AEGIS CAPITAL CORP

Pharmaceuticals
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Company Update

June 17, 2014

Recro Pharma, Inc.

Rating: Buy

Recro Doses Dex-IN Formulation In Phase 2b Trial

Key Metrics

REPH - NASDAQ	$7.24
Pricing Date	Jun 16 2014
Price Target	$40.00
52-Week Range	$9.88 - $5.01
Shares Outstanding (mm)	7.7
Market Capitalization ($mm)	$55.7
3-Mo Average Daily Volume	52,133
Institutional Ownership	NM
Debt/Total Capital	NM
ROE	NM
Book Value/Share	$3.82
Price/Book	1.9x
Dividend Yield	NM
LTM EBITDA Margin	NM

EPS ($) FY: December

	2014E	Prior 2015E	Curr. 2015E	Prior 2016E	Curr. 2016E
1Q-Mar	(3.67)A	--	(0.56)E	--	(0.56)E
2Q-Jun	(0.25)E	--	(0.56)E	--	(0.48)E
3Q-Sep	(0.44)E	--	(0.51)E	--	(0.44)E
4Q-Dec	(0.53)E	--	(0.55)E	--	(0.46)E
FY	(2.46)E	--	(2.18)E	--	(1.92)E
P/E	NM		NM		NM

Source: BigCharts.com

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

Investment Highlights:

- **Trial Starts On Schedule.** This morning, Recro Pharma announced that it had dosed the first patient in its planned Phase 2b trial of a proprietary formulation of dexmedetomidine (Dex-IN). We are encouraged by this positive development, and note that data from this trial is slated to be available before the end of this year. In our view, given the substantial safety and efficacy database on dexmedetomidine, and considering the positive data previously generated by Recro with Dex-IN, the Phase 2b data readout should be viewed as a significantly risk-mitigated catalyst. In anticipation of positive Phase 2b data later this year and subsequent advancement of Dex-IN into Phase 3 development, we reiterate our Buy rating and 18-month price target of $40.00 per share on REPH.
- **Phase 2b Design - Built For Speed.** The Phase 2b trial is a randomized, multicenter double-blind, placebo-controlled study to evaluate the efficacy and safety of Dex-IN in adult subjects undergoing bunionectomy surgery. The trial is expected to enroll approximately 150 to 200 subjects. Subjects who meet the eligibility criteria will be randomized to either a 50µg dose of Dex-IN, a 35µg dose of Dex-IN or a placebo intranasal dose. Following the beginning of treatment, subjects will remain under observation for 48 hours at study centers. Following the initial dose of study medication, patients are followed for 7 days. The primary efficacy endpoint of the trial is the summed pain intensity difference over 48 hours, SPID48. Additional efficacy endpoints include use of rescue medication, Patient Global Assessment (PGA) of pain control, opioid consumption and side effects of opioid use.
- **Attractive Valuation.** We note that Recro, with its risk-mitigated drug candidates and rapid path to market, currently trades at an enterprise value of under $25mm. Other companies in the pain management space currently trade in the $400mm enterprise value range, while Cadence Pharmaceuticals, a firm with only one marketed product, was sold to Mallinckrodt (MNK/NYSE, Not Rated) for $1.3bn a few months ago.

The Disclosure section may be found on pages 3 - 4 of this report.

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

FY end December 31
$ in thousands, except per share data

			2014E					2015E				
	2012A	2013A	1QA	2QE	3QE	4QE	2014E	1QE	2QE	3QE	4QE	2015E
Revenue												
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Royalty-based revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-
Expenses												
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	542	544	227	1,200	2,300	2,700	6,427	2,800	3,100	3,300	3,600	12,800
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	339	546	647	1,000	1,500	1,900	5,047	2,100	2,300	2,500	2,700	9,600
Total expenses	881	1,090	874	2,200	3,800	4,600	11,474	4,900	5,400	5,800	6,300	22,400
Gain (loss) from operations	(881)	(1,090)	(874)	(2,200)	(3,800)	(4,600)	(11,474)	(4,900)	(5,400)	(5,800)	(6,300)	(22,400)
Other income/expense												
Interest income/expense	(740)	(868)	(4,273)	35	25	15	(4,198)	12	14	35	25	86
Realized loss on marketable securities												
Other income/expense	85	-	-	-	-	-	-	-	-	-	-	-
Total investment income and other	(655)	(868)	(4,273)	35	25	15	(4,198)	12	14	35	25	86
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)	(2,165)	(3,775)	(4,585)	(16,941)	(4,888)	(5,386)	(5,765)	(6,275)	(22,314)
Provision for income taxes	-	-	-	-	-	-	-					-
Net loss/income	(1,949)	(2,398)	(6,416)	(2,165)	(3,775)	(4,585)	(16,941)	(4,888)	(5,386)	(5,765)	(6,275)	(22,314)
Net loss per share (basic)	(12.53)	(15.41)	(3.67)	(0.28)	(0.48)	(0.58)	(2.69)	(0.61)	(0.56)	(0.51)	(0.55)	(2.22)
Net loss per share (diluted)	(12.53)	(15.41)	(3.67)	(0.25)	(0.44)	(0.53)	(2.46)	(0.56)	(0.56)	(0.51)	(0.55)	(2.18)
Weighted average number of shares outstanding (basic)	156	156	1,750	7,733	7,808	7,908	6,299	8,008	9,608	11,208	11,308	10,033
Weighted average number of shares outstanding (diluted)	156	156	1,750	8,493	8,593	8,693	6,883	8,793	9,608	11,208	11,308	10,229

Source: Company Reports and Aegis Capital Corp. estimates

Required Disclosures

Price Target

Our 18-month price target is $40.00 per share.

Valuation Methodology

Given the fact that Recro Pharma is currently unprofitable, we use a discounted cash flow-based approach to value the shares. Based on a comparables analysis, we believe that the stock is worth $40.00 per share, given our estimate of a $450 million risk-adjusted net present value (rNPV) for the firm's pipeline. This assumes 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 $37 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.

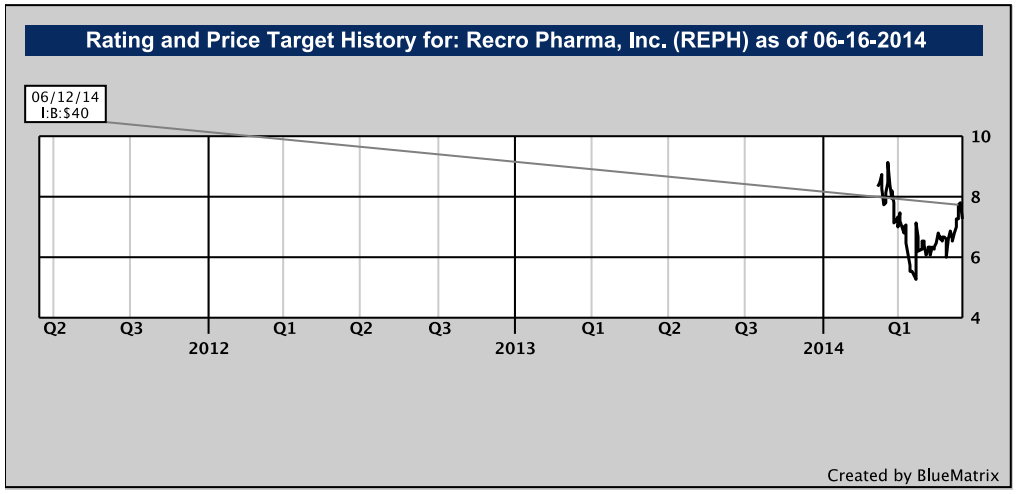
For important disclosures go to www.aegiscap.com.

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	Percent	Investment Banking Services/Past 12 Mos. Percent
BUY [BUY]	82.69	48.84
HOLD [HOLD]	17.31	22.22
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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