

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: Company Sets up Spinoff

SCLX is developing pain relief products that don't involve opioids. We currently value SCLX at \$5.50 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 announced a merger between a SPAC and a Scilex subsidiary that is developing a non-opioid novel injectable corticosteroid, which will set up a spinoff of the combined entity in early 2025.

Current Price (09/03/24) **\$1.10**
Valuation \$5.50

SUMMARY DATA

52-Week High **\$3.19**
 52-Week Low **\$0.75**
 One-Year Return (%) **-65.52**
 Beta **1.17**
 Average Daily Volume (sh) **773,535**

Shares Outstanding (mil) **192**
 Market Capitalization (\$mil) **\$211**
 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	16.4 A	16.9 E	17.4 E	61.6 E
2025	16.0 E	16.9 E	17.8 E	18.8 E	69.5 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	-0.31 A	-0.30 E	-0.34 E	-1.19 E
2025	-0.16 E	-0.18 E	-0.17 E	-0.16 E	-0.67 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 announced that its subsidiary, Semnur, whose lead product is SP-102 and is described below, and a SPAC known as the Denali Capital Acquisition Corp (DECA-NASDAQ) have come to a merger agreement. The merger is expected to close in early 2025, at which time, the company notes, the combined entity will be spun off and begin trading on the Nasdaq under the symbol SMNR. We believe this is a positive development for shareholders that will help to unlock value for existing shareholders of SCLX and provide the needed capital to advance SP-102 toward the commercialization stage.

SP-102 (with the trade name Semdexa), is the first non-opioid novel injectable corticosteroid gel formulation for patients with moderate to severe chronic radicular pain/sciatica, containing no preservatives, surfactants, solvents, or particulates. The company notes that if the drug is approved by the FDA, it will be available in a pre-filled syringe formulation and will be administered as an epidural injection for the treatment of sciatica. The Scilex subsidiary, Semnur, has completed a Phase 3 trial for SP-102, which met primary and important key secondary endpoints, 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 comparable to placebo. The company notes that this Phase 3 study represents a potential significant improvement in treatment of adult patients with lumbosacral radicular pain (sciatica), who struggle with the clinical consequences of no currently FDA approved therapies, suboptimal formulations of corticosteroids used off-label and/or excess pain and disability.

Sciatica is a term used to describe a set of symptoms rather than a specific medical condition. It refers to pain that radiates along the path of the sciatic nerve, which is the longest nerve in the human body. The sciatic nerve runs from the lower back, through the buttocks, and down each leg. Sciatica typically affects only one side of the body.

The most common cause of sciatica is compression or irritation of the sciatic nerve, often due to a herniated or slipped disc in the lumbar spine (lower back). Other potential causes of sciatica include spinal stenosis (narrowing of the spinal canal), spondylolisthesis (a condition where one vertebra slips over another), piriformis syndrome (compression of the sciatic nerve by the piriformis muscle in the buttocks), or even injury to the nerve itself.

The primary symptom of sciatica is pain, which can vary in intensity and location but usually follows the path of the sciatic nerve. Common symptoms and characteristics of sciatica include:

1. Sharp or shooting pain: This pain can be severe and may feel like an electric shock.
2. Constant pain: Sciatica pain can be continuous or intermittent, and it often worsens with movements like coughing or sneezing.
3. Numbness and tingling: People with sciatica may experience numbness, tingling, or a "pins and needles" sensation in the affected leg or foot.

4. Weakness: Some individuals with sciatica may also experience weakness in the leg or foot on the affected side, making it difficult to move or bear weight.

It is easy to see why an improved and effective treatment that provides relief from the pain of sciatica would likely be welcomed enthusiastically by sufferers. In fact, the company notes that, based on the independent market research conducted by Syneos Health Consulting in 2020 and 2021, given the potential substantial utilization of SP-102, by the 5th year of launch, sales of Semdexa in sciatica are projected to reach \$1.5 billion to \$2.0 billion annually.

This announcement and plans for the future that we've discussed at length reinforce our belief that SCLX is poised to resume its move higher and that investors continue to underestimate the value of the treatments the company currently has and is developing. We appreciate that the company is attempting to unlock some of that value by this transaction and 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 realizes the story developing at Scilex.

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.