

Scilex Holding Company (SCLX)
Rating: Buy

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Multiple Advances; 2023 Financials; Lowering PT to \$8 on Equity Dilution

Stock Data		5/2/2024		
Price		\$0.85		
Exchange		NASDAQ		
Price Target		\$8.00		
52-Week High		\$8.37		
52-Week Low		\$0.80		
Enterprise Value (M)		\$266		
Market Cap (M)		\$141		
Shares Outstanding (M)		166.2		
3 Month Avg Volume		1,033,578		
Short Interest (M)		7.34		
Balance Sheet Metrics				
Cash (M)		\$3.9		
Total Debt (M)		\$128.5		
Total Cash/Share		\$0.02		
Book Value/Share		\$(1.73)		
EPS (\$) Diluted				
Full Year - Dec		2023A	2024E	2025E
1Q		(0.22)	(0.10)	(0.04)
2Q		(0.19)	(0.06)	(0.02)
3Q		(0.63)	(0.06)	0.01
4Q		(0.25)	(0.04)	0.03
FY		(1.28)	(0.25)	(0.02)
Revenue (\$M)				
Full Year - Dec		2023A	2024E	2025E
1Q		10.6	14.5	41.5
2Q		12.6	24.5	48.3
3Q		10.1	28.5	59.9
4Q		13.5	35.7	65.7
FY		46.7	103.1	215.4

Positive recent commercial developments. Early last month, Scilex announced launching of co-pay programs for both ZTLido and ELYXYB with the out-of-pocket costs for its product portfolio for commercially insured patients capped at \$25 monthly, with certain eligible patients paying as low as \$0. This applies to the company's post-herpetic neuralgia (PHN) pain product, ZTLido, and its migraine product, Elyxyb. In addition, on April 1, 2024, a multi-state Medicaid pharmaceutical purchasing group added ELYXYB to its purchasing pool to make it eligible for 13 states' Medicaid programs. Scilex also reported in March 2024 that the out-of-pocket costs for its product portfolio for commercially insured patients is slated to be capped at \$25 monthly, with certain eligible patients paying as low as \$0. This applies to the company's ZTLido, Elyxyb, and Gloperba brands. We note that ZTLido and Elyxyb are already commercially available in the U.S., while Gloperba is slated to launch during 1H24. Scilex has also been working with its co-pay savings card adjudicators to resolve the recent breakdown of processing of insurance claims by Change Healthcare, a division of UnitedHealth Group (UNH; not rated), following a cyber-attack on Change Healthcare's IT systems. The processing issues were deemed resolved as of late March 2024.

Financial results reported—by the numbers. Scilex ended last year with roughly \$3.9M in cash and cash equivalents. The company reported a full-year net loss totaling \$1.28 per share, which was substantively wider than our forecast for a net loss of only \$0.87 per share. This was driven mainly by lower-than-anticipated weighted average shares outstanding for 2023. Scilex reported preliminary ZTLido net revenues of \$12-13M; we currently forecast \$14.5M in total 1Q24 revenue. Our full-year 2024 and 2025 revenue forecasts currently stand at \$103.1M and \$215.4M, respectively. In late March 2024, Scilex reported that it had paid off the remaining balance of approx. \$1.3M under the convertible debentures previously issued and sold to YA II PN Ltd., an investment entity administered by Yorkville Advisors, in March 2023. Scilex also voluntarily made an early payment in the aggregate amount of \$15M under the senior secured promissory note issued to Oramed Pharmaceuticals Inc. (ORMP; Buy) in September 2023.

Equity financing completed—adjusting price target. Late last month, Scilex announced the closing of its previously announced registered direct offering of an aggregate of 15M shares of its common stock and warrants to purchase up to an aggregate of 15M shares of common stock (100% coverage), at a purchase price of \$1.00 per share of common stock and accompanying warrant to purchase one share of common stock. The warrants have an exercise price of \$1.10 per share, will become exercisable on the six-month anniversary from the date of issuance and expire on the date that is five years after the date of issuance. Gross proceeds from this transaction totaled \$15M. We reiterate our Buy rating, while lowering our 12-month price target to \$8 from the previous \$12 per share. This reflects the impact of dilution from the most recent equity financing and our expectations for additional equity dilution going forward, as well as adjustments to our market model assumptions and discounted cash flow (DCF) parameters.



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Legal settlements reached, mitigating operational risk. In mid-March 2024, Scilex announced that the U.S. Bankruptcy Court for the Southern District of Texas, in connection with the bankruptcy proceedings of Scilex's former parent company and former controlling stockholder, Sorrento Therapeutics, Inc. (SRNEQ; not rated), had approved the settlement and mutual release agreement between Scilex's wholly owned subsidiary, Scilex Pharmaceuticals Inc., and Sorrento, on the one hand, and Virpax Pharmaceuticals, Inc. (VRPX; not rated), on the other. The definitive settlement agreement relates to the term sheet previously announced by Scilex on February 26, 2024, regarding a mutual release and settlement agreement between Scilex Pharma, Sorrento and Virpax in respect of the action filed by Scilex Pharma and Sorrento against Anthony Mack, former President of Scilex Pharma and Virpax, a company founded and then headed by Mr. Mack. Based on the settlement, Virpax must make the following payments to Scilex: (1) \$3.5M by March 18, 2024; (2) \$2.5M by July 1, 2024; and (3) to the extent any of the following drug candidates are ever sold, royalty payments of (a) 6% of annual Net Sales (as defined in the Definitive Settlement Agreement) of Epoladerm; (b) 6% of annual Net Sales of Probudur; and (c) 6% of annual Net Sales of Envelta. Such royalty payments will end upon the latest of the following: (i) expiration of the last-to-expire valid patent claim of Virpax or its licensor covering the manufacture, use or sale of such product in such country; and (ii) expiration of any period of regulatory exclusivity for such product in such country. The settlement agreement with Virpax included the execution of mutual releases. Also in March 2024, Scilex announced that the company and its wholly owned subsidiary, Scilex Pharmaceuticals Inc., have entered into a settlement agreement with Takeda Pharmaceuticals U.S.A., Inc. and Takeda Pharmaceuticals Company Ltd.—subsidiaries of Takeda (TKPHF; not rated), one of Japan's largest pharmaceutical companies—to resolve the Paragraph IV patent infringement lawsuit that Takeda filed against Scilex in federal district court in Delaware in November 2023. That litigation arose from Scilex's filing of a supplemental New Drug Application (sNDA) with the FDA seeking to expand the label for its FDA-approved liquid colchicine product, Gloperba, a preventive treatment for gout. As part of the settlement, Scilex entered into a license agreement with Takeda. This accords Scilex and its affiliates a non-exclusive license to certain patents owned by Takeda.

Valuation and risks. We assess Scilex using a discounted cash flow (DCF)-based valuation methodology. This applies an 85% probability of approval to SEMDEXA (SP-102), while we assume 100% probability of approval for ZTlido, Elyxyb, Gloperba and SP-103. We utilize a 12% discount rate and 3% terminal rate of decline. Our assumptions correspond to a total firm value of \$2.67B, which yields a price objective of \$12 per share assuming 329.4M fully-diluted shares outstanding as of end-2024. Risks include, but are not limited to: (1) inability to achieve market traction with ZTlido, Elyxyb or Gloperba due to greater-than-anticipated competitive pressures or setbacks in obtaining reimbursement and formulary access; (2) failure to obtain regulatory approval in the U.S. for other product candidates; (3) financial market risks; (4) broader macroeconomic risks related to ongoing geopolitical fallout related to the Ukraine and Middle Eastern conflicts; and (5) near- to medium-term dilution risk.

Table 1: Scilex Holding Company (SCLX)—Historical Income Statements, Financial Projections

FY end December 31

\$ in thousands, except per share data

	2023A				2023A	2024E				2024E	2025E
	1QA	2QA	3QA	4QA		1QE	2QE	3QE	4QE		
Revenue											
Product revenue	10,582	12,582	10,117	13,462	46,743	14,507	24,457	28,476	35,706	103,146	215,416
Service revenue	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-
Total revenue	10,582	12,582	10,117	13,462	46,743	14,507	24,457	28,476	35,706	103,146	215,416
Expenses											
Cost of product and service revenue	3,591	4,177	3,392	4,521	15,681	4,831	7,826	8,828	10,712	32,196	60,645
Research & development	2,736	3,204	4,072	2,734	12,746	2,600	2,500	2,800	3,100	11,000	14,000
Selling, general and administrative	28,701	26,989	40,431	23,520	119,641	20,000	23,000	27,000	30,000	100,000	140,000
Intangible amortization	1,027	1,026	1,027	1,026	4,106	1,000	1,000	1,000	1,000	4,000	4,000
Total expenses	36,055	35,396	48,922	31,801	152,174	28,431	34,326	39,628	44,812	147,196	218,645
Gain (loss) from operations	(25,473)	(22,814)	(38,805)	(18,339)	(105,431)	(13,924)	(9,869)	(11,152)	(9,106)	(44,050)	(3,229)
Other income/expense											
Interest income/expense	1	(5)	(513)	(551)	(1,068)	(1,800)	(1,390)	(950)	(430)	(4,570)	(1,000)
Gain (loss) on derivative liability	(5,253)	(82)	4,245	578	(512)	-	-	-	-	-	-
Gain (loss) on debt extinguishment	-	-	(449)	449	-	-	-	-	-	-	-
Scilex Notes principal / debenture fair value change	-	(3,748)	-	(3,441)	(7,189)	-	-	-	-	-	-
Loss (gain) on foreign currency exchange	(20)	(3)	(7)	(88)	(118)	-	-	-	-	-	-
Total investment income and other	(5,272)	(3,838)	3,276	(3,053)	(8,887)	(1,800)	(1,390)	(950)	(430)	(4,570)	(1,000)
Loss before provision for income taxes	(30,745)	(26,652)	(35,529)	(21,392)	(114,318)	(15,724)	(11,259)	(12,102)	(9,536)	(48,620)	(4,229)
Deferred income tax benefit	(8)	-	-	(5)	(13)	-	-	-	-	-	-
Net loss/income	(30,753)	(26,652)	(35,529)	(21,397)	(114,331)	(15,724)	(11,259)	(12,102)	(9,536)	(48,620)	(4,229)
Net loss per share (basic)	(0.22)	(0.19)	(0.63)	(0.25)	(1.28)	(0.10)	(0.06)	(0.06)	(0.04)	(0.25)	(0.02)
Net loss per share (diluted)	(0.22)	(0.19)	(0.63)	(0.25)	(1.28)	(0.10)	(0.06)	(0.06)	(0.04)	(0.25)	(0.02)
Weighted average number of shares outstanding (basic)	141,660	142,626	139,808	154,417	130,298	163,075	173,617	206,217	241,317	196,056	272,192
Weighted average number of shares outstanding (diluted)	141,660	142,626	139,808	154,417	130,298	163,075	173,617	206,217	241,317	196,056	272,192

Source: Company reports and H.C. Wainwright & Co. estimates.

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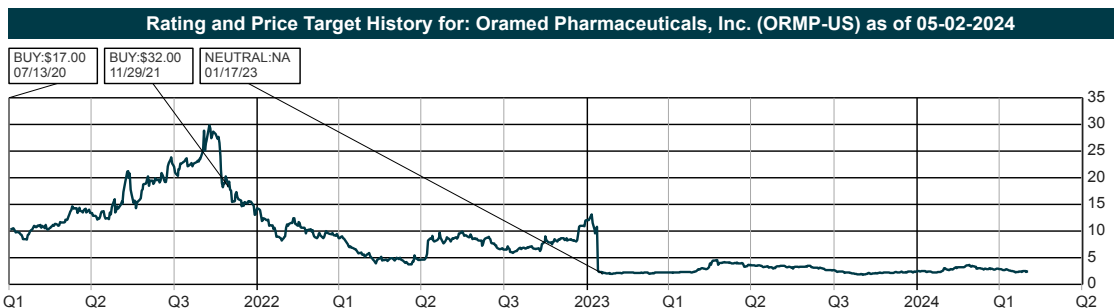
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RETURN ASSESSMENT

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.

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Related Companies Mentioned in this Report as of May/2/2024

Company	Ticker	H.C. Wainwright Rating	12 Month Price Target	Price	Market Cap
Oramed Pharmaceuticals, Inc.	ORMP	Neutral	\$NA	\$2.34	\$95

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Distribution of Ratings Table as of May 2, 2024				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	557	89.55%	139	24.96%
Neutral	59	9.49%	6	10.17%
Sell	1	0.16%	0	0.00%
Under Review	5	0.80%	1	20.00%

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