

SCLX: Company Update

Scilex Holding Company (SCLX; Buy) previously reported 2Q24 financial results. The company also announced a financing transaction of \$50M in convertible notes. We reiterate our Buy rating with a 12-month Price Target of \$13/share.

The company previously reported 2Q24 net sales of \$16.4M, at the lower end of the range projected in a press release on July 1 (\$16.4M-\$18.2M). Sales primarily consisted of ZTlido (\$15.8M), to a lesser extent ELYXYB, and perhaps a minor contribution from Gloperba, which was launched in June. Sales grew by 30% when compared to 2Q23.

In early August, the company entered into a Master Distributor Agreement with CH Trading Group and Devart Middle East for the Distribution of ZTlido in Morocco, Tunisia, Libya, Jordan, Iraq, and South Africa. The deal is an expansion of an earlier agreement with CH Trading Group, which has commercialization rights of ZTlido in the Middle East and North/South Africa markets.

For the quarter ended in September, Scilex expects to record total product net sales of \$12M-\$14M, with ZTlido net sales of \$11M-\$13M.

As announced on September 3, Semnur Pharmaceuticals, Inc., a wholly owned subsidiary of Scilex, and Denali Capital Acquisition Corp. (DECA; Not Rated) signed an agreement and plan of merger for a proposed business combination, which provides for a pre-transaction equity value of Semnur of \$2.5B. The Board of Scilex, Semnur, and Denali Capital Acquisition Corp. have approved the proposed transaction.

- The proposed business combination would create a publicly traded biopharma company and further provide investment into Semnur for the development of a non-opioid product, SP-102 (10mg injectable dexamethasone sodium phosphate viscous gel), or SEMDEXA, a Phase 3 novel non-opioid, viscous gel formulation of a widely used corticosteroid for epidural injections to treat lumbosacral radicular pain, or sciatica, with FDA Fast Track status.
- Based on the independent market research conducted by Syneos Health Consulting in 2020 and 2021, given the potential substantial utilization of SP-102 (SEMDEXA), by the 5th year of launch, sales of SEMDEXA in sciatica are projected to reach \$1.5B to \$2B/year.
- Scilex is expected to be the majority holder of the combined company, which is anticipated to close by 1Q25.

In addition, Scilex announced the closing of a \$50M registered convertible financing on October 7. Most of the proceeds will be used to partially repay the Oramed (ORMP; Not Rated) Note and paying off the revolving credit facility with eCapital Healthcare Corp. In addition to the convertible note issued, Scilex has a remaining debt obligation to Oramed of approximately \$43M.

Scilex has an estimated pro forma cash position (October) of \$3M-\$4M following the convertible transaction.

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Stock Data

Rating	Buy
Price Target	\$13.00
Exchange	NASDAQ
Price	0.79
52-Week High	2.63
52-Week Low	0.73
Cash (M)	\$7
Market Cap (M)	103
Shares Outstanding (M)	131
3 Month Avg Volume	943,086

Estimates

	2022A	2023A	2024E
			(Curr.)

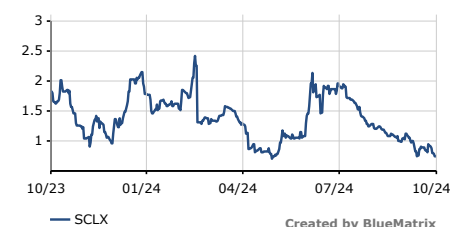
Revenue (M) | \$ | Year end: December

	2022A	2023A	2024E
Q1	-	10.6A	10.9A
Q2	-	12.6A	16.4A
Q3	-	10.1A	20.0E
Q4	-	13.5A	25.0E
FY	38.0A	46.7A	72.3E

EPS | \$ | Year end: December

	2022A	2023A	2024E
Q1	-	(0.22)A	(0.24)A
Q2	-	(0.19)A	(0.31)A
Q3	-	(0.63)A	(0.07)E
Q4	-	(0.25)A	0.01E
FY	(0.17)A	(0.88)A	(0.59)E

One Year Performance Chart



Income Statements

Scilex Holdings													Elemer Piros, Ph.D. 212-540-4425 epiros@rodm.com	
(\$ In thousands, except per share data)	2020A	2021A	2022A	2023A				2023A	2024E				2024E	
				1QA	2QA	3QA	4QA		1QA	2QA	3QE	4QE		
Net revenue	\$23,560	\$31,317	\$38,034	\$10,582	\$12,582	\$10,117	\$13,462	\$46,743	\$10,884	\$16,370	\$20,000	\$25,000	\$72,254	
Cost of Revenue	\$2,149	\$3,634	\$10,797	\$3,591	\$4,177	\$3,392	\$4,521	\$15,681	\$3,840	\$4,390	\$5,400	\$6,750	\$20,380	
Gross Profit	\$21,411	\$27,683	\$27,237	\$6,991	\$8,405	\$6,725	\$8,941	\$31,062	\$7,044	\$11,980	\$14,600	\$18,250	\$51,874	
% Gross margin	91%	88%	72%	66%	67%	66%	66%	66%	65%	73%	73%	73%	72%	
Operating Expenses														
Research and development	\$9,961	\$9,201	\$9,054	\$2,736	\$3,204	\$4,072	\$2,734	\$12,746	\$3,108	\$2,004	\$1,500	\$1,000	\$7,612	
Selling, general and administrative	\$42,970	\$50,582	\$64,895	\$28,701	\$26,989	\$40,431	\$23,520	\$119,641	\$29,278	\$24,598	\$20,000	\$15,000	\$88,876	
Intangible amortization	\$3,738	\$3,738	\$3,922	\$1,027	\$1,026	\$1,027	\$1,026	\$4,106	\$1,027	\$1,001	\$1,001	\$1,001	\$4,030	
Legal settlements									(\$6,891)				(\$6,891)	
Loss from operations	(\$35,258)	(\$35,838)	(\$50,634)	(\$25,473)	(\$22,814)	(\$38,805)	(\$18,339)	(\$105,431)	(\$19,478)	(\$15,623)	(\$7,901)	\$1,249	(\$41,753)	
Other (income) expense:														
(Gain) loss on derivative liability	(\$800)	\$300	(\$8,310)	\$5,253	\$82	(\$4,245)	(\$578)	\$512	\$457	\$15,284	\$0	\$0	\$15,741	
Change in fair value of debt and liability instruments	\$0	\$12,463	(\$28,634)	\$0	\$3,748	\$449	\$2,992	\$7,189	\$3,905	\$6,099	\$0	\$0	\$10,004	
Gain on debt extinguishment, net	\$0	\$28,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Interest expense, net	\$13,116	\$11,764	\$9,604	(\$1)	\$5	\$513	\$551	\$1,068	\$531	\$571	\$470	\$450	\$2,022	
Loss (gain) on foreign currency exchange	(\$2)	\$54	\$66	\$20	\$3	\$7	\$88	\$118	\$6	\$5	\$5	\$5	\$21	
Total other (income) expense	\$12,314	\$52,581	(\$27,274)	\$5,272	\$3,838	(\$3,276)	\$3,053	\$8,887	\$4,899	\$21,959	\$475	\$455	\$27,788	
(Loss) income before income taxes	(\$47,572)	(\$88,419)	(\$23,360)	(\$30,745)	(\$26,652)	(\$35,529)	(\$21,392)	(\$114,318)	(\$24,377)	(\$37,582)	(\$8,376)	\$794	(\$69,541)	
Income tax expense (benefit)	(\$53)	\$5	\$4	\$8	(\$3)	\$0	\$8	\$13	\$0	\$0	\$0	\$0	\$0	
Net (loss) income	(\$47,519)	(\$88,424)	(\$23,364)	(\$30,753)	(\$26,649)	(\$35,529)	(\$21,400)	(\$114,331)	(\$24,377)	(\$37,582)	(\$8,376)	\$794	(\$69,541)	
Weighted average number of shares outstanding	132,891	132,858	134,226	141,660	142,626	139,808	130,298	130,298	102,407	120,188	123,833	126,310	118,184	
Net loss per share	(\$0.36)	(\$0.67)	(\$0.17)	(\$0.22)	(\$0.19)	(\$0.63)	(\$0.25)	(\$0.88)	(\$0.24)	(\$0.31)	(\$0.07)	\$0.01	(\$0.59)	

Source: Scilex Holding SEC filings, Rodman & Renshaw estimates

Valuation and Risks

We arrive at our twelve-month price target of \$13/share by assessing the after-tax, risk adjusted NPV of potential future cash flows from the company's ZTlido, ELYXYB and GLOPERBA programs, in addition to the estimated value of pipeline assets. For commercial-stage assets, the probability-adjusted, fully taxed (21%) NPV (15% discount rate) of potential cash flows through 2036 is ~\$1.2B or \$10/share. We estimate that the value of pipeline assets to be \$300M, or \$3/share. The combined total NPV of all the assets is ~\$1.5B or \$13/share, corresponding to our 12-month price target. Significant factors that could impede shares from reaching our price target include the failure of ELYXYB's label expansion into acute pain and lower-than-estimated sales. In addition, the company may not be able to raise additional funds to repay debt and to complete development of drug candidates.

Company description

Scilex Holding Company focuses on acquiring, developing, and commercializing non-opioid pain management products for the treatment of acute and chronic pain. Its commercial products include ZTlido (lidocaine topical system) 1.8%, a prescription lidocaine topical product for the relief of neuropathic pain associated with postherpetic neuralgia (PHN), which is a form of post-shingles nerve pain; ELYXYB, a ready-to-use oral solution for the acute treatment of migraine with or without aura in adults; and GLOPERBA, a liquid oral version of the anti-gout medicine colchicine indicated for the prophylaxis of painful gout flares in adults. The company is also developing three product candidates, including SP-102 (10 mg dexamethasone sodium phosphate viscous gel) (SEMDEXA), a novel viscous gel formulation of a corticosteroid used for epidural injections, which has completed a Phase 3 study to treat lumbosacral radicular pain or sciatica; SP-103 (lidocaine topical system) 5.4% (SP-103), a formulation of ZTlido for the treatment of chronic neck pain and low back pain (LBP) that has completed a Phase 2 trial; and SP-104 (4.5 mg low-dose naltrexone hydrochloride delayed-release capsules) (SP-104), a novel low-dose delayed-release naltrexone hydrochloride, which has completed Phase 1 trials for the treatment of fibromyalgia. The company is headquartered in Palo Alto, California.

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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.

Market Perform (Neutral): The common stock of the company is expected to mimic the performance of 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 14, 2024				
Company	Ticker	Rodman & Renshaw Rating	12 Month Price Target	Price
Scilex Holding Company	SCLX	Buy	13.00	0.79

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Distribution of Ratings Table as of October 14, 2024				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
BUY	51	92.73%	2	3.92%
HOLD	4	7.27%	0	0.00%
SELL	0	0.00%	0	0.00%
NOT RATED	0	0.00%	0	0.00%

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