

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

Brad Sorensen

312-265-9574

bsorensen@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Scilex Holding Company (SCLX-NASDAQ)

SCLX: Product Gets FDA Approval and Hits Market

SCLX is developing pain relief products that don't involve opioids. We currently value SCLX at \$5.00 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 recently added to its important line on non-opioid drugs by announcing the FDA approved the commercial manufacturing of Gloperba and that the product is being stocked in many national pharmacy chains and independent pharmacies.

Current Price (06/10/24) **\$1.12**
Valuation **\$5.00**

SUMMARY DATA

52-Week High **\$7.87**
 52-Week Low **\$0.75**
 One-Year Return (%) **-84.49**
 Beta **1.01**
 Average Daily Volume (sh) **854,675**

Shares Outstanding (mil) **181**
 Market Capitalization (\$mil) **\$203**
 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**

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 recently announced another commercially available product was hitting the market. Its anti-gout drug, Gloperba, received FDA approval for commercial manufacturing and is currently being stocked in pharmacies around the country. This is one of the many reasons that we are believers in Scilex—the company has the distribution network in place to roll out these important treatments quickly and has an experienced team that knows how to distribute the product and get the word out to doctors and patients.

As a reminder, gout is a painful arthritic disorder that affects an estimated 9.2 million people in the United States. Gloperba has the chance to have a major impact on many of these patients as it is the first and only liquid oral version of the anti-gout medicine colchicine. According to data collected by the company, over 70% of gout patients have comorbid conditions that may require dose adjustments and could benefit from Gloperba. Additionally, over 17% of patients on colchicine experience severe gastrointestinal side effects and also may benefit from the flexible dosing offered by Gloperba. A recent market research study among rheumatologists conducted by Scilex revealed a high degree of interest in Gloperba as a liquid colchicine formulation designed for precision dosing.⁵ 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.

As a result of the commercial launch of Gloperba and another demonstration of the effectiveness of the distribution system in place, future predicted revenue streams have more certainty in our view. Therefore, we are raising the target price for SCLX to \$5.00 per share and believe that this remains a conservative target for a company with a solid pipeline and a demonstrated ability to succeed in the market.

These announcements 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



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Brad Sorensen, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.

Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business. SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.