James Molloy
(617) 283-5521, jmolloy@allianceg.com
Matthew Venezia, Associate
mvenezia@allianceg.com
Sales & Trading 888-543-4448

Scilex Holding Company

Buy

Volatility: 5

(NASDAQ: SCLX)

Price	$0.50
52 Week Range	($0.46 - $2.63)
Price Target	**$14.00**
Market Cap (mil)	$96.00
Shares out (mil)	191.79
3-Mo Avg Vol	2,095,143
Cash per share	$0.06
Total Debt (mil)	$104.40
Debt/Equity	(49.0)%

Revenues (millions) $

Yr Mar	2023A	2024E		2025E	
	Actual	Curr	Prev	Curr	Prev
Jun	11A	11A	–	13E	–
Sep	13A	16A	–	19E	–
Dec	10A	17E	–	20E	–
Mar	14A	18E	–	21E	–
YEAR	47A	62E	–	74E	–

EPS $

Yr Mar	2023A	2024E		2025E	
	Actual	Curr	Prev	Curr	Prev
Jun	(0.18)A	(0.26)A	–	(0.12)E	–
Sep	(0.16)A	(0.13)A	–	(0.10)E	–
Dec	(0.28)A	(0.10)E	–	(0.10)E	–
Mar	(0.20)A	(0.10)E	–	(0.10)E	–
YEAR	(0.82)A	(0.50)E	–	(0.40)E	–

SCLX adds promising obesity/Alzheimer's candidate to pipeline through a joint venture

We spoke with SCLX management following their recent announcement of the addition of a new pipeline asset, KDS2010 targeting both obesity and Alzheimer's Disease (AD) in clinical study. The company is entering into a joint venture called Scilex Bio with the Korean company IPMC to acquire and develop this asset. SCLX will enter into this joint venture through an all-stock transaction by contributing $50M of stock from their upcoming spin out of Semnur Pharmaceuticals. We note that the joint venture will have worldwide rights for the commercialization of KDS2010. This asset is a novel monoamine oxidase-B (MAO-B) inhibitor, a new take on an old drug class. MAO-B inhibitors are used to treat the symptoms of Parkinson's Disease and have been known as a useful and safe drug family for over 50 years. KDS2010 stands out as a highly selective and reversible inhibitor of MAO-B, providing the potential to speed up metabolism, and combat neurodegeneration, based on preclinical studies, making it a good candidate for clinical study in AD and obesity. Currently, the asset is undergoing two concurrent Phase 2 studies in Korea, one in AD and the other in obesity. Scilex will be adding clinical sites in the U.S. as an expansion of the current Korean trial. We note SAD/MAD trials, pharmacokinetic studies, and extensive preclinical work have already been completed on the asset and are encouraging. We reiterate our Buy rating and $14 price target based on SEMDEXA valued at $12.50/share, and ZTlido, ELYXYB, and GLOPERBA valued at $1.00/share. We value the remaining assets (SP-103, SP-104, and SP-105) and net cash (less debt, end-'25) at $0.50/share.

Joint venture for developing KDS2010 with IPMC to be entered via an all-stock transaction. This past August, SCLX announced that its subsidiary, Semnur Pharmaceuticals, Inc., entered into a merger agreement with Denali Capital Acquisition Corp. (DECA, not rated). This special purpose acquisition company (SPAC) transaction is expected to close by 1Q25, which will create a publicly traded company under the Semnur Pharmaceuticals, Inc. (SMNR, not yet listed) name, and will take over the remaining clinical development of SEMDEXA, the most advanced clinical asset in SCLX's pipeline. After this transaction, management estimates ~90% of SMNR shares will remain owned by SCLX. A yet unknown percentage of these shares totaling $50M in value will be set aside to establish a controlling interest Scilex Bio, a joint venture with the private Korean company, IPMC, set up to develop the KDS2010 asset from Neurobiogen (Korea). SCLX will own 60% of the joint venture; IPMC will own 40%. Notably, the joint venture will have worldwide rights for the commercialization of KDS2010.

KDS2010 is a selective, reversible MAO-B inhibitor, a variation on a well-known drug class in Parkinson's Disease. KDS2010, the newest addition to the SCLX pipeline, is a highly selective, reversible MAO-B inhibitor. It is a member of the MAO-B inhibitor drug class which has been used for ~50 years to treat the symptoms of Parkinson's Disease. Based on a wealth of real-world data, these drugs are known to be safe with few side effects, a primary draw of this asset, in our view. KDS2010 differentiates itself from on-the-market MAO-B inhibitors in its selectivity (drugs on the market are less selective) and its reversibility (most drugs on the market are irreversible inhibitors of MAO-B, meaning they inhibit this enzyme until it is destroyed). These properties not only make KDS2010 novel, but they lend it well to treating a number of diseases outside Parkinson's, namely Alzheimer's Disease and obesity. MAO-B inhibitors are sometimes used off-label by doctors to control the symptoms of Alzheimer's. The reversibility of KDS2010 has proven to sharply decrease weight in a mouse model by increasing overall metabolism, according to a recent brief communication in *Nature*.

Phase 2 studies of KDS2010 in obesity and AD in Korea are ongoing and will add U.S. sites through Scilex. KDS2010 is currently being studied in two concurrent Phase 2 studies in Korea through Neurobiogen, one in AD, and one in obesity. Both studies are proof of concept Phase 2 trials. The AD study is a placebo-controlled, 52-week study expected to read out data in 2027, while the obesity study is a 15-week trial expected to read out data in 2026. Both trials will add cohorts in the U.S. through SCLX based directly on the ongoing protocol. Single ascending dose/multiple ascending dose

(SAD/MAD) studies, pharmacokinetic data, and animal model data have already been completed and gathered on this candidate.

To us, SCLX's new candidate looks promising. Based on the available data, we believe KDS2010 could provide a possibly superior option in obesity over GLP-1 agonists like Ozempic due to: (1) a preferable route of administration, i.e. oral instead of injection, (2) a more manageable side effect profile, and (3) the potential to serve the patient population unable to access GLP-1s due to family history of thyroid cancers or moderate to severe gastrointestinal problems. In AD, we are also bullish on this candidate and note the current off-label use of MAO-B inhibitors to control disease symptoms as a positive sign for the drug. The 2015 Phase 2b failure of Roche's (RHHBY, Not Rated) Sembragiline, also a reversible MAO-B inhibitor, in late-stage AD, must also be noted. However, learning from this history, KDS2010 is being studied in mild/moderate AD, not in the recalcitrant late-stage as Sembragiline was.

Reiterating Buy rating and $14 price target. Our price target is based on a sum-of-the-parts analysis. We value SEMDEXA at $12.50/share, and ZTlido, ELYXYB, and GLOPERBA valued at $1.00/share. We value the remaining assets (SP-103, SP-104, and SP-105) and net cash (less debt, end-'25) at $0.50/share for our $14 price target.

Risks to achievement of target price:

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early-stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

Raising additional capital may cause dilution. If additional funding is required through raises in equity offerings, or similar financial instruments shareholders' ownership interests will be diluted, and the terms of these new securities may include liquidation or other preferences that adversely affect shareholders' rights.

COVID-19 Impact. If the ongoing economic & social disruption of the response to the COVID-19 virus continues that could materially impact the company's ability to conduct clinical trials or regular business. Please see the company's SEC filings for a more comprehensive discussion of potential risks.

Company description:

Scilex Holdings (SCLX) is a revenue-generating company focused on developing and acquiring non-opioid pain management treatment options for both acute and chronic pain conditions. Their lead drug product is ZTlido, a 1.8% lidocaine topical system that is an FDA-approved prescription lidocaine topical product targeting neuropathic pain associated with postherpetic neuralgia (PHN), which is lasting pain following shingles. SCLX also possesses two other FDA-approved and marketed drug products, including ELYXYB (celecoxib oral solution) for the acute treatment of migraine with or without aura, as well as GLOPERBA (colchicine USP), a liquid oral version of the anti-gout medicine colchicine made for the prophylaxis of painful gout flares in adults. Alongside their marketed drug products, SCLX's clinical development pipeline also includes SEMDEXA (SP-102) for the treatment of pain associated with sciatica, SP-103 for chronic neck pain, SP-104 for fibromyalgia, and SP-105 to supplement ELYXYB and include an acute pain indication. SCLX's efforts in formulating non-opioid pain treatment options are of great importance as opioids are often utilized to broadly treat pain, despite their heightened risk for potential addiction and drug abuse, specifically in conditions that are chronic and require lifelong treatment. There were over 51M US adults reported who experienced chronic pain in 2021, and with over 6M people reported to have opioid use disorder (OUD) in the US in 2022, SCLX's pipeline further underlines the great need to continue formulating such treatment options for underserved patient populations.

Important Research Disclosures

Created by: BlueMatrix

Distribution of Ratings/IB Services

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [BUY]	146	81.11	43	29.45
HOLD [NEUTRAL]	26	14.44	4	15.38
SELL [SELL]	2	1.11	1	50.00
NOT RATED [NR]	6	3.33	2	33.33
UNDER REVIEW [UR]	0	0.00	0	0

Disclosures

"**Firm**" used in the this section of the report entitled "**Disclosures**" refers to **A.G.P. / Alliance Global Partners** or **Euro Pacific Capital, a division of A.G.P. / Alliance Global Partners**. The Firm expects to receive or intends to seek compensation for investment banking services from all companies under research coverage within the next three months. The Firm or its officers, employees or affiliates, other than the research analyst authoring this report and his/her supervisor, may execute transactions in securities mentioned in this report that may not be consistent with the report's conclusions.

Sources referenced in this report: The information and statistics in this report have been obtained from sources we believe are reliable but we do not warrant their accurance or completeness.

Regulation Analyst Certification ("Reg AC") —

The views expressed in this report (which include the actual rating assigned to the company as well as the analytical substance and tone of the report) accurately reflect the personal views of the analyst(s) covering the subject securities. An analyst's sector is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Furthermore, in accordance with FINRA Rules 2711, 2241, and their amendments related to disclosure of conflicts of interest, the analyst preparing this report certifies:

- The analyst or member of the analyst's household does not have a financial interest in the company that is the subject of this report, including a position in the debt or equity of the company, without limitation, whether it consists of any option, right, warrant, future, long or short position.
- The analyst or member of the analyst's household does not serve as officer, director or advisory board member of the company that is the subject of this report.
- The analyst has not received any compensation from the subject company or from investment banking revenues, directly or indirectly, for preparing this report.
- The report discloses all material conflicts of interest related to the analyst, the member firm, and the subject company that are known at the time of publishing this report.

Ratings

Buy: Expected to materially outperform sector average over 12 months and indicates total return of at least 10% over the next 12 months.

Neutral: Returns expected to be in line with sector average over 12 months and indicates total return between negative 10% and 10% over the next 12 months.

Sell: Returns expected to be materially below sector average over 12 months and indicates total price decline of at least 10% over the next 12 months.

Not Rated: We have not established a rating on the stock.

Under Review: The rating will be updated soon pending information disclosed from a near-term news event.

Volatility Index

1 (Low): Little to no sharp movement in stock price in a 12 month period

2 (Low to medium): Modest changes in stock price in a 12 month period

3 (Medium): Average fluctuation in stock price in a 12 month period

4 (Medium to High): Higher than average changes in stock price in a 12 month period

5 (High): Extremely sharp movements in stock price in a 12 month period

All financial information is taken from company disclosures and presentations (including Form 10Q, 10K and 8K filings and other public announcements), unless otherwise noted. Any prices or quotations contained herein are indicative only and are not a commitment by A.G.P. / Alliance Global Partners to trade at any price.

If A.G.P. / Alliance Global Partners acts in a principal capacity with respect to the instruments mentioned herein it will be disclosed in the previous section of this report entitled “Disclosures.” In the event that A.G.P. / Alliance Global Partners does act in a principal capacity, the commentary is therefore not independent from the proprietary interests of A.G.P. / Alliance Global Partners, which interests may conflict with your interests. Opinions expressed herein may differ from the opinions expressed by other divisions and/or business units of A.G.P. / Alliance Global Partners. The Firm does not undertake any obligation to update this material. This material is current as of the indicated date and as of the time it was sent to you. This material was prepared from information believed to be reliable, but A.G.P. / Alliance Global Partners makes no representations or warranties as to its accuracy or completeness.

This communication and the information contained herein is neither an offer to buy or sell nor a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy.

This report should not be used as a complete analysis of the company, industry or security discussed in the report. Additional information is available upon request. Any opinions or estimates in this report are subject to change without notice. An investment in the stock may involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Additionally, an investment in the stock may involve a high degree of risk and may not be suitable for all investors. No part of this report may be reproduced without the express written permission of A.G.P. / Alliance Global Partners, member FINRA/SIPC.