

Scilex Holding Company (SCLX)
Rating: Buy

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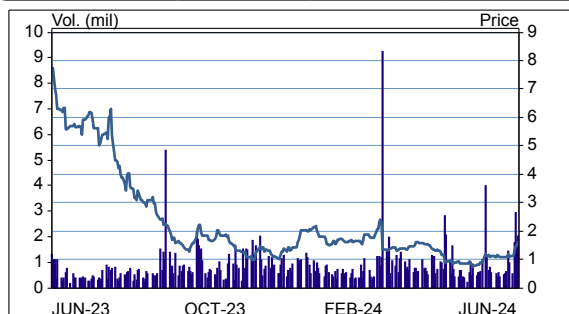
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Strategic Financing Alleviates Overhang; Pipeline Publications; Reiterate Buy

Stock Data		6/14/2024		
Price		\$1.61		
Exchange		NASDAQ		
Price Target		\$7.00		
52-Week High		\$8.03		
52-Week Low		\$0.73		
Enterprise Value (M)		\$399		
Market Cap (M)		\$292		
Shares Outstanding (M)		181.2		
3 Month Avg Volume		951,607		
Short Interest (M)		8.08		
Balance Sheet Metrics				
Cash (M)		\$1.8		
Total Debt (M)		\$109.3		
Total Cash/Share		\$0.01		
Book Value/Share		\$(1.79)		
EPS (\$) Diluted				
Full Year - Dec		2023A	2024E	2025E
1Q		(0.22)	(0.24)A	(0.08)
2Q		(0.19)	(0.15)	(0.07)
3Q		(0.63)	(0.10)	(0.06)
4Q		(0.25)	(0.08)	(0.04)
FY		(1.28)	(0.50)	(0.25)
Revenue (\$M)				
Full Year - Dec		2023A	2024E	2025E
1Q		10.6	10.9A	28.1
2Q		12.6	15.2	31.5
3Q		10.1	20.8	35.9
4Q		13.5	25.4	40.3
FY		46.7	72.4	135.8

Strategic financing transaction removes near-term overhang. Last week, Scilex announced its entry into a commitment side letter with FSF 33433 LLC, pursuant to which Lender committed to provide the company with a loan in the aggregate principal amount of \$100M, subject to the terms and conditions in the commitment letter and to the terms in the definitive documents to be entered into by Scilex and the lender. The commitment amount will be payable as follows: (i) \$85M no later than 70 days following the date on which the company receives an initial \$10M deposit, which was to be provided non-refundably upon execution of the commitment letter; and (ii) the remaining \$15M within 60 days following the initial closing. We reiterate our Buy rating and 12-month target of \$7 per share.

Recent poster presentation showcases key differentiation for Elyxyb within the migraine market. At the 66th Annual Meeting of the American Headache Society, a *post-hoc* analysis of pooled results from two independent randomized, double-blind, placebo-controlled pivotal trials of Elyxyb indicated that the product was effective in acute treatment of migraine unaffected by responsiveness to triptan therapy. Roughly one-third of the Elyxyb-treated patients achieved pain freedom two hours post-dose in both the insufficient responder group (33.3% vs. 14.3% placebo; OR 3.0, p=0.0036) and the responder group (33.3% vs. 14.6% placebo; OR 2.92, p=0.0548). In a subgroup of patients whose headache symptoms did not improve (or only improved slightly) at two hours post-dose to triptans, 32.0% of the Elyxyb group achieved pain freedom vs. 20.5% in the placebo group. In our view, these results show that Elyxyb appears capable of ameliorating pain outcomes in the roughly two-thirds of migraine patients who do not achieve pain freedom within two hours of triptan exposure and that approximately 40% of those who respond to triptans experience migraine recurrence.

Peer-reviewed article underscores SEMDEXA clinical impact. Scilex also announced last week that the Phase 3 results from the registrational trial of SEMDEXA are being published in the peer-reviewed *PAIN Journal*, which is the leading journal devoted to pain medicine and research and the official journal of the International Association for the Study of Pain. This Phase 3 study met primary and important key secondary endpoints, with SEMDEXA treatment decreasing pain intensity for over a month in sciatica patients and resulting in statistically significant and clinically meaningful improvement in the disability index score while maintaining safety vs. placebo. This study thus showcases a potential significant improvement in treatment of adult patients with lumbosacral radicular pain (sciatica), who must deal with the clinical consequences of no currently FDA-approved therapies, suboptimal formulations of corticosteroids used off-label and/or excess pain and disability. We remind investors that the FDA originally granted SEMDEXA Fast Track status in 2017.



Long-term benefits of strategic financing transaction on multiple fronts. Scilex is issuing an unsecured promissory note to Perigrove LLC and Graf Holdings, the entities behind the new \$100M loan. Perigrove invests in entities focused on nursing home health plans, in-home care solutions and correctional healthcare settings, all of which may provide additional distribution opportunities for Scilex going forward. Scilex intends to use the initial \$85M of the loan proceeds to pay off the remaining principal balance under its senior secured loan to Oramed Pharmaceuticals (ORMP; Neutral) and thereby replacing its existing debt with a meaningfully less onerous and less heavily securitized loan. We note in particular that Scilex thereby substitutes the commitment to repay \$85M over the next several quarters with a significantly smaller requirement to pay \$12M annually to service the interest on the \$100M loan, which has a five-year term.

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 ~\$2.5B, which yields a price objective of \$7 per share assuming ~370M fully-diluted shares outstanding as of end-1Q25. 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 from regional conflicts; and (5) near-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					2024E				2024E	2025E
	1QA	2QA	3QA	4QA	2023A	1QA	2QE	3QE	4QE		
Revenue											
Product revenue	10'582	12'582	10'117	13'462	46'743	10'884	15'206	20'848	25'445	72'383	135'846
Service revenue	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-
Total revenue	10'582	12'582	10'117	13'462	46'743	10'884	15'206	20'848	25'445	72'383	135'846
Expenses											
Cost of product and service revenue	3'591	4'177	3'392	4'521	15'681	3'840	5'170	6'671	7'888	23'569	38'274
Research & development	2'736	3'204	4'072	2'734	12'746	3'108	3'200	3'300	3'400	13'008	14'000
Selling, general and administrative	28'701	26'989	40'431	23'520	119'641	29'278	29'500	29'700	30'000	118'478	140'000
Intangible amortization and legal settlements	1'027	1'026	1'027	1'026	4'106	(5'864)	1'000	1'000	1'000	(2'864)	4'000
Total expenses	36'055	35'396	48'922	31'801	152'174	30'362	38'870	40'671	42'288	152'191	196'274
Gain (loss) from operations	(25'473)	(22'814)	(38'805)	(18'339)	(105'431)	(19'478)	(23'664)	(19'823)	(16'843)	(79'808)	(60'428)
Other income/expense											
Interest income/expense	1	(5)	(513)	(551)	(1'068)	(531)	(2'800)	(2'500)	(3'000)	(8'831)	(12'000)
Gain (loss) on derivative liability	(5'253)	(82)	4'245	578	(512)	(457)	-	-	-	(457)	-
Gain (loss) on debt extinguishment	-	-	(449)	449	-	-	-	-	-	-	-
Scilex Notes principal / debenture fair value change	-	(3'748)	-	(3'441)	(7'189)	(3'905)	-	-	-	(3'905)	-
Loss (gain) on foreign currency exchange	(20)	(3)	(7)	(88)	(118)	(6)	-	-	-	(6)	-
Total investment income and other	(5'272)	(3'838)	3'276	(3'053)	(8'887)	(4'899)	(2'800)	(2'500)	(3'000)	(13'199)	(12'000)
Loss before provision for income taxes	(30'745)	(26'652)	(35'529)	(21'392)	(114'318)	(24'377)	(26'464)	(22'323)	(19'843)	(93'007)	(72'428)
Deferred income tax benefit	(8)	-	-	(5)	(13)	-	-	-	-	-	-
Net loss/income	(30'753)	(26'652)	(35'529)	(21'397)	(114'331)	(24'377)	(26'464)	(22'323)	(19'843)	(93'007)	(72'428)
Net loss per share (basic)	(0.22)	(0.19)	(0.63)	(0.25)	(1.28)	(0.24)	(0.15)	(0.10)	(0.08)	(0.50)	(0.25)
Net loss per share (diluted)	(0.22)	(0.19)	(0.63)	(0.25)	(1.28)	(0.24)	(0.15)	(0.10)	(0.08)	(0.50)	(0.25)
Weighted average number of shares outstanding (basic)	141'660	142'626	139'808	154'417	130'298	102'407	178'740	216'340	251'440	187'232	291'690
Weighted average number of shares outstanding (diluted)	141'660	142'626	139'808	154'417	130'298	102'407	178'740	216'340	251'440	187'232	291'690

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

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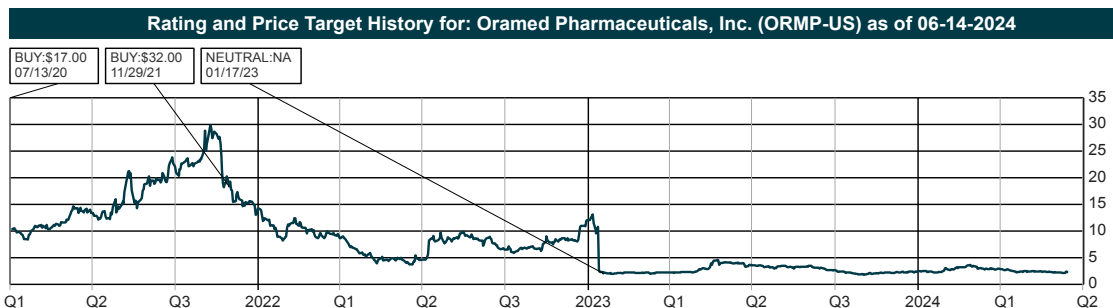
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RETURN ASSESSMENT

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 June/14/2024					
Company	Ticker	H.C. Wainwright Rating	12 Month Price Target	Price	Market Cap
Oramed Pharmaceuticals, Inc.	ORMP	Neutral	\$NA	\$2.25	\$91

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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	553	88.48%	132	23.87%
Neutral	65	10.40%	5	7.69%
Sell	1	0.16%	0	0.00%
Under Review	6	0.96%	1	16.67%

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