

Scilex Holding Company (SCLX)
Rating: Buy

Raghuram Selvaraju, Ph.D.

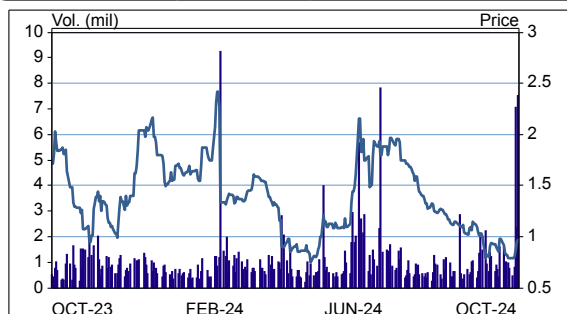
212-916-3966

rselvaraju@hcwresearch.com
New Convertible Debt Facility; Denali Spinout Pending; Reiterate Buy

Stock Data		10/18/2024		
Price		\$0.97		
Exchange		NASDAQ		
Price Target		\$7.00		
52-Week High		\$2.63		
52-Week Low		\$0.73		
Enterprise Value (M)		\$286		
Market Cap (M)		\$186		
Shares Outstanding (M)		191.8		
3 Month Avg Volume		1,075,509		
Short Interest (M)		11.08		
Balance Sheet Metrics				
Cash (M)		\$6.9		
Total Debt (M)		\$107.0		
Total Cash/Share		\$0.04		
Book Value/Share		\$(1.77)		
EPS (\$) Diluted				
Full Year - Dec		2023A	2024E	2025E
1Q		(0.22)	(0.24)A	(0.05)
2Q		(0.19)	(0.31)A	(0.04)
3Q		(0.63)	(0.10)	(0.01)
4Q		(0.25)	(0.07)	(0.01)
FY		(1.28)	(0.58)	(0.11)
Revenue (\$M)				
Full Year - Dec		2023A	2024E	2025E
1Q		10.6	10.9A	23.9
2Q		12.6	16.4A	29.9
3Q		10.1	13.2	35.0
4Q		13.5	18.7	42.8
FY		46.7	59.2	131.5

Registered convertible financing transaction completed. Earlier this month, Scilex announced the closing of its previously announced registered direct offering of new tranche B senior secured convertible notes in the aggregate principal amount of \$50M and warrants to purchase up to 7.5M shares of the company's common stock. The notes have an original issue discount of 10.0% and bear interest at 5.5% per annum; unless earlier converted or redeemed, these securities mature on the two-year anniversary of the issuance date. In exchange for the issuance of the notes to 3i LP and the affiliates of Murchinson, Scilex received a total of \$22.5M in cash, excluding payable fees and expenses. Scilex has received from Oramed Pharmaceuticals (ORMP; Neutral) an exchange and reduction of the principal balance totaling \$22.5M under the existing senior secured promissory note. All amounts due under the tranche B senior secured convertible notes are convertible at any time, in whole or in part, subject to certain beneficial ownership limitations, into shares of Scilex's common stock at a conversion price of \$1.09, subject to adjustment. The warrants have an exercise price of \$1.09 (subject to adjustment), become exercisable immediately upon issuance and will expire five years from the issuance date. Scilex intends to use the ~\$20.5M in net proceeds from the offering for repayment and satisfaction of \$12.5M of the outstanding balance under the Oramed note, payoff of the revolving credit facility with eCapital Healthcare Corp, satisfaction of certain costs, fees and expenses of the purchasers of the notes and the collateral agent, and general corporate purposes. We reiterate our Buy rating and 12-month price target of \$7.

Multiple spinout and listing transactions being contemplated. Scilex also announced last week that its Board of Directors has authorized management to explore ways to maximize the value of its wholly owned subsidiary, Scilex Pharma, including by conducting a spinoff or public listing of securities of Scilex Pharma in markets and on exchanges outside the U.S., including Hong Kong, and/or a potential strategic transaction or dividend of Scilex Pharma common stock to Scilex stockholders. Scilex also reported that it expects the filing of the registration statement with the Securities and Exchange Commission (SEC) before the end of October 2024 relating to the previously announced proposed business combination with Denali Capital Acquisition Corp. (DECA; not rated) for a pre-transaction equity value of \$2.5B, which is slated to occur either by the end of 2024 or by the end of 1Q25. As a reminder, Scilex is contemplating the spinout of its SP-102 asset into Denali, upon which Scilex is slated to own ~95% of Denali. Based on an independent market research conducted by privately-held Syneos Health Consulting, SP-102 (SEMDEXA™) peak sales potential is projected to reach \$3.6B annually within five years of launch. We remind investors that the Board of Directors of Scilex previously approved a resolution to authorize a potential dividend of up to 10% of Scilex's ownership interest in Semnur to Scilex shareholders. These shares will be freely tradable upon exchange to Denali common shares after the consummation of the business combination.



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Estimates revised following release of preliminary unaudited 3Q24 financial results. Earlier this month, Scilex indicated that ZTlido net sales for 3Q24 were in the range of \$11-13M compared to \$10.1M for the year-ago period, representing growth in the range of approximately 9% to 29%. Total product net sales for 3Q24 were in the range of \$12M to \$14M compared to \$10.1M for the year-ago period, representing growth in the range of approximately 19% to 39%. In the wake of this announcement, we are reducing our full-year 2024 revenue forecast to \$59.2M from the prior \$72.4M, while our full-year 2025 revenue forecast has been decreased to \$131.5M from the previous \$135.8M. We remain confident that Scilex ought to be able to achieve steady incremental sales growth for its marketed product franchises; we do not currently attribute value to the SP-102 spinout or the potential ex-U.S. listing of Scilex Pharma, which may unlock further equity value.

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 ~\$2.73B, which yields a price objective of \$7 per share assuming ~397M fully-diluted shares outstanding as of end-3Q25. 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	2QA	3QE	4QE		
Revenue											
Product revenue	10,582	12,582	10,117	13,462	46,743	10,884	16,370	13,205	18,717	59,176	131,549
Research and other	-	-	-	-	-	-	-	-	-	-	-
Total revenue	10,582	12,582	10,117	13,462	46,743	10,884	16,370	13,205	18,717	59,176	131,549
Expenses											
Cost of product and service revenue	3,591	4,177	3,392	4,521	15,681	3,840	4,390	3,697	5,615	17,543	37,665
Research & development	2,736	3,204	4,072	2,734	12,746	3,108	2,004	2,500	2,800	10,412	12,000
Selling, general and administrative	28,701	26,989	40,431	23,520	119,641	29,278	24,598	25,500	26,500	105,876	112,000
Intangible amortization and legal settlements	1,027	1,026	1,027	1,026	4,106	(5,864)	1,001	1,000	1,000	(2,863)	4,000
Total expenses	36,055	35,396	48,922	31,801	152,174	30,362	31,993	32,697	35,915	130,968	165,665
Gain (loss) from operations	(25,473)	(22,814)	(38,805)	(18,339)	(105,431)	(19,478)	(15,623)	(19,492)	(17,198)	(71,792)	(34,116)
Other income/expense											
Interest income/expense	1	(5)	(513)	(551)	(1,068)	(531)	(571)	(950)	(430)	(2,482)	(1,000)
Gain (loss) on derivative liability	(5,253)	(82)	4,245	578	(512)	(457)	(15,284)	-	-	(15,741)	-
Scilex Notes principal / debenture fair value change	-	(3,748)	-	(3,441)	(7,189)	(3,905)	(6,099)	-	-	(10,004)	-
Loss (gain) on foreign currency exchange	(20)	(3)	(7)	(88)	(118)	(6)	(5)	-	-	(11)	-
Total investment income and other	(5,272)	(3,838)	3,276	(3,053)	(8,887)	(4,899)	(21,959)	(950)	(430)	(28,238)	(1,000)
Loss before provision for income taxes	(30,745)	(26,652)	(35,529)	(21,392)	(114,318)	(24,377)	(37,582)	(20,442)	(17,628)	(100,030)	(35,116)
Deferred income tax benefit	(8)	-	-	(5)	(13)	-	-	-	-	-	-
Net loss/income	(30,753)	(26,652)	(35,529)	(21,397)	(114,331)	(24,377)	(37,582)	(20,442)	(17,628)	(100,030)	(35,116)
Net loss per share (basic)	(0.22)	(0.19)	(0.63)	(0.25)	(1.28)	(0.24)	(0.31)	(0.10)	(0.07)	(0.58)	(0.11)
Net loss per share (diluted)	(0.22)	(0.19)	(0.63)	(0.25)	(1.28)	(0.24)	(0.31)	(0.10)	(0.07)	(0.58)	(0.11)
Weighted average number of shares outstanding (basic)	141,660	142,626	139,808	154,417	130,298	102,407	120,188	211,682	256,941	172,804	305,941
Weighted average number of shares outstanding (diluted)	141,660	142,626	139,808	154,417	130,298	102,407	120,188	211,682	256,941	172,804	305,941

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

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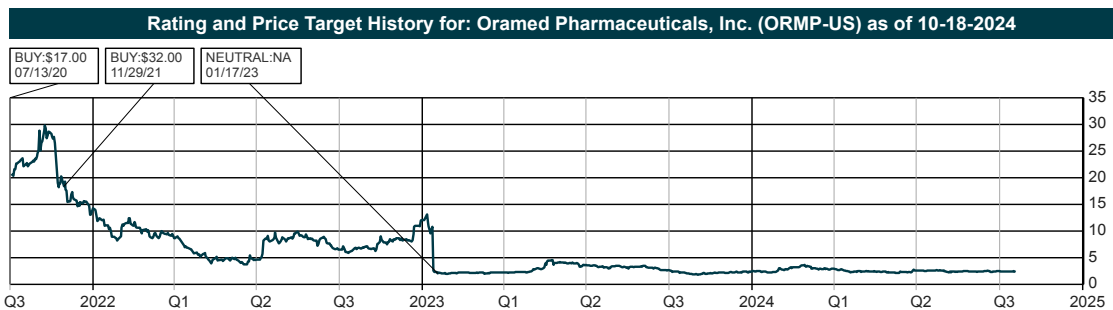
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RETURN ASSESSMENT

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 October/18/2024

Company	Ticker	H.C. Wainwright Rating	12 Month Price Target	Price	Market Cap
Oramed Pharmaceuticals, Inc.	ORMP	Neutral	\$NA	\$2.32	\$94

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Distribution of Ratings Table as of October 18, 2024				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	564	88.40%	125	22.16%
Neutral	69	10.82%	6	8.70%
Sell	0	0.00%	0	0.00%
Under Review	5	0.78%	2	40.00%

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