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Scorpius Holdings, Inc. (SCPX: NYSE)

SCPX: Sharply Positive Growth

Research Note

Scorpius Holdings, Inc. (NYSE: SCPX) provided a first look at 4Q:23 results. It is forecasting revenues of $3.4 to $3.6 million, up sequentially from $723,000 in 3Q:23 as published in a March 7th press release. Since our previous update in January, the company has officially changed its name, promoted the Chief Operating Officer, appointed new senior management, raised funds and signed new clients for its biomanufacturing services. Now that the San Antonio biomanufacturing facility is fully operational, we can infer from fourth quarter guidance and the string of contracts that there is a substantial business opportunity. Following the market release of the strong surge in revenue, Scorpius priced a public offering of common stock.

Fourth Quarter Guidance

Based on our conversations with management in January and recent press releases highlighting the addition of new contracts, we sensed that there had been a sharp move upward in the revenue trend. After months without material news in 2023, Scorpius announced a manufacturing run for a US biopharmaceutical company in December followed by subsequent announcements of a demonstration run for significant customers and development and manufacturing agreements with a leading university. Other favorable communications were made in January building on the positive momentum signaling that the biomanufacturing business was filling capacity.

With all of the new business, we expect continued strength throughout the year and are eagerly awaiting Scorpius' filing of its Form 10-K with final results. Along with the full year details, we hope to hear further guidance on what Scorpius can achieve this year.

Business Development

Scorpius has spent several years building up its biomanufacturing facility in San Antonio, Texas. Since the grand opening in the fall of 2022, further work qualified and validated the facility in the fall of 2023. Now the contract development and manufacturing organization (CDMO) is able to fully accommodate clients' projects and conduct biomanufacturing for clinical-stage work. In December, Scorpius announced the completion of a manufacturing run for an undisclosed US-based biopharmaceutical company. Just a few days later, the company completed a demonstration run for a research university that receives National Institute of Health (NIH) and Defense Threat Reduction Agency (DTRA) funding. This was the first phase of a multi-million-dollar project and could advance the relationship to a point where it could generate significant revenues.

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Several other relationships were announced in 2023 that continued the chain of manufacturing agreements:

- Multi-million dollar development and manufacturing agreement for undisclosed university
  - Process development and large molecule manufacturing
  - January 3, 2024
- Preclinical work for US-based biotech company
  - Project value >$1 million with upside potential
  - Analytical and process development and microbial fermentation
  - January 16, 2024
- Phase II clinical program support for public biotech company
  - Multimillion dollar contract awarded
  - cGMP manufacturing for monoclonal antibody
  - January 25, 2024

Capital Raise

On the heels of its fourth quarter guidance, Scorpius announced a public offering of common stock. The March 7th release was followed the next day by a pricing agreement and an expected close of Tuesday March 12th. Scorpius priced 10 million shares of common stock at $0.15 per share to raise gross proceeds of $1.5 million.

This follows the receipt of $3.25 million in proceeds related to two transactions reported on January 30. The first transaction was a sale of non-core intellectual property that generated $1 million in cash. The second was the issuance of a convertible note for $2.25 million. The convertible note bears interest of 1% *per annum* and will be convertible into shares of the company at a price of approximately $0.39.

New Focus on Contract Development and Manufacturing Organization (CDMO)

Scorpius has gone through a metamorphosis over the last few years evolving from an oncology research and development company to a broad biosciences company that added national defense assets and biomanufacturing to its lineage in cancer investigation. With rising interest rates and access to capital near impossible for small cap life sciences companies, Scorpius' predecessor elected to narrow its operations to a consistent, revenue-generating business with high near-term growth rates. This change has led to management's decision to divest all businesses that are non-core to the company's future in biomanufacturing. Elusys is now sold, Skunkworx, Pelican and Heat Biologics already have been or will be wound down leaving Scorpius BioManufacturing as the only operating unit.

The change will eliminate $40 million in commitments and reduce operating expenditures by over $13 million per year. Following 2023's first full year of CDMO operations, Scorpius has generated substantial bookings that we expect to see come across the topline in 2024. The company booked $20 million in revenue in 2023 and has also rounded up several new clients that contributed to a dramatic increase in 4Q:23 revenues.

In support of these efforts, the company has added and promoted several new executives which were included in an announcement of a corporate name and ticker change, it also broadcast the appointment of several new senior individuals to support the growth of the CDMO. Two vice presidents, one senior director and a site head of quality were appointed, providing an extensive range of experience to Scorpius' executive suite.

Summary

Scorpius has narrowed its focus from a fully-integrated biopharmaceutical company to its San Antonio CDMO. The market environment has not been friendly to businesses that lack revenues and earnings, reducing the attractiveness of research and development-based assets. Fortunately, Scorpius Holdings has built an attractive CDMO that is generating revenues and could tip into the realm of positive free cash flow in the next year or so. There remain many moving parts that need to be untangled, especially the capital structure following all of the wind-downs and divestitures, so we will be closely reviewing the upcoming annual filing to refine our financial statements and estimates. Based on our read of the environment, there is more demand than supply in the CDMO space, and now that the San Antonio facility is fully operational, we anticipate that the unit will reach normal operating capacity in the near term.

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