

## Recro Pharma, Inc.

(REPH/ NASDAQ)

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## Looking Forward To Positive Phase 2 Post-Op Results; Reports 2Q14

**Buy**  
TP: \$26.00

### Investment Summary

In June, Recro started enrolling patients into its Phase 2b trial with Dex-IN for acute pain following bunionectomy surgery. This trial randomized 150-200 patients to receive Dex-IN 35mcg, Dex-IN 50mcg, or IN placebo every 6 hours for 48 hours. The primary endpoint is the summed pain intensity difference over 48 hours (SPID48), and we expect top-line results by YE14. Based on the chronic pain trials, we believe that dex will deliver in Phase 2b and justify a pivotal program that should allow it to compete head to head with opioid therapies and afford post-operative patients a far safer alternative, while at the same time reducing hospital costs by avoiding many of the complications from opioid therapy. Given what dex has already demonstrated, and the market potential in post-operative pain alone, we continue to view Recro as significantly undervalued. Following its IPO in March, Recro ended 2Q14 with \$27.8 million in cash and equivalents, which should be sufficient to fund its operations through YE15. On July 25, AcelRx Pharma received a CRL for its NDA for Zalviso, as the FDA required additional information to ensure proper use of the device. AcelRx plans to resubmit its NDA for Zalviso by YE14. Dex-IN is a non-opioid therapeutic with convenient route of delivery that does not require a complicated device like Zalviso does, and we therefore view the CRL for Zalviso as a positive for Dex-IN as it delays the competition for at least 6 months after refiling.

### Discussion

**Pipeline update.** In June, Recro started enrolling patients into its Phase 2b trial with Dex-IN for acute pain following bunionectomy surgery. This trial will randomize 150-200 patients to receive Dex-IN 35mcg, Dex-IN 50mcg, or IN placebo every 6 hours for 48 hours. The primary endpoint is the summed pain intensity difference over 48 hours (SPID48), with secondary endpoints being use of rescue medication, patient global assessment of pain control, opioid consumption, and side effects of opioid use. We expect the Phase 2b trial to read out top-line results by YE14, which should further de-risk the Dex-IN program. Dex-IN is the intranasal formulation of dexmedetomidine (dex) being developed for acute post-operative pain relief and importantly is a non-opioid, alpha-2 agonist therapeutic. Based on the chronic pain trials, we believe that dex will deliver in Phase 2b and justify a pivotal program that should allow it to compete head to head with opioid therapies and afford post-operative patients a far safer alternative, while at the same time reducing hospital costs by avoiding many of the complications from opioid therapy. Given what dex has already demonstrated, and the market potential in post-operative pain alone, we continue to view Recro as significantly undervalued.

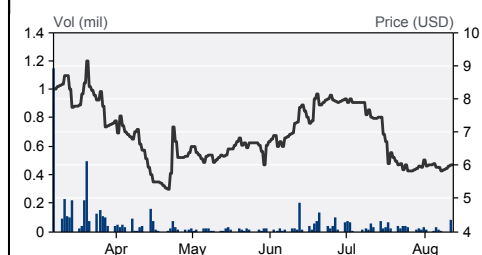
**2Q14 results.** Following its IPO in March, Recro ended 2Q14 with \$27.8 million in cash and equivalents, which should be sufficient to fund its operations through YE15. Recro reported no revenue and EPS of \$(0.36) in 2Q14, and we look forward to top-line results from the Phase 2b trial with Dex-IN for acute post-operative pain by YE14. R&D and SG&A expenses were \$1.8 million and \$1 million in 2Q14, respectively. The QoQ increase in R&D expense was driven by the initiation of the Phase 2b trial with Dex-IN. Recro had about 7.7 million common shares outstanding in 2Q14, as all preferred stock and convertible bridge notes converted in the IPO. On July 25, AcelRx Pharma received a CRL for its NDA for Zalviso, a sufentanil sublingual tablet system, as the FDA required additional information to ensure proper use of the device. AcelRx plans to resubmit its NDA for Zalviso by YE14. Dex-IN is a non-opioid therapeutic with convenient route of delivery that does not require a complicated device like Zalviso does, and we therefore view the CRL for Zalviso as a positive for Dex-IN as it delays the competition for at least 6 months after refiling.

### 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 \$101 million.

Price	\$6.00
52-Week High/Low	\$9.88-\$5.01
Shares Out (mm)	7.7
Market Cap (mm)	\$46
Avg. Daily Vol (000)	29,917
Short Interest	0.5%
EV (mm)	NA

	FY13A	FY14E	FY15E
EPS			
Mar	--	\$(3.67)A	--
June	--	\$(0.36)A	--
Prior:	--	\$(0.25)	--
Sept	--	\$(0.57)	--
Prior:	--	\$(0.49)	--
Dec	--	\$(0.86)	--
FY (Dec)	\$(15.41)	\$(3.25)	\$(2.44)
Prior:	--	\$(3.00)	\$(2.19)
P/E (x)	NM	NM	NM
Revenue (\$M)			
Mar	--	\$0.0A	--
June	--	\$0.0A	--
Sept	--	\$0.0	--
Dec	--	\$0.0	--
FY (Dec)	\$0.0	\$0.0	\$0.0



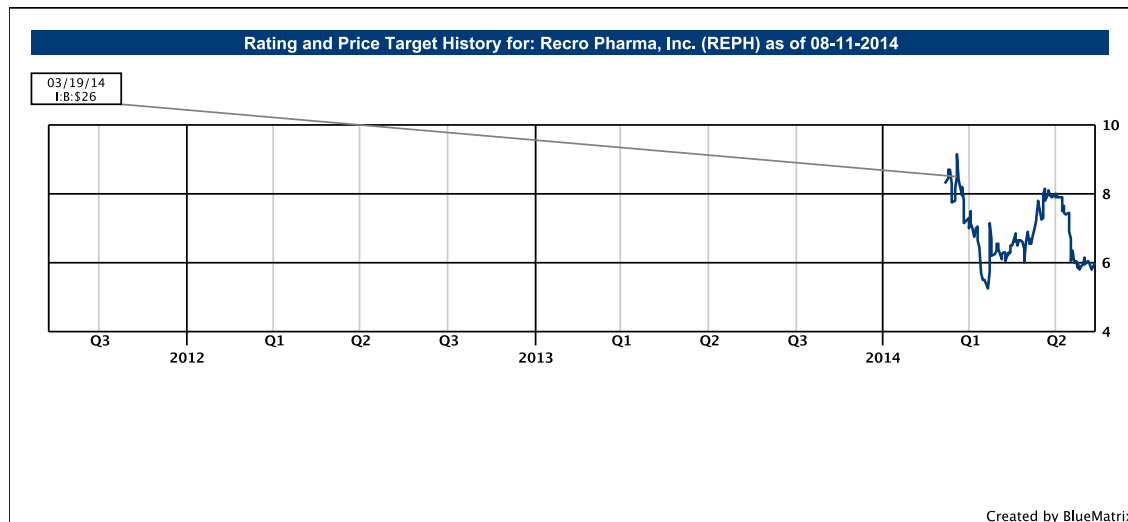
Source: Bloomberg

<b>RECRO PHARMA, INC</b> <b>Income Statement</b> Fiscal Year ends December (All amounts in 000s except per share items)														
	2011A	2012A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Dex-IN for post-operative pain (US)								-	-	-	52,983	110,787	173,742	222,014
<b>Total revenues</b>				-	-	-	-	-	-	-	<b>52,983</b>	<b>110,787</b>	<b>173,742</b>	<b>222,014</b>
COGS											10,597	22,157	34,748	44,403
R&D	1,828	542	544	227	1,837	3,123	4,997	10,184	19,350	20,318	22,350	24,585	27,043	29,748
SG&A	485	339	546	647	959	1,342	1,745	4,692	7,507	12,012	24,023	33,633	47,086	56,503
<b>Total operating expenses</b>	<b>2,313</b>	<b>881</b>	<b>1,090</b>	<b>874</b>	<b>2,796</b>	<b>4,465</b>	<b>6,742</b>	<b>14,877</b>	<b>26,858</b>	<b>32,330</b>	<b>56,970</b>	<b>80,375</b>	<b>108,877</b>	<b>130,653</b>
<b>Operating income (EBIT)</b>	<b>(2,313)</b>	<b>(881)</b>	<b>(1,090)</b>	<b>(874)</b>	<b>(2,796)</b>	<b>(4,465)</b>	<b>(6,742)</b>	<b>(14,877)</b>	<b>(26,858)</b>	<b>(32,330)</b>	<b>(3,987)</b>	<b>30,413</b>	<b>64,865</b>	<b>91,361</b>
Interest income		0	0	0	2	2	2	6	7	8	8	9	14	21
Grant income		85						-	-	-	-	-	-	
Interest expense	(558)	(740)	(868)	(4,273)				(4,273)						
<b>Income before taxes</b>	<b>(2,871)</b>	<b>(1,537)</b>	<b>(1,958)</b>	<b>(5,146)</b>	<b>(2,794)</b>	<b>(4,463)</b>	<b>(6,740)</b>	<b>(19,143)</b>	<b>(26,851)</b>	<b>(32,322)</b>	<b>(3,978)</b>	<b>30,422</b>	<b>64,879</b>	<b>91,382</b>
Provision for income taxes			-					-	-	-	-	-	6,488	27,415
<b>Net income, GAAP</b>	<b>(2,871)</b>	<b>(1,537)</b>	<b>(1,958)</b>	<b>(5,146)</b>	<b>(2,794)</b>	<b>(4,463)</b>	<b>(6,740)</b>	<b>(19,143)</b>	<b>(26,851)</b>	<b>(32,322)</b>	<b>(3,978)</b>	<b>30,422</b>	<b>58,391</b>	<b>63,967</b>
Accretion of redeemable convertible preferred stock	(383)	(413)	(440)	(1,270)				(1,270)						
<b>Net income to common shareholders</b>	<b>(3,254)</b>	<b>(1,949)</b>	<b>(2,398)</b>	<b>(6,416)</b>	<b>(2,794)</b>	<b>(4,463)</b>	<b>(6,740)</b>	<b>(20,413)</b>	<b>(26,851)</b>	<b>(32,322)</b>	<b>(3,978)</b>	<b>30,422</b>	<b>58,391</b>	<b>63,967</b>
EPS basic	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.36)	\$ (0.57)	\$ (0.86)	\$ (3.25)	\$ (2.44)	\$ (2.88)	\$ (0.35)	\$ 2.60	\$ 4.90	\$ 5.26
EPS diluted, GAAP	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.36)	\$ (0.57)	\$ (0.86)	\$ (3.25)	\$ (2.44)	\$ (2.88)	\$ (0.35)	\$ 2.44	\$ 4.59	\$ 4.94
Basic shares outstanding	156	156	156	1,750	7,708	7,785	7,863	6,276	11,008	11,228	11,452	11,681	11,915	12,153
Diluted shares outstanding	156	156	156	1,750	7,708	8,590	8,668	6,679	11,813	12,033	12,257	12,486	12,720	12,958

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.

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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	130	75.58%	21	16.15%
HOLD	38	22.09%	1	2.63%
SELL	4	2.33%	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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