

Recro Pharma, Inc.

(REPH/ NASDAQ)

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Reports 4Q14: Imminent Interim Phase 2 Results, YE15 Could See 2 Phase 3 Trials

Buy
TP: \$26.00

Investment Summary

The revised Phase 2 trial with Dex-IN is progressing well, and Recro expects to report interim results shortly for any necessary sample size adjustment when half of the evaluable patients have been enrolled. Top-line results from the Phase 2 Dex-IN trial are still guided to read out in mid-2015, with a potential Phase 3 program with Dex-IN to start by YE15 pending a positive Phase 2 outcome. Moreover, Recro will acquire Alkermes' IV/IM meloxicam and its Gainesville, GA GMP manufacturing facility by the end of 2Q15. IV/IM meloxicam is Phase 3 ready and has demonstrated potent efficacy for acute pain in Phase 2 and Phase 1 trials, whereas the Gainesville manufacturing facility generates sufficient cash flows that would more than allow Recro to service the \$50 million in debt financing it will use to cover the upfront payment to Alkermes, and potentially fund its R&D activities over time. We believe this acquisition fits well with Recro's existing pain pipeline and its working capital needs. Recro plans to move the 30mg dose of IV meloxicam into Phase 3 by YE15. Recro ended 4Q14 with \$19.7 million in cash and equivalents, which should be sufficient to fund its operations through YE15, essentially up to any Phase 3 initiation of Dex-IN for acute post-operative pain and/or IV meloxicam.

Discussion

Pipeline update. The revised Phase 2 trial with Dex-IN is progressing well, and Recro expects to report interim results shortly for any necessary sample size adjustment when half of the evaluable patients have been enrolled. Top-line results from the Phase 2 Dex-IN trial are still guided to read out in mid-2015, with a potential Phase 3 program with Dex-IN to start by YE15 pending a positive Phase 2 outcome. Moreover, Recro will acquire Alkermes' IV/IM meloxicam and its Gainesville, GA GMP manufacturing facility by the end of 2Q15. IV/IM meloxicam is Phase 3 ready and has demonstrated potent efficacy for acute pain in Phase 2 and Phase 1 trials, whereas the Gainesville manufacturing facility generates sufficient cash flows that would more than allow Recro to service the \$50 million in debt financing it will use to cover the upfront payment to Alkermes, and potentially fund its R&D activities over time. We believe this acquisition fits well with Recro's existing pain pipeline and its working capital needs. Recro plans to move the 30mg dose of IV meloxicam into Phase 3 by YE15.

4Q14 results. Recro ended 4Q14 with \$19.7 million in cash and equivalents, which should be sufficient to fund its operations through YE15, essentially up to any Phase 3 initiation of Dex-IN for acute post-operative pain and/or IV meloxicam. In February, Recro entered into a common stock purchase agreement with Aspire Capital Fund, under which Recro can sell up to \$10 million of common stock to Aspire Capital, thereby having an additional source of financing to support its operations further. Recro reported no revenue and EPS of \$(0.45) in 4Q14, and we look forward to imminent interim Phase 2 results as well as top-line Phase 2 results in mid-2015. R&D and SG&A expenses were \$2.3 million and \$1.2 million in 4Q14, respectively. Recro had about 7.7 million common shares outstanding in 4Q14.

Valuation / Target Price

We derive our target price of \$26 through a DCF analysis, assuming a 25% discount rate that is applied to all cash flows and the terminal value, which is based on a 5 multiple of the projected 2020 EBITDA of \$111 million.

Price	\$8.60
52-Week High/Low	\$8.90-\$2.36
Shares Out (mm)	7.7
Market Cap (mm)	\$66
Avg. Daily Vol (000)	73,666
Short Interest	0.4%
EV (mm)	NA

	FY13A	FY14A	FY15E
EPS			
Mar	--	\$(3.67)	\$(0.50)
Prior:	--	--	\$(0.97)
June	--	\$(0.36)	\$(0.55)
Prior:	--	--	\$(1.05)
Sept	--	\$(0.61)	\$(0.59)
Prior:	--	--	\$(1.14)
Dec	--	\$(0.45)	\$(0.80)
Prior:	--	\$(0.89)	\$(1.24)
FY (Dec)	\$(15.41)	\$(2.79)	\$(2.43)
Prior:	--	\$(3.35)	\$(4.39)
P/E (x)	NM	NM	NM
Revenue (\$M)			
Mar	--	\$0.0	\$0.0
June	--	\$0.0	\$0.0
Sept	--	\$0.0	\$0.0
Dec	--	\$0.0	\$0.0
FY (Dec)	\$0.0	\$0.0	\$0.0



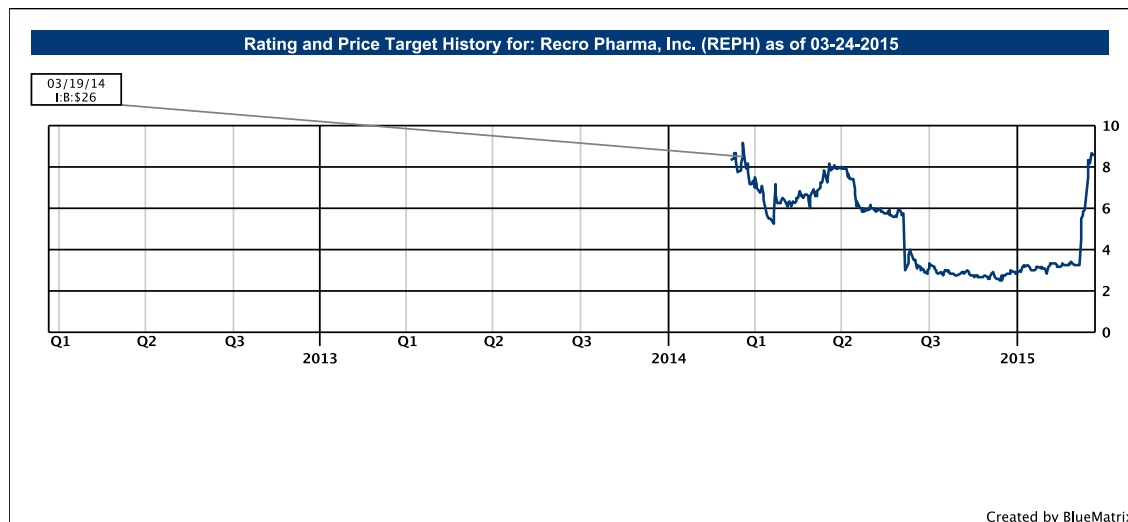
Source: Bloomberg

RECRO PHARMA, INC Income Statement Fiscal Year ends December (All amounts in 000s except per share items)																			
	2011A	2012A	2013A	1Q14	2Q14	3Q14	4Q14	2014A	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	
Dex-IN for post-operative pain (US)								-					-	-	-	36,205	132,483	217,661	
Total revenues				-	-	-	-	-	-	-	-	-	-	-	-	36,205	132,483	217,661	
COGS																			
R&D	1,828	542	544	227	1,837	3,634	2,254	7,952	2,593	2,982	3,280	4,919	13,773	19,283	21,211	23,332	25,665	28,232	
SG&A	485	339	546	647	959	1,084	1,230	3,919	1,242	1,255	1,267	1,280	5,043	6,556	11,146	24,521	36,781	40,459	
Total operating expenses	2,313	881	1,090	874	2,796	4,718	3,484	11,872	3,835	4,236	4,547	6,199	18,817	25,839	32,357	55,094	88,943	107,870	
Operating income (EBIT)	(2,313)	(881)	(1,090)	(874)	(2,796)	(4,718)	(3,484)	(11,872)	(3,835)	(4,236)	(4,547)	(6,199)	(18,817)	(25,839)	(32,357)	(18,889)	43,540	109,791	
Interest income		0	0	0	2	5	3	11	3	3	4	4	14	15	17	19	28	42	
Grant income		85						-					-	-	-	-	-	-	
Interest expense	(558)	(740)	(868)	(4,273)				(4,273)					-	-	-	-	-	-	
Income before taxes	(2,871)	(1,537)	(1,958)	(5,146)	(2,794)	(4,713)	(3,481)	(16,134)	(3,831)	(4,233)	(4,543)	(6,196)	(18,803)	(25,824)	(32,340)	(18,870)	43,568	109,833	
Provision for income taxes			-					-					-	-	-	-	4,357	32,950	
Net income, GAAP	(2,871)	(1,537)	(1,958)	(5,146)	(2,794)	(4,713)	(3,481)	(16,134)	(3,831)	(4,233)	(4,543)	(6,196)	(18,803)	(25,824)	(32,340)	(18,870)	39,212	76,883	
Accretion of redeemable convertible preferred stock	(383)	(413)	(440)	(1,270)				(1,270)					-						
Net income to common shareholders	(3,254)	(1,949)	(2,398)	(6,416)	(2,794)	(4,713)	(3,481)	(17,404)	(3,831)	(4,233)	(4,543)	(6,196)	(18,803)	(25,824)	(32,340)	(18,870)	39,212	76,883	
EPS basic	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.36)	\$ (0.61)	\$ (0.45)	\$ (2.79)	\$ (0.50)	\$ (0.55)	\$ (0.59)	\$ (0.80)	\$ (2.43)	\$ (3.27)	\$ (4.02)	\$ (2.30)	\$ 4.68	\$ 9.00	
EPS diluted, GAAP	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.36)	\$ (0.61)	\$ (0.45)	\$ (2.79)	\$ (0.50)	\$ (0.55)	\$ (0.59)	\$ (0.80)	\$ (2.43)	\$ (3.27)	\$ (4.02)	\$ (2.30)	\$ 3.89	\$ 7.51	
Basic shares outstanding	156	156	156	1,750	7,708	7,708	7,708	6,239	7,715	7,723	7,731	7,738	7,727	7,893	8,051	8,212	8,376	8,544	
Diluted shares outstanding	156	156	156	1,750	7,708	7,708	7,708	6,239	7,715	7,723	7,731	7,738	7,727	7,893	8,051	8,212	8,376	8,544	

Source: Company documents and Brean Capital, LLC. estimates

Risks**Recro Pharma, Inc. (REPH)**

Risks to the achievement of our target price include market adoption risks, business development risks, competition, and high share price volatility.

Important Disclosures**Ratings and Target Price History**

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Buy - Expected to appreciate by at least 10% within the next 12 months.

Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.

Sell - Expected to decline by at least 10% within the next 12 months.

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
BUY	122	75.31%	18	14.75%
HOLD	36	22.22%	0	0.00%
SELL	4	2.47%	0	0.00%
NOT RATED				

Note: Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

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