

Recro Pharma, Inc.

(REPH/ NASDAQ)

May 12, 2014

Jonathan Aschoff, (212) 702-6652

Yi Cheng, 212-702-6620

jaschoff@breancapital.com

YCheng@breancapital.com

No 1Q14 Surprises – YE14 Should Bring Positive Phase 2b Post Op Pain Data

Buy
PT: \$26.00

Investment Summary

Recro should start enrolling patients into its Phase 2b bunionectomy trial with Dex-IN by the end of this quarter. The trial is expected 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 is a non-opioid 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-surgical 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 1Q14 with \$29.9 million in cash and equivalents, which should be sufficient to fund its operations through YE15. Recro reported no revenue and EPS of \$(3.67) in 1Q14, and we look forward to the Phase 2 trial with Dex-IN for acute post-operative pain. R&D and SG&A expenses were \$0.2 million and \$0.6 million in 1Q14, respectively. At present there are about 7.7 million common shares outstanding, as all preferred stock and convertible bridge notes converted in the IPO.

Discussion

Pipeline update. Recro should start enrolling patients into its Phase 2b bunionectomy trial with Dex-IN by the end of this quarter. The trial is expected 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 is a non-opioid 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 surgical 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.

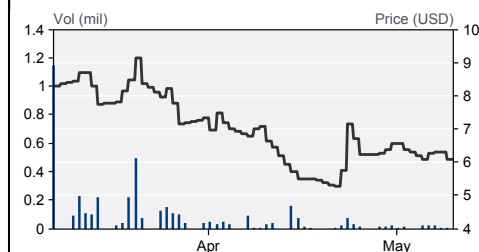
1Q14 results. Following its IPO in March, Recro ended 1Q14 with \$29.9 million in cash and equivalents, which should be sufficient to fund its operations through YE15. Recro reported no revenue and EPS of \$(3.67) in 1Q14, and we look forward to the Phase 2 trial with Dex-IN for acute post-operative pain. R&D and SG&A expenses were \$0.2 million and \$0.6 million in 1Q14, respectively. At present there are about 7.7 million common shares outstanding, as all preferred stock and convertible bridge notes converted in the IPO.

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	\$6.07
52-Week High/Low	\$9.88-\$5.01
Shares Out (mm)	7.7
Market Cap (mm)	\$47
Avg. Daily Vol (000)	NA
Short Interest	0.4%
EV (mm)	NA

	FY13A	FY14E	FY15E
EPS			
Mar	--	\$(3.67)A	--
Prior:	--	\$(0.36)	--
June	--	\$(0.25)	--
Prior:	--	\$(0.26)	--
Sept	--	\$(0.49)	--
Prior:	--	\$(0.45)	--
Dec	--	\$(0.86)	--
Prior:	--	\$(0.56)	--
FY (Dec)	\$(15.41)	\$(3.00)	\$(2.19)
Prior:	--	\$(1.66)	\$(1.76)
P/E (x)	NM	NM	NM
Revenue (\$M)			
Mar	--	\$0.0A	--
June	--	\$0.0	--
Sept	--	\$0.0	--
Dec	--	\$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	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Debit-IN for post-operative pain (US)								-	-	-	52,983	110,787	173,742	222,014
Total revenues				-	-	-	-	-	-	-	52,983	110,787	173,742	222,014
COGS											10,597	22,157	34,748	44,403
R&D	1,828	542	544	227	1,021	2,554	5,107	8,910	16,928	17,775	19,552	21,507	23,658	26,024
SG&A	485	339	546	647	970	1,358	1,765	4,740	7,584	12,134	24,268	33,975	47,565	57,077
Total operating expenses	2,313	881	1,090	874	1,991	3,912	6,873	13,649	24,512	29,909	54,416	77,640	105,971	127,504
Operating Income (EBIT)	(2,313)	(881)	(1,090)	(874)	(1,991)	(3,912)	(6,873)	(13,649)	(24,512)	(29,909)	(1,433)	33,148	67,771	94,510
Interest Income		0	0	0	79	71	64	214	235	258	284	313	469	704
Grant Income		85												
Interest expense	(558)	(740)	(868)	(4,273)				(4,273)						
Income before taxes	(2,871)	(1,537)	(1,958)	(5,146)	(1,913)	(3,841)	(6,809)	(17,709)	(24,277)	(29,650)	(1,149)	33,461	68,240	95,213
Provision for income taxes													6,824	28,564
Net Income, GAAP	(2,871)	(1,537)	(1,958)	(5,146)	(1,913)	(3,841)	(6,809)	(17,709)	(24,277)	(29,650)	(1,149)	33,461	61,416	66,649
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)	(1,913)	(3,841)	(6,809)	(18,979)	(24,277)	(29,650)	(1,149)	33,461	61,416	66,649
EPS basic	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.25)	\$ (0.49)	\$ (0.86)	\$ (3.00)	\$ (2.19)	\$ (2.62)	\$ (0.10)	\$ 2.84	\$ 5.12	\$ 5.45
EPS diluted, GAAP	\$ (20.91)	\$ (12.53)	\$ (15.41)	\$ (3.67)	\$ (0.25)	\$ (0.49)	\$ (0.86)	\$ (3.00)	\$ (2.19)	\$ (2.62)	\$ (0.10)	\$ 2.66	\$ 4.80	\$ 5.11
Basic shares outstanding	156	156	156	1,750	7,763	7,840	7,919	6,318	11,086	11,308	11,534	11,764	12,000	12,240
Diluted shares outstanding	156	156	156	1,750	8,568	8,645	8,724	6,922	11,891	12,113	12,339	12,569	12,805	13,045
Source: Company documents and Brean Capital, LLC estimates														

RELATED COMPANIES

Company	Ticker	Rating	Price
Recro Pharma, Inc.	REPH	Buy	\$6.07

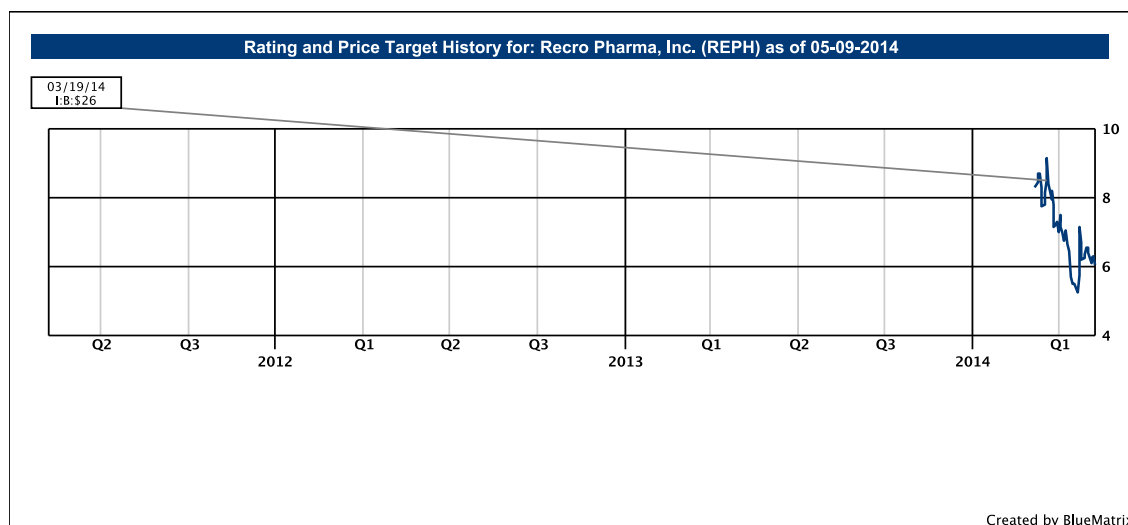
Risks

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



At the time this report was published, Brean Capital, LLC made a market in the securities of Recro Pharma, Inc. .

Recro Pharma, Inc. is, or within the last 12 months has been, a client of Brean Capital, LLC, and investment banking and/or advisory services are being, or have been provided.

Brean Capital, LLC has managed or co-managed a public offering or placement of securities of Recro Pharma, Inc. within the past 12 months.

Brean Capital, LLC expects to receive compensation for investment banking and/or advisory services from Recro Pharma, Inc. within the next 3 months.

Brean Capital, LLC has received compensation for investment banking and/or advisory services from Recro Pharma, Inc. within the past 12 months.

In the normal course of its business, Brean Capital, LLC intends to seek compensation for investment banking or non-investment banking services from the companies in its coverage universe. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decisions.

The research analyst(s) or research associate(s) principally responsible for the preparation of this research report has received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues. The compensation is determined exclusively by research management and senior management (not including investment banking).

Brean Capital, LLC Stock Rating System

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	142	71.72%	21	14.79%
HOLD	50	25.25%	3	6.00%
SELL	6	3.03%	0	0.00%
NOT RATED				

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

Analyst Certification

We, Jonathan Aschoff and Yi Cheng, hereby certify that the views expressed in this research report accurately reflect our personal views about any and all of the subject securities or issuers referred to in this document. The analyst and associate analyst further certify that they have not received and will not be receiving direct or indirect compensation in exchange for expressing the recommendation contained in this publication.

Disclaimers

Some companies that Brean Capital, LLC follows are emerging growth companies whose securities typically involve a higher degree of risk and more volatility than the securities of more established companies. The securities discussed in Brean Capital, LLC research reports may not be suitable for some investors. Investors must make their own determination as to the appropriateness of an investment in any securities referred to herein, based on their specific investment objectives, financial status and risk tolerance. This report may discuss numerous securities, some of which may not be qualified for sale in certain states and to certain categories of investors. Readers are advised that this analysis report is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy. The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data on the company, industry or security discussed in the report. Past performance is no guarantee of future results. Any opinions expressed herein are statements of our judgment as of the date of publication and are subject to change without notice. Entities including but not limited to the Firm, its officers, directors, employees, customers, affiliates may have a position, long or short, in the securities referred to herein, and/or other related securities, and from time to time may increase or decrease such position or take a contra position. The Firm (or persons related thereto) may make a market in the securities mentioned herein, and may from time to time perform investment banking or other services for, or solicit investment banking or other business from, and may have other relationships with any company mentioned in this report. Brean Capital, LLC (the "Firm") is a member of SIPC, FINRA, licensed with various state securities regulatory authorities, and a registered U.S. Broker-Dealer. No part of this report may be reproduced in any form without the express permission of Brean Capital, LLC.

Additional information is available upon request.