



December 9, 2014

Key Metrics

REPH - NASDAQ	\$2.80
Pricing Date	Dec 9 2014
Price Target	NA
52-Week Range	\$9.88 - \$2.50
Shares Outstanding (mm)	7.7
Market Capitalization (\$mm)	\$21.6
3-Mo Average Daily Volume	31,475
Institutional Ownership	28%
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$2.88
Price/Book	1.0x
Dividend Yield	NM
LTM EBITDA Margin	NM

EPS (\$) FY: December

	2014E	Prior 2015E	Curr. 2015E	Prior 2016E	Curr. 2016E
1Q-Mar	(3.67)A	(0.61)E	(0.66)E	--	(0.63)E
2Q-Jun	(0.36)A	(0.58)E	(0.59)E	--	(0.54)E
3Q-Sep	(0.61)A	(0.55)E	(0.53)E	--	(0.44)E
4Q-Dec	(0.66)E	(0.57)E	(0.53)E	--	(0.46)E
FY	(3.06)E	(2.30)E	(2.31)E	--	(2.04)E
P/E	NM		NM		NM

**Company Description:**

Recro Pharma, Inc. (<http://www.recropharma.com/>) is an emerging specialty pharmaceuticals firm focusing on the pain sector, based in Malvern, PA.

Recro Pharma, Inc.**Rating: Hold****Phase 2 Trial In Progress; Downgrade to Hold****Investment Highlights:**

- **Post Op Day1 Trial In Progress.** Recro Pharma started a Phase 2 clinical trial of Dex-IN, its proprietary intranasal formulation of dexmedetomidine, in late October 2014 in the post-operative Day 1 setting for pain management following bunionectomy surgery. We note that post-operative Day 1 is when pain is generally stable or declining while still having significant pain levels present, and provides a valuable intervention point for the reduction or elimination of opioids. Since pain intensity is rapidly escalating in post-operative Day 0, application of Dex-IN on Day 1 could turn out to be more effective, in our view. The firm expects to report top-line data around mid-2015. We believe results from an interim analysis could be reported in the late 1Q/early 2Q 2015 time frame. Considering prior data from the Day 0 Phase 2 trial and the forthcoming interim analysis in the near term, we downgrade our rating from Buy to Hold, without a price target.
- **Day1 Phase 2 Trial Design.** This Phase 2 trial is a randomized, multicenter, double-blind, placebo-controlled study to evaluate the efficacy and safety of Dex-IN in adult patients undergoing bunionectomy surgery. Dosing is initiated on post-operative Day 1. The trial is expected to enroll ~200-250 patients. Patients will be randomized to either a 50µg dose of Dex-IN or a placebo intranasal dose given every 6 hours. Following the beginning of treatment, patients will remain under observation for 48 hours and will be followed for 7 days after the initial dose. The primary efficacy endpoint of the trial is the summed pain intensity difference over 48 hours (SPID48), starting on Day 1. Additional efficacy endpoints include use of opioid rescue medication and opioid related side effects, and Patient Global Assessment (PGA) of pain control. Though theoretically the Day 1 setting should produce better efficacy than the Day 0 setting, investors ought to be cautious at this point, in our view.
- **More Data From the Day 0 Trial.** We note that the firm terminated the Post Op Day 0 Phase 2 trial in September 2014 due to its unlikelihood to reach statistical significance. In this study with 95 treated patients, Dex-IN was well tolerated with no serious adverse events, though four patients (three in the 50 mcg Dex-IN group and one in the 35 mcg Dex-IN group) discontinued due to symptomatic hypotension and one subject (35 mcg Dex-IN) due to fever. Asymptomatic decreases in blood pressure were seen throughout the study, including ten Dex-IN patients (six in the 50 mcg Dex-IN group) that had an adverse event of "BP decreased." Although efficacy of Dex-IN was observed in the trial, investors should be aware that pain studies frequently have high variability.
- **Cash Runway.** Recro Pharma had approximately \$23.9mm in cash as of September 30, 2014, which should provide a runway to the end of 2015. We note that the company shares currently trade at its cash value with a negative enterprise value. If the Day 1 Phase 2 trial reports positive data, the firm may need to raise additional capital by end-2015 for a Phase 3 trial.

Table 1: Recro Pharma, Inc. (REPH) – Historical Income Statements, Financial Projections

FY end December 31

\$ in thousands, except per share data

	2012A	2013A	2014E				2014E	2015E				2015E
			1QA	2QA	3QA	4QE		1QE	2QE	3QE	4QE	
Revenue												
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-
Expenses												
Cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-
Research and development	542	544	227	1,837	3,634	4,000	9,698	4,000	3,500	3,000	3,000	13,500
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	339	546	647	959	1,084	1,100	3,790	1,150	1,200	1,250	1,300	4,900
Total expenses	881	1,090	874	2,796	4,718	5,100	13,488	5,150	4,700	4,250	4,300	18,400
Gain (loss) from operations	(881)	(1,090)	(874)	(2,796)	(4,718)	(5,100)	(13,488)	(5,150)	(4,700)	(4,250)	(4,300)	(18,400)
Other income/expense												
Interest income/expense	(740)	(868)	(4,273)	2	5	4	(4,262)	4	3	2	1	10
Realized loss on marketable securities												
Other income/expense	85	-	-	-	-	-	-	-	-	-	-	-
Total investment income and other	(655)	(868)	(4,273)	2	5	4	(4,262)	4	3	2	1	10
Accretion of redeemable preferred stock and deemed dividend	(413)	(440)	(1,270)	-	-	-	(1,270)	-	-	-	-	-
Loss before provision for income taxes	(1,537)	(1,958)	(6,416)	(2,794)	(4,713)	(5,096)	(19,019)	(5,146)	(4,697)	(4,248)	(4,299)	(18,390)
Provision for income taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net loss	(1,949)	(2,398)	(6,416)	(2,794)	(4,713)	(5,096)	(19,019)	(5,146)	(4,697)	(4,248)	(4,299)	(18,390)
Net loss per share (basic)	(12.53)	(15.41)	(3.67)	(0.36)	(0.61)	(0.66)	(3.06)	(0.66)	(0.59)	(0.53)	(0.53)	(2.31)
Net loss per share (diluted)	(12.53)	(15.41)	(3.67)	(0.36)	(0.61)	(0.66)	(3.06)	(0.66)	(0.59)	(0.53)	(0.53)	(2.31)
Weighted average number of shares outstanding (basic)	156	156	1,750	7,708	7,708	7,733	6,224	7,808	7,908	8,008	8,108	7,958
Weighted average number of shares outstanding (diluted)	156	156	1,750	7,708	7,708	7,733	6,224	7,808	7,908	8,008	8,108	7,958

Source: Company Reports and Aegis Capital Corp. estimates

Required Disclosures

Price Target

We currently do not have a price target for REPH shares.

Valuation Methodology

Given the fact that Recro Pharma is unprofitable, we used to use a discounted cash flow-based approach to value the shares. Based on a comparables analysis, we believed that the stock was worth \$38.00 per share, given our estimate of a \$435 million risk-adjusted net present value (rNPV) for the firm's pipeline. This assumed that the shares trade in-line with the comp group average enterprise value of \$450 million and that the firm has roughly 12 million shares outstanding and \$24 million in cash at the end of 2015.

Risk Factors

Issues that could prevent the achievement of our price objective include, but are not limited to, clinical, regulatory, competitive, reimbursement and financial risks. Drugs in clinical development may not advance due to inadequate safety, efficacy, or tolerability. Regulatory agencies may decline to approve regulatory submissions in a timely manner, or may not approve a drug candidate at all. The firm may require substantial funding to complete the clinical development of its candidates and establish commercial infrastructure, which could be dilutive to current shareholders. We expect competition for the company's drugs from several public and private companies developing pharmaceuticals. Future sales of the firm's drugs could depend upon reimbursement from private, as well as public, reimbursement agencies.

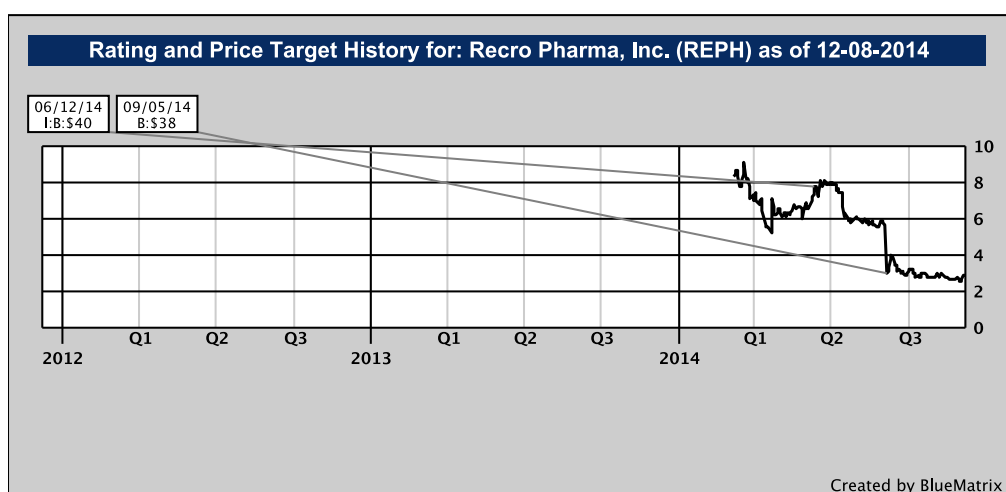
For important disclosures go to www.aegiscap.com.

Research analyst compensation is dependent, in part, upon investment banking revenues received by Aegis Capital Corp.

Aegis Capital Corp. intends to seek or expects to receive compensation for investment banking services from the subject company within the next three months.

Aegis Capital Corp. has performed investment banking services for and received fees from Recro Pharma, Inc. within the past 12 months.

Aegis Capital Corp. makes a market in Recro Pharma, Inc..



Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [BUY]	81.48	63.64
HOLD [HOLD]	18.52	20.00
SELL [SELL]	0.00	0.00

Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

Other Disclosures

The information contained herein is based upon sources believed to be reliable but is not guaranteed by us and is not considered to be all inclusive. It is not to be construed as an offer or the solicitation of an offer to sell or buy the securities mentioned herein. Aegis Capital Corp., its affiliates, shareholders, officers, staff, and/or members of their families, may have a position in the securities mentioned herein, and, before or after your receipt of this report, may make or recommend purchases and/or sales for their own accounts or for the accounts of other customers of the Firm from time to time in the open market or otherwise. Opinions expressed are our present opinions only and are subject to change without notice. Aegis Capital is under no obligation to provide updates to the opinions or information provided herein. Additional information is available upon request.

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Aegis Capital Corp.
(212) 813-1010
810 Seventh Avenue, 18th Floor
New York, New York 10019