

### SCLX: Unfounded Optimism About a Competitor Creates Undue Pressure; Reiterate Buy Rating

Scilex stock (SCLX; Buy) has been under pressure recently, partially due news from a potential competitor, Vertex (VRTX; Not Rated).

On April 18, Vertex announced the rolling submission of an NDA for its acute pain product suzetrigine, an oral NaV1.8 channel blocker (fka VX-548).

The Phase 3 trial data for the moderate-to-severe acute pain indication with suzetrigine was already announced in January<sup>1</sup>. According to which the drug beat placebo in the post-surgical setting. However, it came up short when testing the superiority hypothesis vs. hydrocodone/acetaminophen (common brand name: Vicodin), a generic drug combination.

The press release from Vertex<sup>2</sup> placed a lot of emphasis on a future chronic pain indication: diabetic peripheral neuropathy (DPN), stating that the company is expected to begin a Phase 3 program in 2H24. However, the Phase 2 data wasn't all that exciting.<sup>3</sup> The drug was tested at three different doses in DPN patients, with a generic drug, pregabalin, as a comparator. There was no clear dose response relationship between the three doses. Pain relief at week 12 was not that different when compared to pregabalin.

Vertex plans to embark conducting two Phase 3 trials, 1,100 patients each, comparing suzetrigine to placebo. Curiously, there is no active comparator, such as pregabalin included in the trial design. We estimate the trial to take approximately two years to complete and an additional year for regulatory approval, which may occur in 2H27 or beyond.

The commercial potential of suzetrigine is uncertain. While the drug addresses a novel mechanism in pain management, it doesn't appear to be superior, in terms of pain relief, when compared to widely available generics.

We don't view suzetrigine as a threat to Scilex's ZTLido product, which is approved for postherpetic neuralgia related pain. As a matter of fact, Scilex recently initiated a marketing campaign adding the ZTLido patch to gabapentionoids, such as pregabalin. We don't see a reason why ZTLido cannot be added to suzetrigine prescriptions if approved in the future.

Gross sales of ZTLido grew over 50% to ~\$150M in 2023 with the expectation for sales to increase by 30% in 2024.

On April 24, Scilex announced a registered direct offering of 15M shares priced at \$1/share, providing \$15M in gross proceeds before subtracting expenses associated with the offering.

We reiterate our Buy rating on Scilex, but lowering our 12-month Price Target from \$14 to \$13/share, due to the share count increase.

**Elemer Piros, PhD**  
epiros@rodmresearch.com  
(212) 540-4425

#### Stock Data

Rating	Buy
Price Target	13.00
Exchange	NASDAQ
Price	0.88
52-Week High	8.37
52-Week Low	0.80
Cash (M)	4
Market Cap (M)	110
Shares Outstanding (M)	125
3 Month Avg Volume	952,221

#### Estimates

	2022A	2023A	2024E	
			(Curr.)	(Prev.)
<b>Revenue (M)   \$   Year end: December</b>				
Q1	-	10.6A	13.0E	15.7E
Q2	-	12.6A	20.0E	20.9E
Q3	-	10.1A	35.0E	31.3E
Q4	-	13.5A	46.0E	47.0E
FY	38.0A	46.7A	114E	115E
<b>EPS   \$   Year end: December</b>				
Q1	-	(0.22)A	(0.13)E	(0.11)E
Q2	-	(0.19)A	(0.03)E	(0.02)E
Q3	-	(0.63)A	0.07E	0.05E
Q4	-	(0.25)A	0.12E	0.15E
FY	(0.17)A	(0.88)A	0.06E	0.08E

#### One Year Performance Chart



<sup>1</sup><https://news.vrtx.com/news-releases/news-release-details/vertex-announces-positive-results-vx-548-phase-3-program>

<sup>2</sup><https://finance.yahoo.com/news/vertex-announces-advancements-suzetrigine-vx-12000605.html>

<sup>3</sup><https://investors.vrtx.com/news-releases/news-release-details/vertex-announces-positive-results-phase-2-study-vx-548-treatment>

## Income Statements

<b>Scilex Holdings</b>													Elemer Piros, Ph.D. 212-540-4425 epiros@rodm.com	
(\$ In thousands, except per share data)														
	2020A	2021A	2022A	2023A				2023A	2024E				2024E	
				1QA	2QA	3QA	4QA		1QE	2QE	3QE	4QE		
<b>Net revenue</b>	<b>\$23,560</b>	<b>\$31,317</b>	<b>\$38,034</b>	\$10,582	\$12,582	\$10,117	\$13,462	<b>\$46,743</b>	\$13,000	\$20,000	\$35,000	\$46,000	<b>\$114,000</b>	
Cost of Revenue	\$2,149	\$3,634	\$10,797	\$3,591	\$4,177	\$3,392	\$4,521	<b>\$15,681</b>	\$3,524	\$5,422	\$9,488	\$12,470	<b>\$30,903</b>	
Gross Profit	<b>\$21,411</b>	<b>\$27,683</b>	<b>\$27,237</b>	\$6,991	\$8,405	\$6,725	\$8,941	<b>\$31,062</b>	\$9,476	\$14,578	\$25,512	\$33,530	<b>\$83,097</b>	
% Gross margin	91%	88%	72%	66%	67%	66%	66%	66%	73%	73%	73%	73%	73%	
<b>Operating Expenses</b>														
Research and development	\$9,961	\$9,201	\$9,054	\$2,736	\$3,204	\$4,072	\$2,734	<b>\$12,746</b>	\$1,500	\$1,250	\$1,250	\$1,000	<b>\$5,000</b>	
Selling, general and administrative	\$42,970	\$50,582	\$64,895	\$28,701	\$26,989	\$40,431	\$23,520	<b>\$119,641</b>	\$20,000	\$15,000	\$14,000	\$15,000	<b>\$64,000</b>	
Intangible amortization	\$3,738	\$3,738	\$3,922	\$1,027	\$1,026	\$1,027	\$1,026	<b>\$4,106</b>	\$1,050	\$1,050	\$1,050	\$1,050	<b>\$4,200</b>	
Loss from operations	<b>(\$35,258)</b>	<b>(\$35,838)</b>	<b>(\$50,634)</b>	(\$25,473)	(\$22,814)	(\$38,805)	(\$18,339)	<b>(\$105,431)</b>	(\$13,074)	(\$2,722)	\$9,212	\$16,480	<b>\$9,897</b>	
<b>Other (income) expense:</b>														
(Gain) loss on derivative liability	<b>(\$800)</b>	<b>\$300</b>	<b>(\$8,310)</b>	\$5,253	\$82	(\$4,245)	(\$578)	<b>\$512</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	
Change in fair value of debt and liability instruments	\$0	\$12,463	(\$28,634)	\$0	\$3,748	\$449	\$2,992	<b>\$7,189</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	
Gain on debt extinguishment, net	\$0	\$28,000	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	
Interest expense, net	\$13,116	\$11,764	\$9,604	(\$1)	\$5	\$513	\$551	<b>\$1,068</b>	\$600	\$600	\$600	\$600	<b>\$2,400</b>	
Loss (gain) on foreign currency exchange	<b>(\$2)</b>	<b>\$54</b>	<b>\$66</b>	\$20	\$3	\$7	\$88	<b>\$118</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	
Total other (income) expense	<b>\$12,314</b>	<b>\$52,581</b>	<b>(\$27,274)</b>	\$5,272	\$3,838	(\$3,276)	\$3,053	<b>\$8,887</b>	\$600	\$600	\$600	\$600	<b>\$2,400</b>	
(Loss) income before income taxes	<b>(\$47,572)</b>	<b>(\$88,419)</b>	<b>(\$23,360)</b>	(\$30,745)	(\$26,652)	(\$35,529)	(\$21,392)	<b>(\$114,318)</b>	(\$13,674)	(\$3,322)	\$8,612	\$15,880	<b>\$7,497</b>	
Income tax expense (benefit)	<b>(\$53)</b>	<b>\$5</b>	<b>\$4</b>	\$8	(\$3)	\$0	\$8	<b>\$13</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	
<b>Net (loss) income</b>	<b>(\$47,519)</b>	<b>(\$88,424)</b>	<b>(\$23,364)</b>	(\$30,753)	(\$26,649)	(\$35,529)	(\$21,400)	<b>(\$114,331)</b>	(\$13,674)	(\$3,322)	\$8,612	\$15,880	<b>\$7,497</b>	
Weighted average number of shares outstanding	<b>132,891</b>	<b>132,858</b>	<b>134,226</b>	141,660	142,626	139,808	130,298	<b>130,298</b>	107,968	125,127	127,630	130,182	122,727	
<b>Net loss per share</b>	<b>(\$0.36)</b>	<b>(\$0.67)</b>	<b>(\$0.17)</b>	(\$0.22)	(\$0.19)	(\$0.63)	(\$0.25)	<b>(\$0.88)</b>	(\$0.13)	(\$0.03)	\$0.07	\$0.12	<b>\$0.06</b>	

Source: Scilex Holding SEC filings, Rodman &amp; Renshaw estimates

**Valuation and Risks**

We arrive at our twelve-month price target of \$13/share by assessing the after-tax, risk adjusted NPV of potential future cash flows from the company's ZTlido, ELYXYB and Gloperba programs, in addition to the estimated value of pipeline assets. For commercial-stage assets, the probability-adjusted, fully taxed (21%) NPV (15% discount rate) of potential cash flows through 2036 is ~\$1.2B or \$10/share, according to our forecasts. We estimate that the value of pipeline assets to be \$300M, or \$3/share. The combined total NPV of all the assets is ~\$1.5B or \$13/share, corresponding to our 12-month price target. Significant factors that could impede shares from reaching our price target include the failure of ELYXYB's label expansion into acute pain and lower-than-estimated sales. In addition, the company may not be able to raise additional funds to repay debt and to complete development of drug candidates.

**Company description**

Scilex Holding Company focuses on acquiring, developing, and commercializing non-opioid pain management products for the treatment of acute and chronic pain. Its commercial products include ZTlido (lidocaine topical system) 1.8%, a prescription lidocaine topical product for the relief of neuropathic pain associated with postherpetic neuralgia (PHN), which is a form of post-shingles nerve pain; ELYXYB, a ready-to-use oral solution for the acute treatment of migraine with or without aura in adults; and Gloperba, a liquid oral version of the anti-gout medicine colchicine indicated for the prophylaxis of painful gout flares in adults. The company is also developing three product candidates, including SP-102 (10 mg dexamethasone sodium phosphate viscous gel) (SEMDEXA), a novel viscous gel formulation of a corticosteroid used for epidural injections, which has completed a Phase 3 study to treat lumbosacral radicular pain or sciatica; SP-103 (lidocaine topical system) 5.4% (SP-103), a formulation of ZTlido for the treatment of chronic neck pain and low back pain (LBP) that has completed a Phase 2 trial; and SP-104 (4.5 mg low-dose naltrexone hydrochloride delayed-release capsules) (SP-104), a novel low-dose delayed-release naltrexone hydrochloride, which has completed Phase 1 trials for the treatment of fibromyalgia. The company is headquartered in Palo Alto, California.

**Important Disclosures**

This material is confidential and intended for use by Institutional Accounts as defined in FINRA Rule 4512(c). It may also be privileged or otherwise protected by work product immunity or other legal rules. If you have received it by mistake, please let us know by e-mail reply to [unsubscribe@rodmresearch.com](mailto:unsubscribe@rodmresearch.com) and delete it from your system; you may not copy this message or disclose its contents to anyone. The integrity and security of this message cannot be guaranteed on the Internet.

**Rodman & Renshaw, LLC RATING SYSTEM:** Rodman & Renshaw employs a three tier rating system for evaluating both the potential return and risk associated with owning common equity shares of rated firms. The expected return of any given equity is measured on a RELATIVE basis of other companies in the same sector. The price objective is calculated to estimate the potential movements in price that a given equity could reach provided certain targets are met over a defined time horizon. Price objectives are subject to external factors including industry events and market volatility.

**RETURN ASSESSMENT**

**Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

**Market Perform (Neutral):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

**Market Underperform (Sell):** The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector.

Related Companies Mentioned in this Report as of April 29, 2024				
Company	Ticker	Rodman & Renshaw Rating	12 Month Price Target	Price
Scilex Holding Company	SCLX	Buy	13.00	0.88

Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its affiliates or subsidiaries within the past 12 months.



Distribution of Ratings Table as of April 29, 2024				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
BUY	25	96.15%	1	4.00%
HOLD	1	3.85%	0	0.00%
SELL	0	0.00%	0	0.00%
NOT RATED	0	0.00%	0	0.00%

Rodman & Renshaw, LLC (the "Firm") is a member of FINRA and SIPC and a registered U.S. Broker-Dealer.

I, Elemer Piros, certify that 1) all of the views expressed in this report accurately reflect my personal views about any and all subject securities or issuers discussed; and 2) no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report; and 3) neither myself nor any members of my household is an officer, director or advisory board member of these companies.

None of the research analysts or the research analyst's household has a financial interest in the securities of Scilex Holding Company (including, without limitation, any option, right, warrant, future, long or short position).

As of March 31, 2024, neither the Firm nor its affiliates beneficially own 1% or more of any class of common equity securities of Scilex Holding Company.

Neither the research analyst nor the Firm knows or has reason to know of any other material conflict of interest at the time of publication of this research report.

The research analyst principally responsible for preparation of the report does not receive compensation that is based upon any specific investment banking services or transaction but is compensated based on factors including total revenue and profitability of the Firm, a substantial portion of which is derived from investment banking services.

The Firm or its affiliates did receive compensation from Scilex Holding Company for investment banking services within twelve months before, and will seek compensation from the companies mentioned in this report for investment banking services within three months following publication of the research report.

Further information on the stocks discussed in this report, including important disclosures and price charts, may be obtained by writing to: Rodman & Renshaw, LLC, Attention: DISCLOSURES, 600 Lexington Avenue, New York, NY 10022.

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. Past performance is no guarantee of future results. 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. This research report is not intended to provide tax advice or to be used to provide tax advice to any person. Electronic versions of Rodman & Renshaw, LLC research reports are made available to all clients simultaneously. No part of this report may be reproduced in any form without the expressed permission of Rodman & Renshaw, LLC. Additional information available upon request.

Rodman & Renshaw, LLC does not provide individually tailored investment advice in research reports. This research report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this research report.

Rodman & Renshaw, LLC's and its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed in this research report.

Rodman & Renshaw, LLC and its affiliates, officers, directors, and employees, excluding its analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research report.

The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data on the company, industry or security discussed in the report. 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.

Securities and other financial instruments discussed in this research report: may lose value; are not insured by the Federal Deposit Insurance Corporation; and are subject to investment risks, including possible loss of the principal amount invested.