



September 5, 2014

**Key Metrics**

REPH - NASDAQ	\$5.71
Pricing Date	Sep 4 2014
Price Target	\$38.00
52-Week Range	\$9.88 - \$5.01
Shares Outstanding (mm)	7.7
Market Capitalization (\$mm)	\$44.0
3-Mo Average Daily Volume	31,875
Institutional Ownership	NM
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$3.47
Price/Book	1.6x
Dividend Yield	NM
LTM EBITDA Margin	NM

**EPS (\$) FY: December**

	2014E	Prior 2015E	Curr. 2015E	Prior 2016E	Curr. 2016E
1Q-Mar	(3.67)A	(0.58)E	(0.61)E	(0.57)E	(0.63)E
2Q-Jun	(0.36)A	(0.53)E	(0.58)E	(0.49)E	(0.54)E
3Q-Sep	(0.45)E	(0.49)E	(0.55)E	--	(0.44)E
4Q-Dec	(0.51)E	(0.53)E	(0.57)E	--	(0.46)E
FY	(2.67)E	(2.12)E	(2.30)E	(1.94)E	(2.04)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.

**Recro Pharma, Inc.****Rating: Buy****Recro Closes Current Pain Trial: Plans Alternative****Investment Highlights:**

- Phase 2b Bunionectomy Trial Discontinued.** Yesterday afternoon, Recro Pharma announced that it would be closing the Phase 2b trial of its lead drug candidate, intranasal dexmedetomidine (Dex-IN), following the results of a planned interim analysis of efficacy data that indicated an inability of the trial in its current form to achieve statistical significance. While the treatment showed activity in a subset of patients, the company has elected to halt the study and launch a revised Phase 2 trial with an alternative design in order to better assess the efficacy profile of the drug. While this is likely to elongate the timeline to release of proof-of-concept efficacy results, from the end of this year to mid-2015, we note that the expenditures associated with discontinuing the current study and launching a different one are likely to be modest. Furthermore, we continue to believe in the efficacy of Dex-IN, given the fact that the active ingredient, dexmedetomidine, has a proven analgesic track record. In the wake of this clinical update, we are reiterating our Buy rating while modestly reducing our 18-month price target from \$40.00 to \$38.00 per share on REPH to account for the revised timeline and increased clinical spending costs.
- Phase 2b Interim Analysis Results Reveal Effect.** The current Phase 2b trial is a randomized, multicenter, double-blinded study to evaluate Dex-IN in adults undergoing bunionectomy surgery. The trial was slated to enroll 150 to 200 subjects. Both 50µg and 35µg doses of Dex-IN were being tested against placebo. The primary efficacy endpoint is the summed pain intensity difference over 48 hours (SPID48). The results of the interim analysis (n=68, roughly 22 patients per group) revealed that the efficacy of Dex-IN as a stand-alone drug was not sufficient to manage severe pain in bunionectomy on post-operative day zero. The firm observed in patients with baseline pain intensity scores of ≤ 6 (n=34) that pain was more effectively managed on day zero, as seen in the separation of scores between Dex-IN 50µg and placebo. In addition, based on an understanding of the trajectory of pain, it is recognized that pain on day zero is generally escalating, while pain on post-operative day 1, or the day after surgery, is generally stable or declining. This suggests that a study in patients who initiate treatment on the day after surgery would be more effective. We note that most other parameters are likely remain unchanged, including inclusion and exclusion criteria and efficacy endpoints.
- Valuation Looks Even More Intriguing.** Recro currently trades at an enterprise value that is close to cash. We note that, despite the necessary Phase 2b design revisions, the firm's lead drug is clearly active and there is only a six-month elongation of the clinical development timeline. Accordingly, we continue to view the valuation as attractive at this stage.

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

FY end December 31

\$ in thousands, except per share data

	2013A	2014E				2014E	2015E				2015E	2016E
		1QA	2QA	3QE	4QE		1QE	2QE	3QE	4QE		
<b>Revenue</b>												
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Royalty-based revenue	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenue</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Expenses</b>												
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	544	227	1,837	2,300	2,500	6,864	3,000	3,500	3,800	4,000	14,300	14,800
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	546	647	959	1,200	1,500	4,305	1,800	2,000	2,300	2,400	8,500	12,500
<b>Total expenses</b>	1,090	874	2,796	3,500	4,000	11,169	4,800	5,500	6,100	6,400	22,800	27,300
<b>Gain (loss) from operations</b>	(1,090)	(874)	(2,796)	(3,500)	(4,000)	(11,169)	(4,800)	(5,500)	(6,100)	(6,400)	(22,800)	(27,300)
Other income/expense												
Interest income/expense	(868)	(4,273)	2	25	15	(4,230)	12	14	35	25	86	190
Realized loss on marketable securities												
Other income/expense	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total investment income and other</b>	(868)	(4,273)	2	25	15	(4,230)	12	14	35	25	86	190
Accretion of redeemable preferred stock and deemed dividend	(440)	(1,270)	-	-	-	(1,270)	-	-	-	-	-	-
<b>Loss before provision for income taxes</b>	(1,958)	(6,416)	(2,794)	(3,475)	(3,985)	(16,670)	(4,788)	(5,486)	(6,065)	(6,375)	(22,714)	(27,110)
Provision for income taxes	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net loss/income</b>	(2,398)	(6,416)	(2,794)	(3,475)	(3,985)	(16,670)	(4,788)	(5,486)	(6,065)	(6,375)	(22,714)	(27,110)
<b>Net loss per share (basic)</b>	(15.41)	(3.67)	(0.36)	(0.45)	(0.51)	(2.67)	(0.61)	(0.58)	(0.55)	(0.57)	(2.30)	(2.04)
Net loss per share (diluted)	(15.41)	(3.67)	(0.36)	(0.45)	(0.50)	(2.65)	(0.60)	(0.58)	(0.55)	(0.57)	(2.29)	(2.04)
Weighted average number of shares outstanding (basic)	156	1,750	7,708	7,733	7,783	6,243	7,858	9,458	11,058	11,158	9,883	13,283
Weighted average number of shares outstanding (diluted)	156	1,750	7,708	7,808	7,908	6,293	8,008	9,458	11,058	11,158	9,920	13,283

Source: Company Reports and Aegis Capital Corp. estimates

## **Required Disclosures**

### **Price Target**

Our 18-month price target is \$38.00 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 \$435 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 \$24 million in cash as of 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.

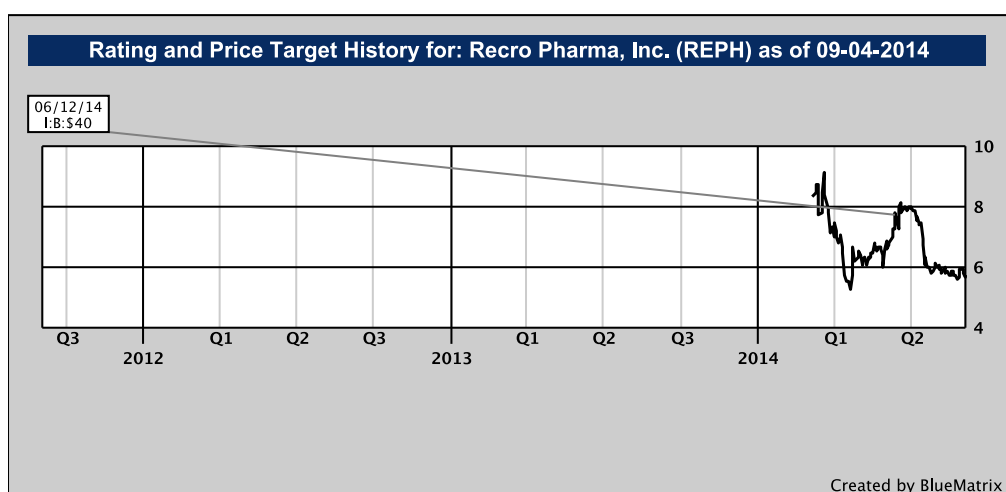
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Research analyst compensation is dependent, in part, upon investment banking revenues received by Aegis Capital Corp.

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]	81.13	55.81
HOLD [HOLD]	18.87	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

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