

Recro Pharma, Inc.

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(REPH/ NASDAQ)

BREAN CAPITAL, LLC

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Reports 3Q14 Results - Looking Forward To Mid-2015 Data From Revised Phase 2b

Buy
TP: \$26.00

Investment Summary

Recro expects to report top-line results from its revised Phase 2 trial by mid-2015, and the company plans to conduct an interim analysis for any necessary sample size adjustment when half of the evaluable patients have been enrolled. Recall that in October, Recro started enrolling patients into its revised Phase 2 trial with Dex-IN for acute pain on day 1 following bunionectomy surgery. A total of 200-250 patients will be randomized to receive 50mcg Dex-IN or placebo every 6 hours starting on post-op day 1. Pain is generally stable or declining on post-op day 1 while pain is rapidly escalating on post-op day 0, and therefore we are more confident in Dex-IN's ability to effectively manage pain in the revised Phase 2 trial. Additional efficacy endpoints include use of opioid rescue medication and opioid related side effects, and Patient Global Assessment of pain control. Given that Recro is trading below cash value, we see a highly favorable risk reward profile for Recro shares. Recro ended 3Q14 with \$23.9 million in cash and equivalents, which should be sufficient to fund its operations through YE15 and beyond the expected mid-2015 readout of its Phase 2 trial.

Discussion

Pipeline update. Recro expects to report top-line results from its revised Phase 2 trial by mid-2015, and the company plans to conduct an interim analysis for any necessary sample size adjustment when half of the evaluable patients have been enrolled. Recall that in October, Recro started enrolling patients into its revised Phase 2 trial with Dex-IN for acute pain on day 1 following bunionectomy surgery. A total of 200-250 patients will be randomized to receive 50mcg Dex-IN or placebo every 6 hours starting on post-op day 1. Oral opioid rescue treatment will be provided if needed. After treatment begins, patients will remain under observation for 48 hours at study centers and will be followed for 7 days, with the summed pain intensity difference over 48 hours (SPID48) being the primary efficacy endpoint. Pain is generally stable or declining on post-op day 1 while pain is rapidly escalating on post-op day 0, and therefore we are more confident in Dex-IN's ability to effectively manage pain in the revised Phase 2 trial. Additional efficacy endpoints include use of opioid rescue medication and opioid related side effects, and Patient Global Assessment of pain control. Given that Recro is trading below cash value, we see a highly favorable risk reward profile for Recro shares.

3Q14 results. Recro ended 3Q14 with \$23.9 million in cash and equivalents, which should be sufficient to fund its operations through YE15 and beyond the expected mid-2015 readout of its Phase 2 trial. Recro reported no revenue and EPS of \$(0.61) in 3Q14, and we look forward to top-line results from the Phase 2 trial with Dex-IN for acute post-operative pain in mid-2015. R&D and SG&A expenses were \$3.6 million and \$1.1 million in 3Q14, respectively. The QoQ increase in R&D expense was driven by the initiation of the revised Phase 2b trial with Dex-IN. Recro had about 7.7 million common shares outstanding in 3Q14.

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 \$110 million.

Price	\$2.72
52-Week High/Low	\$9.88-\$2.63
Shares Out (mm)	7.7
Market Cap (mm)	\$21
Avg. Daily Vol (000)	52,594
Short Interest	0.5%
EV (mm)	NA

	FY13A	FY14E	FY15E
EPS			
Mar	--	\$(3.67)A	\$(0.95)
June	--	\$(0.36)A	\$(0.99)
Sept	--	\$(0.61)A	\$(1.04)
Prior:	--	\$(0.57)	--
Dec	--	\$(0.90)	\$(1.08)
Prior:	--	\$(0.86)	--
FY (Dec)	\$(15.41)	\$(3.36)	\$(4.06)
Prior:	--	\$(3.25)	\$(2.44)
P/E (x)	NM	NM	NM
Revenue (\$M)			
Mar	--	\$0.0A	\$0.0
June	--	\$0.0A	\$0.0
Sept	--	\$0.0A	\$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	1Q14A	2Q14A	3Q14A	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	
Dex-IN for post-operative pain (US)				-	-	-	-	-	-	-	-	-	-	-	35,322	110,787	173,742	222,014	
Total revenues				-	-	-	-	-	-	-	-	-	-	-	35,322	110,787	173,742	222,014	
COGS															7,064	22,157	34,748	39,963	
R&D	1,828	542	544	227	1,837	3,634	5,814	11,512	6,163	6,533	6,859	7,202	26,757	28,094	30,904	33,994	37,394	41,133	
SG&A	485	339	546	647	959	1,084	1,139	3,828	1,150	1,162	1,173	1,185	4,670	7,471	14,942	20,919	29,287	32,216	
Total operating expenses	2,313	881	1,090	874	2,796	4,718	6,953	15,340	7,313	7,694	8,032	8,387	31,426	35,566	52,911	77,071	101,429	113,312	
Operating income (EBIT)	(2,313)	(881)	(1,090)	(874)	(2,796)	(4,718)	(6,953)	(15,340)	(7,313)	(7,694)	(8,032)	(8,387)	(31,426)	(35,566)	(17,589)	33,716	72,313	108,702	
Interest income		0	0	0	2	5	4	11	4	4	4	4	17	19	21	23	34	51	
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)	(6,948)	(19,602)	(7,309)	(7,690)	(8,028)	(8,383)	(31,409)	(35,547)	(17,568)	33,739	72,347	108,754	
Provision for income taxes																	7,235	32,626	
Net income, GAAP	(2,871)	(1,537)	(1,958)	(5,146)	(2,794)	(4,713)	(6,948)	(19,602)	(7,309)	(7,690)	(8,028)	(8,383)	(31,409)	(35,547)	(17,568)	33,739	65,113	76,128	
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)	(6,948)	(20,872)	(7,309)	(7,690)	(8,028)	(8,383)	(31,409)	(35,547)	(17,568)	33,739	65,113	76,128	
EPS basic	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.36)	\$ (0.61)	\$ (0.90)	\$ (3.36)	\$ (0.95)	\$ (0.99)	\$ (1.04)	\$ (1.08)	\$ (4.06)	\$ (4.50)	\$ (2.18)	\$ 4.10	\$ 7.77	\$ 8.90	
EPS diluted, GAAP	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.36)	\$ (0.61)	\$ (0.90)	\$ (3.36)	\$ (0.95)	\$ (0.99)	\$ (1.04)	\$ (1.08)	\$ (4.06)	\$ (4.50)	\$ (2.18)	\$ 3.74	\$ 7.09	\$ 8.14	
Basic shares outstanding	156	156	156	1,750	7,708	7,708	7,715	6,220	7,723	7,731	7,738	7,746	7,735	7,901	8,059	8,220	8,385	8,552	
Diluted shares outstanding	156	156	156	1,750	7,708	7,708	7,715	6,220	7,723	7,731	7,738	7,746	7,735	7,901	8,059	8,220	8,385	8,552	

Source: Company documents and Brean Capital, LLC. estimates

RELATED COMPANIES

Company	Ticker	Rating	Price
Recro Pharma, Inc.	REPH	Buy	\$2.72

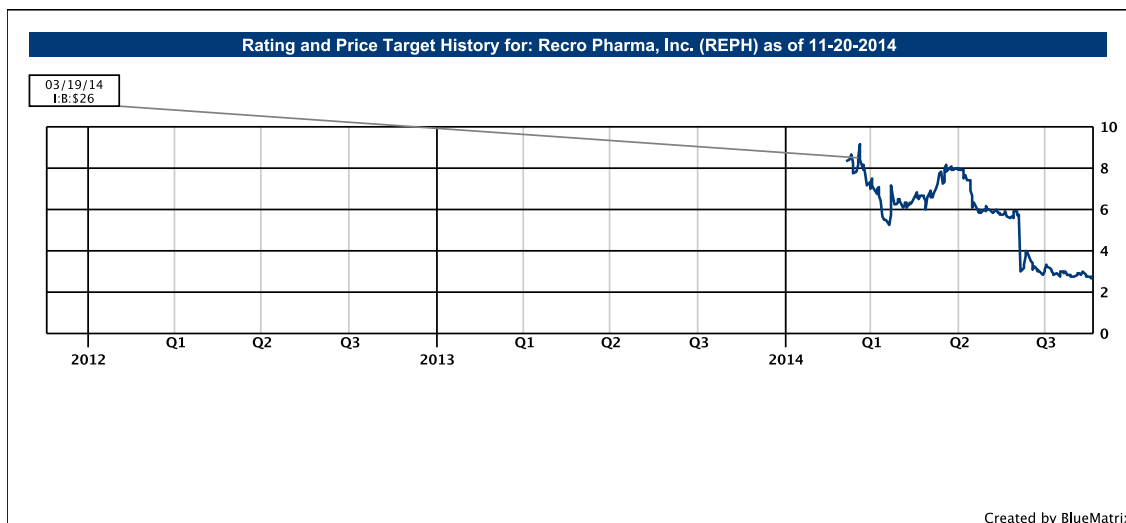
Risks

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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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	138	74.19%	19	13.77%
HOLD	45	24.19%	1	2.22%
SELL	3	1.61%	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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