COMPANY UPDATE

BREAN CAPITAL, LLC

Recro Pharma, Inc. (REPH/ NASDAQ)
March 10, 2015

Jonathan Aschoff, (212) 702-6652 jaschoff@breancapital.com
Yi Cheng, (212) 702-6620 YCheng@breancapital.com

Buys IV/IM Meloxicam & Manufacturing Site – View As Diversifying & Low Risk

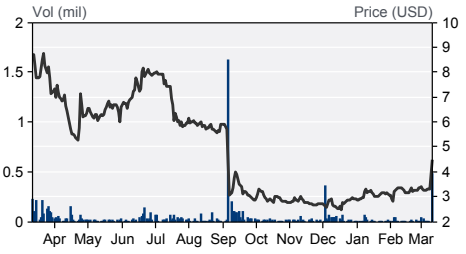
Buy
TP: $26.00

Investment Summary

Yesterday, Recro announced the acquisition of Alkermes' IV/IM meloxicam and its Gainsville, GA GMP manufacturing facility. IV/IM meloxicam is Phase 3 ready and has demonstrated potent efficacy for acute pain in Phase 2 and Phase 1 trials, whereas the Gainsville manufacturing facility generates sufficient cash flows that would more than allow Recro to service the $50 million in debt financing it will use to cover the upfront payment to Alkermes. We believe this acquisition fits well with Recro's existing pain pipeline and its working capital needs. The positive cash flow from the facility will be used to service Recro's interest and principal payment, and potentially fund its R&D activities over time. The acquisition is expected to close in 2Q15 and we believe that diversification with an arguably low risk, late-stage asset improves the company's appeal. Recro has been trading near cash per share value since its negative interim Phase 2 trial analysis in September, but within a month we expect the company to release a more positive interim analysis from its new trial design given that the primary endpoint is now measured on days 1 and 2 after bunionectomy, rather than on days 0 and 1, where day 0 proved to be problematic due to the difficulty in controlling the high intensity of pain immediately following surgery.

Price	$4.50
52-Week High/Low	$9.88-$2.36
Shares Out (mm)	7.7
Market Cap (mm)	$35
Avg. Daily Vol (000)	19,748
Short Interest	0.0%
EV (mm)	NA

EPS	**FY13A**	**FY14E**	**FY15E**
Mar	--	$(3.67)A	$(0.97)
Prior:	--	--	*$(0.95)*
June	--	$(0.36)A	$(1.05)
Prior:	--	--	*$(0.99)*
Sept	--	$(0.61)A	$(1.14)
Prior:	--	--	*$(1.04)*
Dec	--	$(0.89)	$(1.24)
Prior:	--	*$(0.90)*	*$(1.08)*
FY (Dec)	**$(15.41)**	**$(3.35)**	**$(4.39)**
Prior:	--	*$(3.36)*	*$(4.06)*
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

Discussion

Yesterday, Recro announced the acquisition of Alkermes' IV/IM meloxicam and its Gainsville, GA GMP manufacturing facility. IV/IM meloxicam is Phase 3 ready and has demonstrated potent efficacy for acute pain in Phase 2 and Phase 1 trials, whereas the Gainsville manufacturing facility generates sufficient cash flows that would more than allow Recro to service the $50 million in debt financing it will use to cover the upfront payment to Alkermes. We believe this acquisition fits well with Recro's existing pain pipeline and its working capital needs. The positive cash flow from the facility will be used to service Recro's interest and principal payment, and potentially fund its R&D activities over time. The acquisition is expected to close in 2Q15 and we believe that diversification with an arguably low risk, late-stage asset improves the company's appeal. Recro has been trading near cash per share value since its negative interim Phase 2 trial analysis in September, but within a month we expect the company to release a more positive interim analysis from its new trial design given that the primary endpoint is now measured on days 1 and 2 after bunionectomy, rather than on days 0 and 1, where day 0 proved to be problematic due to the difficulty in controlling the high intensity of pain immediately following surgery. We are awaiting further clarity over the coming months on the revenue and expense details from the currently produced marketed drugs before altering our financial model, especially because over the next few years we expect no net cash flow changes to Recro from these marketed drugs until all debt principle and interest is repaid. Given that 3 parties had to come to agreement for this transaction to occur, we do not believe that the transaction is in any way a last minute method to distract investors from the upcoming dex interim analysis, as this transaction has likely been in the works for many months and the dex trial is blinded and placebo controlled so management does not yet know the outcome.

Phase 2 data with IV/IM meloxicam. With the acquisition, Recro adds a second acute pain drug candidate, IV/IM meloxicam, to its leading drug candidate of Dex-IN. IV/IM meloxicam is a quick-onset long-acting injectable form of meloxicam designed using Alkermes' NanoCrystal technology. It is protected through 2022 with potential IP protection extending through 2030. In five Phase 2 trials in over 700 patients with acute pain notably following hysterectomy and dental surgery, all doses of IV meloxicam demonstrated rapid onset of pain relief, short time to peak analgesic effect, 18 to 24 hour duration of pain relief, and good tolerability compared to active controls. Recro plans to move the 30mg dose of IV meloxicam into Phase 3 by YE15, due to its similar efficacy with the 60mg dose and benign safety. In addition, Recro plans to report interim results within a month, and top-line data around mid-2015 from its Phase 2 trial with Dex-IN, and advance Dex-IN into Phase 3 by YE15 pending a positive Phase 2 outcome.

Terms of the transaction. At closing, Recro will pay Alkermes $50 million and gain worldwide rights to IV/IM meloxicam and ownership of a GMP manufacturing facility located in Gainesville, GA. The $50 million up-front payment will be funded via a 15% interest, 5-year senior secured term loan with an OrbiMed affiliate, and in conjunction with the term loan, OrbiMed is eligible to receive a 7-year warrant good for 3% of Recro's outstanding common stock at closing (strike price of $3.28). Also, Recro is obligated to pay Alkermes an additional $120 million upon achievement of certain regulatory and sales milestones related to IV/IM meloxicam, as well as low double-digit royalties on IV/IM meloxicam sales. At closing, Recro will issue Alkermes a 7-year warrant to purchase 350,000 shares of Recro common stock (strike price to be two times Recro's share price at deal close). Recro expects to have 9.5 million fully diluted shares post-transaction, versus 8.9 million pre-transaction.

GMP manufacturing facility at Gainesville. The 85,000 square feet DEA-licensed facility currently manufactures 5 commercial products including Ritalin LA, Focalin XR, Verelan/verapamil, and Zohydro ER, generating $73.6 million in net annual sales over 2014 and having positive cash flow (EBITDA of $26.5 million). The positive cash flow from the facility will be used to service Recro's interest and principal payment, and potentially fund its R&D activities over time. The facility also should better position Recro for future business development deals, given that there is ample room for expansion to manufacture additional products.

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	6,395	7,035	7,738	8,512	29,681	35,617	39,179	43,096	47,406	52,147
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**	**7,545**	**8,196**	**8,911**	**9,697**	**34,350**	**43,088**	**61,185**	**86,173**	**111,442**	**124,325**
Operating income (EBIT)	**(2,313)**	**(881)**	**(1,090)**	**(874)**	**(2,796)**	**(4,718)**	**(6,953)**	**(15,340)**	**(7,545)**	**(8,196)**	**(8,911)**	**(9,697)**	**(34,350)**	**(43,088)**	**(25,863)**	**24,614**	**62,301**	**97,689**
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)**	**(7,541)**	**(8,192)**	**(8,907)**	**(9,693)**	**(34,333)**	**(43,069)**	**(25,843)**	**24,637**	**62,335**	**97,740**
Provision for income taxes			-					-					-	-	-	-	6,233	29,322
Net income, GAAP	**(2,871)**	**(1,537)**	**(1,958)**	**(5,146)**	**(2,794)**	**(4,713)**	**(6,948)**	**(19,602)**	**(7,541)**	**(8,192)**	**(8,907)**	**(9,693)**	**(34,333)**	**(43,069)**	**(25,843)**	**24,637**	**56,101**	**68,418**
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)**	**(7,541)**	**(8,192)**	**(8,907)**	**(9,693)**	**(34,333)**	**(43,069)**	**(25,843)**	**24,637**	**56,101**	**68,418**
EPS basic	$ (20.91)	$ (12.53)	$ (15.41)	$ (3.67)	$ (0.36)	$ (0.61)	$ (0.89)	$ (3.35)	$ (0.97)	$ (1.05)	$ (1.14)	$ (1.24)	$ (4.39)	$ (5.40)	$ (3.17)	$ 2.97	$ 6.62	$ 7.92
EPS diluted, GAAP	$ (20.91)	$ (12.53)	$ (15.41)	$ (3.67)	$ (0.36)	$ (0.61)	$ (0.89)	$ (3.35)	$ (0.97)	$ (1.05)	$ (1.14)	$ (1.24)	$ (4.39)	$ (5.40)	$ (3.17)	$ 2.46	$ 5.52	$ 6.62
Basic shares outstanding	156	156	156	1,750	7,708	7,708	7,785	6,237	7,800	7,808	7,816	7,824	7,812	7,980	8,140	8,303	8,469	8,638
Diluted shares outstanding	156	156	156	1,750	7,708	7,708	7,785	6,237	7,800	7,808	7,816	7,824	7,812	7,980	8,140	10,003	10,169	10,338

Source: Company documents and Brean Capital, LLC. estimates

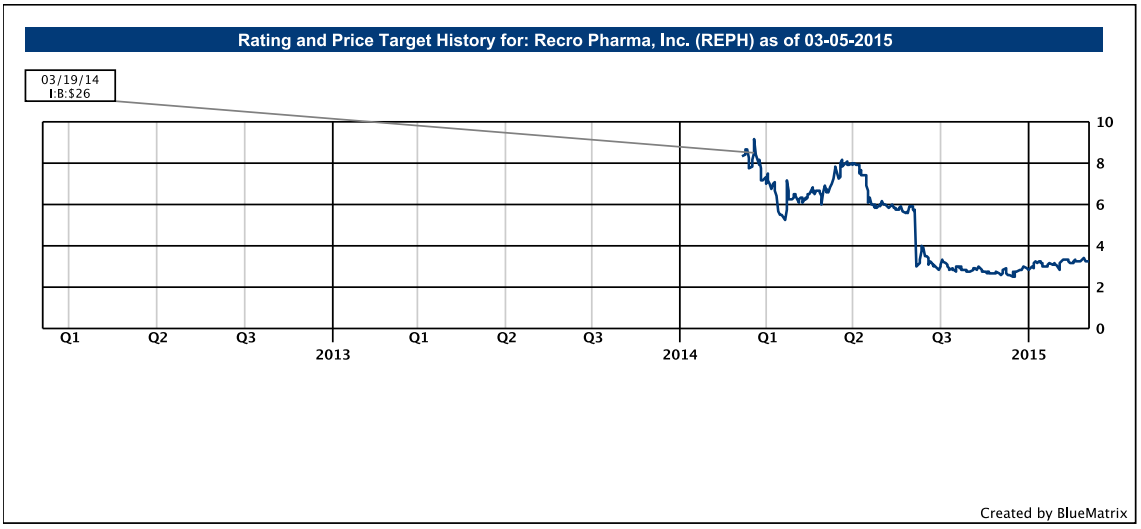
RELATED COMPANIES			
Company	**Ticker**	**Rating**	**Price**
Recro Pharma, Inc.	REPH	Buy	$4.50

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 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.

			IB Serv./ Past 12Mos.	
Rating Category	**Count**	**Percent**	**Count**	**Percent**
BUY	115	76.67%	18	15.65%
HOLD	32	21.33%	0	0.00%
SELL	3	2.00%	0	0.00%
NOT RATED				

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

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 $99 million.

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.

Please access the following link should you wish to be removed from this distribution list: UNSUBSCRIBE.

Alternatively, you may reply to this email with the subject "UNSUBSCRIBE".

Additional information is available upon request.