

Zacks Small-Cap Research

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Scilex Holding Company (SCLX-NASDAQ)

SCLX: Making Decisions That Should Boost Revenue

SCLX is developing pain relief products that don't involve opioids. We currently value SCLX at \$4.50 using a 10% discount ratio with the belief that estimate will rise as new products come to market.

OUTLOOK

SCLX is filling a much-needed area of the health care sector, that of developing non-opioid pain relief products. The company already has commercialized products that are proven to improve patients' lives.

The company reported 1Q2024 results that were a little shy of estimates, but growth continues, and the product line should accelerate growth in the coming years. Our view on SCLX remains positive.

Current Price (05/13/24) \$0.80
Valuation \$4.50

SUMMARY DATA

52-Week High \$7.87
52-Week Low \$0.85
One-Year Return (%) -80.69
Beta 0.91
Average Daily Volume (sh) 905,232

Shares Outstanding (mil) 166
Market Capitalization (\$mil) \$152
Short Interest Ratio (days) N/A
Institutional Ownership (%) 70
Insider Ownership (%) 9

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2023 Estimate N/A
P/E using 2024 Estimate N/A

Risk Level Medium
Type of Stock Small-Growth
Industry N/A

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	N/A	N/A	N/A	N/A	38.0 A
2023	10.6 A	12.6 A	10.1 A	13.5 A	46.8 A
2024	10.9 A	11.2 E	11.6 E	11.9 E	45.6 E
2025	11.9 E	11.9 E	11.8 E	12.0 E	47.6 E

Earnings

(per share)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	N/A	N/A	N/A	N/A	-0.17 E
2023	-0.22 A	-0.19 A	-0.63 A	-0.25 A	-1.28 A
2024	-0.24 A	-0.26 E	-0.25 E	-0.29 E	-1.04 E
2025	-0.22 E	-0.20 E	-0.19 E	-0.16 E	-0.79 E

Company Update

Scilex Holding Company is a revenue-generating company that is focused on addressing one of the biggest issues facing humanity today—that of the overuse of opioids. Scilex is focused on developing non-opioid pain management products that provide the relief patients so desperately need, while avoiding the debilitating addiction that often comes with the use of opioids. Roughly 112,000 Americans died in 2023 from overdoses and there we have no doubt that a good number of those involved opioid use at some point to reduce physical pain of various types.

Scilex continues to grow its product offerings and distribution channels, leading to more patients being helped and more revenue coming in.

The company has three products on the market right now, which we've discussed in previous reports, but Scilex also has three treatments in the pipeline that we believe are as important, if not more so, than the company's current commercialized portfolio.

- SP-102, or Semdexa, is on track to become the first FDA-approved alternative to off-label steroid injections, which, according to the company, are administered over 12 million times annually in the US.
 - The treatment has met primary and secondary endpoints in the Phase 3 trial and has been granted Fast Track status by the FDA for treatment of lumbar radicular and sciatica pain.
- SP-103 has also been granted Fast Track status by the FDA for the treatment of chronic neck pain.
 - The company is planning for a Phase 2/3 trial in 2024 after a successful Phase 2 trial.
- SP-104 is being studied to treat fibromyalgia, which, according to the CDC, impacts an estimated 4 million Americans, with women twice as likely as men to suffer from the condition.
 - The treatment has completed multiple Phase 1 trials successfully and the company is preparing for a Phase 2 trial.

The company has proven that it can bring products to market successfully, and then grow the market share and revenue generation ability of those products and we're looking forward to seeing the expanding portfolio of Scilex products positively impacting millions of lives.

The company recently released its 1Q2024 results, and while revenue and earnings were slightly below expectations, growth continues, and the company remains focused on growing sales and is investing in the resources to do so. The highlights of the report are:

- Net revenues grew from \$10.6 million in the year-ago quarter to \$10.9 million in the just announced quarter, helped by a 28% increase in gross product sales of ZTlido.
 - Gross revenues increased by 34% over the same period.
- Selling costs increased by \$600,000 versus a year ago, and we believe that is a cost worth taking as the company is already seeing sales increase from the bigger commitment to marketing.
- The company is preparing to launch a new gout treatment, Gloperba, in the first half of 2024.
- The company is expecting to expand markets Elyxyb, the company's oral solution for the acute treatment of migraine, in 2024, with the company already filing a New Drug Submission to Canada's drug authority.

- As part of a recently announced Final Approval of a Settlement Agreement with Takeda Pharmaceuticals, Scilex entered into a License Agreement with Takeda granting the company a non-exclusive license to certain patents owned by Takeda.
- Based on that resolution, Scilex has now submitted a copy of that Consent Judgment to the FDA and requested that the FDA convert its tentative approval of Scilex Pharma's proposed label expansion for Gloperba into a final approval of the expanded Gloperba label. With the resolution of this patent issue, the company believes that it has satisfied all requirements for final FDA approval of the expanded Gloperba label.
- According to company management, the expansion of Gloperba would provide the company with the ability to utilize dosing flexibility of liquid formulation to address unmet medical needs and provide specific dosing guidance to patients with renal impairment as set out below:
 - Patients with mild or moderate renal or hepatic impairment should be considered for dose adjustment.
 - For patients with severe renal impairment, the starting dose should be 0.3 mg/day.
 - For patients undergoing dialysis, the total recommended dose should be 0.3 mg and be given twice a week.
- A recent market research study conducted by Scilex among rheumatologists revealed a high degree of interest in Gloperba as a liquid colchicine formulation designed for precision dosing. Specifically, clinicians using colchicine for prophylaxis of gout flares in adults indicated a strong likelihood to use Gloperba instead of tablets/capsules in certain at-risk patient populations who have a clinical need for lowered precision dosing to mitigate the risk of colchicine toxicity.

After the quarter end, the company entered into a securities purchase agreement in which the company agreed to sell 15 million shares of common stock and warrants to purchase up to 15 million more, with the aggregate gross proceeds to the company amounting to \$15 million.

These results and plans for the future reinforce our belief that SCLX is poised to resume its move higher and that investors continue to underestimate the value of treatments the company currently has and is developing. We urge investors to take a look at a company that is earning revenue, growing that revenue in a meaningful way, and adding to its portfolio of very important treatments before the rest of the investing community realized the story developing at Scilex.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Scilex Holding Company Income Statement and Balance Sheet								
(in thousands, except for per share data)								
	2023A	1Q2024A	2Q2024E	3Q2024E	4Q2024E	2025E	2026E	
Revenue	46,743	10,884	11,211	11,547	11,893	47,573	49,952	
Operating Costs								
Cost of revenue	15,681	3,840	3,955	4,074	4,196	14,272	14,985	
Research and development	12,746	3,108	3,263	3,427	3,598	14,392	15,111	
Selling, general and admin.	119,641	29,278	29,864	30,461	31,070	120,672	121,879	
Intangible amortization/Legal Settlements	4,106	(5,864)	1,026	1,027	7,917	4,024	4,064	
Total Operating Costs	152,174	30,362	38,108	38,988	46,781	153,360	156,040	
Gain/(loss) from operations	(105,431)	(19,478)	(26,898)	(27,441)	(34,888)	(105,787)	(106,088)	
Other (income)/expense								
Interest expense	1,068	531	478	430	387	1,548	1,579	
Other (gain)	7,819	4,368	4,412	4,456	4,500	4,545	4,682	
Total other (income)/expense	8,887	4,899	4,890	4,886	4,887	6,094	6,261	
Gain/(loss) before income taxes	(114,318)	(24,377)	(31,787)	(32,327)	(39,775)	(111,881)	(112,349)	
Income tax expense/(benefit)	9	0	0	0	0	0	0	
Net gain/(loss)	(114,327)	(24,377)	(31,787)	(32,327)	(39,775)	(111,881)	(112,349)	
Net gain/(loss) per share	\$ (1.28)	\$ (0.24)	\$ (0.26)	\$ (0.25)	\$ (0.29)	\$ (0.79)	\$ (0.75)	
Wtd avg. shares outstanding--basic and diluted	134,226	102,407	122,888	129,033	135,484	142,259	149,372	
Current assets:								
Cash and cash equivalents	3,921	1,818	1,909	2,004	2,105	2,210	2,320	
Accounts rec., net	34,597	29,716	27,568	27,568	27,568	27,568	27,568	
Inventory	4,214	3,486	3,110	3,110	3,110	3,110	3,110	
Other	4,049	2,725	4,447	4,447	4,447	4,447	4,447	
Total current assets	46,781	37,745	37,034	37,129	37,230	37,335	37,445	
Property and equipment	722	718	704	690	676	662	649	
Other long-term assets	53,806	52,777	56,457	54,278	53,806	54,344	54,888	
Total Assets	101,309	91,240	94,195	92,097	91,711	92,341	92,982	
Current liabilities:								
Accounts payable	40,954	45,946	47,324	48,744	50,206	51,713	53,264	
Accrued rebates and fees	89,658	104,088	105,129	106,180	107,242	108,314	109,398	
Other current liabilities	119,768	102,698	105,779	108,952	112,221	115,588	119,055	
Total current liabilities	250,380	252,732	258,232	263,877	269,669	275,615	281,717	
Long-term debt	17,038	2,780	2,780	2,780	2,780	2,780	2,780	
Other long-term liabilities	6,829	25,514	26,024	26,545	27,076	27,617	28,170	
Total liabilities	274,247	281,026	287,036	293,201	299,525	306,012	312,666	
Stockholder equity:								
Common and preferred stock and Treasury Stock	(90,506)	(90,505)	(90,505)	(90,586)	(90,506)	(90,586)	(90,586)	
Additional paid-in capital	407,813	415,341	423,648	432,121	440,763	449,578	458,570	
Accumulated deficit	(490,245)	(514,622)	(525,984)	(542,639)	(558,071)	(572,663)	(587,668)	
Total stockholders' equity/(deficit)	(172,938)	(189,786)	(192,841)	(201,104)	(207,814)	(213,670)	(219,684)	
Total liabilities and stockholders' equity/(deficit)	101,309	91,240	94,195	92,097	91,711	92,341	92,982	

HISTORICAL STOCK PRICE



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