-0.63	-0.19	-0.85	-0.15	-0.15	-0.15	-0.17	(0.61)	-0.36	-0.20
Shares, basic (million)	132.89	132.86	134.23	141.66	142.63	139.81	140.16	141.06	183.57	184.03	184.49	184.95	184.26	238.18	286.95
Shares, diluted (million)	132.89	132.86	134.23	141.66	142.63	139.81	140.16	141.06	183.57	184.03	184.49	184.95	184.26	238.18	286.95

Cash Flow Statement

$ in millions	2020A	2021A	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Net change in cash and cash equivalents	(50.9)	(0.5)	(2.2)	2.9	30.1	(33.1)	17.9	17.7	47.4	(6.5)	(5.9)	(9.4)	25.6	(17.4)	44.1
Cash and cash equivalents at beginning of period	55.5	4.8	4.3	2.2	5.1	35.1	2.0	2.2	19.9	67.3	60.8	54.9	19.9	45.5	28.1
Cash and cash equivalents at end of period	4.8	4.3	2.2	5.1	35.1	2.0	19.9	19.9	67.3	60.8	54.9	45.5	45.5	28.1	72.1
CASH FLOWS FROM OPERATING ACTIVITIES															
Consolidated net loss before income taxes	(47.5)	(88.4)	(23.4)	(30.8)	(26.6)	(35.5)	(26.7)	(119.6)	(27.2)	(26.9)	(26.9)	(31.2)	(112.3)	(85.1)	(58.3)
Adjustments to reconcile consolidated net loss to net cash used in operating activities:															
Depreciation and amortization	3.8	3.8	4.0	1.0	1.0	1.0	1.1	4.3	1.3	1.4	1.5	1.7	5.8	6.0	1.3
Amortization of debt issuance costs and debt discount	10.7	7.9	3.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scilex Pharma Notes principal increase	0.0	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment on the Scilex Pharma Notes attributed to accreted interest related to the debt discount	(10.9)	(12.5)	(21.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on debt extinguishment, net	0.0	12.5	(28.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash operating lease cost	0.8	0.4	0.5	0.1	0.0	0.2	0.2	0.5	0.2	0.2	0.3	0.3	1.0	1.0	1.0
Stock-based compensation	5.4	5.8	5.3	3.7	3.6	3.5	3.9	14.7	4.2	4.7	5.1	5.6	19.7	20.1	20.5
Issuance of shares under Settlement Agreement	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Gain) loss on derivative liability	(0.8)	0.3	(8.3)	5.3	0.1	(4.2)	(4.7)	(3.6)	(5.1)	(5.7)	(6.2)	(6.8)	(23.8)	(24.3)	(24.8)
Forfeitures of Private Warrants	0.0	0.0	1.7	0.0	3.7	0.4	4.1	8.3	4.5	5.0	5.5	6.0	21.0	21.5	21.9
Other	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in operating assets and liabilities:															
Accounts receivables, net	(0.6)	(1.1)	(7.0)	2.0	(8.3)	11.1	12.3	17.1	(9.2)	(10.1)	(11.1)	(12.2)	(42.5)	(43.3)	(44.2)
Inventory	2.4	(1.4)	1.2	(0.9)	(0.8)	(0.8)	(0.9)	(3.5)	(1.0)	(1.1)	(1.2)	(1.3)	(4.7)	(4.8)	(4.9)
Prepaid expenses and other	(1.0)	1.5	(2.6)	0.3	(0.3)	1.1	1.2	2.3	1.3	1.4	1.6	1.7	6.1	6.2	6.3
Other long-term assets	2.6	0.0	0.4	1.0	(0.2)	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	(4.1)	(3.8)	2.8	2.0	2.3	7.2	7.9	19.4	8.7	9.5	10.5	11.5	40.2	41.0	41.8
Accrued payroll	1.2	(0.0)	(2.4)	0.4	1.0	0.4	0.4	2.2	0.5	0.5	0.6	0.6	2.1	2.2	2.2
Accrued expenses	(1.1)	0.7	(0.1)	3.5	(2.0)	4.0	(2.2)	3.3	(2.4)	(2.7)	(3.0)	(3.3)	(11.3)	(11.6)	(11.8)
Accrued rebates and fees	3.1	(0.3)	23.5	4.7	12.2	18.0	19.8	54.7	5.2	5.7	6.3	6.9	24.2	24.7	25.2
Other liabilities	(0.6)	(0.1)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(0.7)	(0.2)	(0.2)	(0.3)	(0.3)	(1.0)	(1.0)	(1.1)
Related party payable	5.1	18.2	30.1	0.0	1.0	(1.0)	(1.1)	(1.1)	(1.3)	(1.4)	(1.5)	(1.7)	(5.9)	(6.0)	(6.1)
Other long-term liabilities	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by/(used in) operating activities	**(31.5)**	**(28.7)**	**(21.3)**	**(7.7)**	**(13.5)**	**5.9**	**15.1**	**(0.3)**	**(20.6)**	**(19.5)**	**(18.9)**	**(22.4)**	**(81.4)**	**(53.6)**	**(30.9)**
CASH FLOWS FROM INVESTING ACTIVITIES															
Acquisition consideration paid in cash for Romeg intangible asset acquisition	0.0	0.0	(2.1)	0.0	0.0	(0.1)	(0.1)	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of property and equipment	(0.3)	0.0	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by/(used in) investing activities	**(0.3)**	**0.0**	**(2.1)**	**0.0**	**(0.0)**	**(0.2)**	**(0.2)**	**(0.3)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CASH FLOWS FROM FINANCING ACTIVITIES															
Proceeds from issuance of shares under Standby Equity Purchase Agreements	0.0	0.0	0.0	1.7	14.5	11.4	3.0	30.6	30.0	30.0	30.0	30.0	120.0	30.0	12.0
Proceeds from issuance of convertible debentures	0.0	0.0	0.0	9.6	14.4	0.0	0.0	24.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of convertible debentures	0.0	0.0	0.0	0.0	0.0	(11.0)	0.0	(11.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance of Revolving Facility	0.0	0.0	0.0	0.0	0.0	52.6	0.0	52.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of Revolving Facility	0.0	0.0	0.0	0.0	0.0	(45.3)	0.0	(45.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from the Business Combination	0.0	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transaction costs paid related to the Business Combination	0.0	0.0	(2.9)	(0.6)	(0.7)	0.0	0.0	(1.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disbursement of funds to Sorrento	0.0	0.0	0.0	0.0	0.0	(20.0)	0.0	(20.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash consideration paid in connection with share repurchase	0.0	0.0	0.0	0.0	0.0	(10.0)	0.0	(10.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transaction costs paid in connection with share repurchase	0.0	0.0	0.0	0.0	0.0	(2.0)	0.0	(2.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of principal on the Scilex Pharma Notes	(58.9)	(33.4)	(84.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of principal on Oramed Notes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(12.0)	(17.0)	(17.0)	(17.0)	(63.0)	(38.9)	0.0
Proceeds from sale of common stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	0.0	0.0	0.0	50.0	75.0	75.0
Repayment on other loans	0.0	(48.8)	(18.8)	0.0	(2.5)	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from other loans	11.0	47.8	9.9	0.0	17.5	(17.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments of debt issuance costs	0.0	0.0	0.0	0.0	(0.4)	0.0	0.0	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options and warrants exercised	0.1	0.0	0.1	0.0	0.7	0.4	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from related party payable	18.4	47.9	51.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from related party note payable	10.3	14.7	62.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by/(used in) financing activities	**(19.2)**	**28.2**	**21.2**	**10.6**	**43.5**	**(38.9)**	**3.0**	**18.3**	**68.0**	**13.0**	**13.0**	**13.0**	**107.0**	**36.1**	**75.0**

Scilex Holdings, Inc. (SCLX)
DCF analysis

Mayank Mamtani
B. Riley Securities
+1 (646) 885-5463
mmamtani@brileyfin.com

Fiscal year	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal value
Fiscal year end date	*12/31/20*	*12/31/21*	*12/31/22*	*12/31/23*	*12/31/24*	*12/31/25*	*12/31/26*	*12/31/27*	*12/31/28*	*12/31/29*	*12/31/30*	
Revenues	**$ 23.6**	**$ 31.3**	**$ 38.0**	**$ 44.0**	**$ 57.43**	**$ 79.12**	**$ 121.29**	**$ 165.30**	**$ 220.07**	**$ 297.14**	**$ 406.66**	
Cost of product sales	**$ (2.1)**	**$ (3.6)**	**$ (10.8)**	**$ (14.8)**	**$ (18.95)**	**$ (19.78)**	**$ (16.98)**	**$ (23.14)**	**$ (30.81)**	**$ (41.60)**	**$ (56.93)**	
Gross Profit	$ 21.4	$ 27.7	$ 27.2	$ 29.2	38.5	59.3	104.3	142.2	189.3	255.5	349.7	
Intangible Amortization	$ (3.7)	$ (3.7)	$ (3.9)	$ (4.9)								
R&D expense	$ (10.0)	$ (9.2)	$ (9.1)	$ (14.9)	(33.9)	(23.8)	(7.1)	(5.0)	(5.2)	(5.5)	(5.8)	
SG&A expense	$ (43.0)	$ (50.6)	$ (64.9)	$ (123.4)	(112.9)	(124.2)	(136.6)	(143.5)	(150.6)	(153.6)	(156.7)	
Total operating expenses	$ (56.7)	$ (63.5)	$ (77.9)	$ (138.3)	(146.9)	(148.0)	(143.8)	(148.4)	(155.9)	(159.1)	(162.5)	
Operating income (EBIT)	**$ (35.3)**	**$ (35.8)**	**$ (50.6)**	**$ (109.0)**	**(108.4)**	**(88.6)**	**(39.4)**	**(6.3)**	**33.4**	**96.4**	**187.2**	
Taxes	0.1	(0.0)	-	-	-	-	(5.3)	(2.0)	2.0	8.3	36.5	
After tax operating income	(35.3)	(35.8)	(50.6)	(109.0)	(108.4)	(88.6)	(34.1)	(4.3)	31.4	88.1	150.8	
(+) depreciation and amortization	14.4	11.7	7.1	4.3	5.8	6.0	1.3	1.4	1.6	1.7	6.1	
(-) capital expenditures	0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(-) change in working capital	(7.1)	(13.6)	(45.7)	(94.4)	(7.2)	(7.3)	(7.5)	(7.6)	(7.8)	(7.9)	(8.1)	
(+) deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(+) other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Unlevered free cash flow	(27.7)	(37.7)	(89.2)	(199.0)	(109.7)	(90.0)	(40.3)	(10.5)	25.2	81.9	148.7	
Time period (years)				0.17	1.17	2.17	3.17	4.17	5.17	6.17	7.17	
Discount factor				0.98	0.89	0.80	0.72	0.65	0.58	0.53	0.47	
PV				(48.9)	(97.2)	(71.8)	(29.0)	(6.8)	14.7	43.0	70.4	
EV	672.46									**PV of Terminal Value**		797.93
+ Cash and Cash equivalents	1.95											
Company value	674.42											
- Long-term debt	122.2											
Equity value	$552											
Fully diluted shares outstanding	155.9											
Price/share	**$ 4.00**											
WACC	11.0%											
Terminal growth rate	2.0%											

Shares (10-Q, Nov. 14, 2023)			**Dilution**
1,130,907 shares, on exercise of convertible notes	1.131 shares	$8.00 WAEP	0.000
30,665,000 shares, on exercise of stock options	30.665 shares	$4.63 WAEP	0.000
10,467,692 shares, on exercise of warrants	10.468 shares	$1.49 WAEP	0.000
0,000 shares, on exercise of unvested RSUs	0.000 shares	$0.00 WAEP	0.000
Possible dilution (million shares)			**0.000**

Assumptions		**WACC Calculations**		**Balance Sheet**	
				Total debt	122.15
Date	11/22/2023	Risk-free rate	2.0%	Cash and equivalents	1.95
Fiscal year ending (1-12)	12	Adjusted beta	1.3	Net debt	120.20
Fiscal year ending (month)	December	Rm-Rf	7.0%	Debt, as a % of equity	77.55%
Projections discounted to (1-12)	12.00	Re	11.0%	Cash per share	0.01
Projections discounted to (month)	December	Rd	0.0%	Closing price, 11-22-23	$ 1.01
Shares outstanding	155.943	WACC, calculated	11.0%	Closing market cap, 11-22-23	$ 157.50

*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

Important Information

This report has been prepared by B. Riley Securities, Inc. ("B. Riley Securities") and may be distributed by its affiliates and subsidiaries as third-party research pursuant to FINRA Rule 2241. B. Riley Wealth Management, Inc. ("B. Riley Wealth"). is a subsidiary of B. Riley Financial, Inc., which is the parent company to B. Riley Securities and B. Riley Wealth. As such, B. Riley Wealth may distribute B. Riley Securities research pursuant to Rule 2241 and by mutual agreement.

B. Riley Securities, B. Riley Wealth,is a broker-dealer registered with the SEC and are members of FINRA, SIPC, and the NASDAQ stock market.

The principal business address of B. Riley Securities is 11100 Santa Monica Blvd., Suite 800, Los Angeles, CA 90025.

Company-Specific Disclosures

B. Riley Securities, Inc. or any of its affiliates, has received compensation for investment banking services from Scilex Holding Company in the past 12 months.

Scilex Holding Company currently is, or within the past 12 months was, a client of B. Riley Securities, Inc. The services provided were Investment Banking Services.

For up-to-date B. Riley Securities, Inc. company disclosures, please click on the following link or paste the URL in a web browser: https://brileysecurities.bluematrix.com/sellside/Disclosures.action.

General Disclosures

Information about the Research Analyst Responsible for this report:

The primary analyst(s) covering the issuer(s), Mayank Mamtani, certifies (certify) that the views expressed herein accurately reflect the analyst's personal views as to the subject securities and issuers and further certifies that no part of such analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the report. The analyst(s) responsible for this research report has received and is eligible to receive compensation, including bonus compensation, based on B. Riley Securities, Inc.'s overall operating revenues, including revenues generated by its investment banking activities.

Information about B. Riley Securities, Inc.'s Conflicts Management Policy:

B. Riley Securities, Inc.'s Research conflicts management policy is available at: https://brileyfin.com/conflicts-management-policy/.

Information about investment banking:

In the normal course of its business, B. Riley Securities, Inc. or any of their affiliates seek to perform investment banking and other services for various companies and to receive compensation in connection with such services. As such, investors should assume that B. Riley Securities, Inc., or any of their affiliates intend to seek investment banking or other business relationships with the companies covered in their research reports.

Information about lending activity

From time to time, affiliates of B. Riley Securities, Inc. may seek to engage in lending activities and other similar services for various companies and to receive compensation in connection with such services. As such, investors should assume that B. Riley Securities, Inc. or any of its affiliates intends to seek to engage in lending activities or other similar services with the companies covered in their research reports.

Information about our recommendations, holdings and investment decisions:

The information and rating(s) included in this report represent the long-term view as described more fully below. The analyst may have different views regarding short-term trading strategies with respect to the stocks covered by the rating(s), options on such stocks, and/or other securities or financial instruments issued by the company, and such views may be made available to all or some of our clients from time to time. Our brokers also may make recommendations to their clients, and our affiliates may make investment decisions that are contrary to the recommendations contained in this research report. Such recommendations or investment decisions may be based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, B. Riley Securities, Inc., its affiliated entities, or their respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities or other financial instruments mentioned in this report.

We provide to certain customers on request specialized research products or services that focus on covered stocks from a particular perspective. These products or services include, but are not limited to, compilations, reviews, and analysis that may use different research methodologies or focus on the prospects for individual stocks as compared to other covered stocks or over differing time horizons or under assumed market events or conditions. Readers should be aware that we may issue investment research on the subject companies from a technical perspective and/or include in this report discussions about options on stocks covered in this report and/or other securities or financial instruments issued by the company. These analyses are different from fundamental analysis, and the conclusions reached may differ. Technical research and the discussions concerning options and other securities and financial instruments issued by the company do not represent a rating or coverage of any discussed issuer(s). The disclosures concerning distribution of ratings and price charts refer to fundamental research and do not include reference to technical recommendations or discussions concerning options and other securities and financial instruments issued by the company.

Our analysts' short-term views, recommendations by our brokers, views contained in products and services provided to customers on an individualized basis, and\or strategies, analysis, or decisions made by B. Riley Securities, Inc. or its affiliates and their respective directors, officers, employees, or members of their immediate families may be different from those published by the analyst in this report and could impact the price of the securities mentioned in this report.

Information about our rating system:

B. Riley Securities, Inc. uses the following three-tiered rating system for securities covered in their research reports:

- **Buy**: We generally expect "Buy" rated stocks to have an above-average risk-adjusted total return over the next 12 months. We recommend that investors buy the securities at the current valuation.
- **Neutral:** We generally believe "Neutral" rated stocks will have an average risk-adjusted total return over the next 12 months.
- **Sell:** We generally expect "Sell" rated stocks to have a below-average risk-adjusted total return over the next 12 months. We recommend that investors reduce their positions until the valuation or fundamentals become more compelling.

B. Riley & Co., LLC and FBR Capital Markets & Co. (before the merger of the broker dealers) adopted this rating system on August 9, 2017. A description of the prior ratings system for each Firm can be found at http://www.brileyfin.com/fbr-ratings-system-from-1072002-to-882017/.

Rating	B. Riley Securities, Inc. Research Distribution [1]	B. Riley Securities, Inc. Banking Services in the past 12 months[1]
BUY [Buy]	76.98%	41.86%
HOLD [Neutral]	23.02%	22.22%
SELL [Sell]	0.00%	0.00%

(1) As of midnight on the business day immediately prior to the date of this publication.

General Information about B. Riley Securities, Inc. Research:

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable but is not guaranteed as to accuracy and does not purport to be complete. Opinions are as of the date of the report unless labeled otherwise and are subject to change without notice. Updates may be provided based on developments and events and as otherwise appropriate. Updates may be restricted based on regulatory requirements or other considerations. Consequently, there should be no assumption that updates will be made. B. Riley Securities, Inc. or any of their affiliates disclaim any warranty of any kind, whether express or implied, as to any matter whatsoever relating to this research report and any analysis, discussion, or trade ideas contained herein. This research report is provided on an "as is" basis for use at your own risk, and B. Riley Securities, Inc. or any of their affiliates are not liable for any damages or injury resulting from use of this information. This report should not be construed as advice designed to meet the particular investment needs of any investor or as an offer or solicitation to buy or sell the securities or financial instruments mentioned herein, and any opinions expressed herein are subject to change. Some or all of the securities and financial instruments discussed in this report may be speculative, high risk, and unsuitable or inappropriate for many investors. B. Riley Securities, Inc. or any of their affiliates make no representation as to the suitability or appropriateness of these securities or financial instruments for individual investors. Investors must make their own determination, either alone or in consultation with their own advisors, as to the suitability or appropriateness of such investments based upon factors including their investment objectives, financial position, liquidity needs, tax status, and level of risk tolerance. These securities and financial instruments may be sold to or purchased from customers or others by B. Riley Securities, Inc. or any of their affiliates acting as principal or agent.

Securities and financial instruments issued by foreign companies and/or issued overseas may involve certain risks, including differences in accounting, reporting, and registration, as well as foreign currency, economic, and political risks.

This report and the securities and financial instruments discussed herein may not be eligible for distribution or sale in all jurisdictions and/or to all types of investors. This report is provided for information purposes only and does not represent an offer or solicitation in any jurisdiction where such offer would be prohibited. Commentary regarding the future direction of financial markets is illustrative and is not intended to predict actual results, which may differ substantially from the opinions expressed herein.

B. Riley Securities, Inc. utilizes a tiered approach to service its clients. The services provided by B. Riley Securities, Inc.'s research analysts to clients vary based upon a variety of factors, including, but not limited to, client preferences and the extent of a client's total relationship with the Firm. B. Riley Securities, Inc. does not provide any of the Firm's clients with access to unpublished research opinions. B. Riley Securities, Inc. provides clients across all tiers equal access to research reports.

Paired Trade Disclaimer

From time to time, B. Riley Securities, Inc. Research Analysts will offer short-term trading ideas, including identifying a paired trade. In a paired trade, an investor buys the securities of one company and sells the securities of another company. The idea to buy the securities of one company and sell the securities of the other company is based on the expected short-term price move or relative value between the two companies mentioned in the paired trade, not between the companies and any other companies. In contrast, the recommendations in a Research Analyst's published report reflect the Research Analyst's views on a company over the long term (i.e., the next 12 months) relative to other companies covered by the Research Analyst. The trade idea in a paired trade is unrelated to the Research Analyst's long-term view of the companies as expressed in the Research Analyst's most recently published research report. A paired trade idea to sell a company that is rated as Neutral or higher, or to buy a security that is rated Neutral or lower, is not inconsistent because the call to sell or buy the company is relative to the other company mentioned in the paired trade over the short term; it is not a long-term view relative to other companies covered by the Research Analyst.

Important information for B. Riley Securities, Inc. Clients with French Addresses and Potential Investors:

Addresses and potential investors based in France expressly acknowledge that they have not been subject to any kind of solicitation by B. Riley Securities, Inc. or its affiliates, as defined under Article L.341-1 and seq. of the French Monetary and Financial code.

The above analyses have not been prepared in the context of a public offering of financial instruments in France within the meaning of Article L.411-1 and seq. of the French Monetary and Financial code and shall not be deemed to be drawn up for the purpose of providing investment services as defined under Article L.321-1 and seq. of the French Monetary and Financial code. In this respect, the above analyses shall not be qualified as personalized investment advice related to financial instruments under

French law and shall, therefore, not be deemed to be qualified as investment advice provided by B. Riley Securities, Inc. or its affiliates.

Addresses and potential investors based in France may initiate the first contact with B. Riley Securities, Inc. in order to get additional information on financial analyses and services provided by the latter. By doing so, addresses and potential investors based in France expressly acknowledge that the banking and financial solicitation regime as defined under Article L.341-1 and seq. of the French Monetary and Financial code shall not be applicable.

Information for Clients of B. Riley Securities, Inc.:

This publication has been approved by B. Riley Securities, Inc. which accepts responsibility for its contents and its distribution to our clients. Any B. Riley Securities, Inc. client who receives this research and wishes to effect a transaction in the securities or financial instruments discussed should contact and place orders with a B. Riley Securities, Inc. Sales representative.