



August 12, 2014

Key Metrics

REPH - NASDAQ	\$6.00
Pricing Date	Aug 11 2014
Price Target	\$40.00
52-Week Range	\$9.88 - \$5.01
Shares Outstanding (mm)	7.7
Market Capitalization (\$mm)	\$46.2
3-Mo Average Daily Volume	31,459
Institutional Ownership	NM
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$3.82
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	(0.56)E	(0.58)E	(0.56)E	(0.57)E
2Q-Jun	(0.36)A	(0.56)E	(0.53)E	(0.48)E	(0.49)E
3Q-Sep	(0.45)E	(0.51)E	(0.49)E	--	(0.44)E
4Q-Dec	(0.51)E	(0.55)E	(0.53)E	--	(0.46)E
FY	(2.67)E	(2.18)E	(2.12)E	(1.92)E	(1.94)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 Pharma Reports 2Q 2014 Financial Results****Investment Highlights:**

- **Financial Results Reported.** This morning, Recro Pharma released financial results for the second quarter of 2014. The firm recorded a net loss per share of \$0.36, somewhat above our projection of a net loss per share of \$0.28, driven principally by higher-than-projected R&D expenses. These, in our view, are reflective of the costs associated with initiating the firm's Phase 2b trial of intranasal dexmedetomidine (Dex-IN). In anticipation of positive top-line data from this study, which we believe could be released before the end of this year, 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 Dex-IN in adult subjects undergoing bunionectomy surgery. The trial is slated to enroll 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 \$20mm. The firm closed the second quarter with \$27.8mm in cash, which it expects to be sufficient to fund operations through the end of 2015. By that time, we believe that the company could have both Phase 2b data on Dex-IN as well as potentially top-line results from two Phase 3 trials with this candidate.

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		
Revenue												
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Royalty-based revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-
Expenses												
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	544	227	1,837	2,300	2,500	6,864	2,800	3,000	3,200	3,500	12,500	13,500
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
Total expenses	1,090	874	2,796	3,500	4,000	11,169	4,600	5,000	5,500	5,900	21,000	26,000
Gain (loss) from operations	(1,090)	(874)	(2,796)	(3,500)	(4,000)	(11,169)	(4,600)	(5,000)	(5,500)	(5,900)	(21,000)	(26,000)
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	-	-	-	-	-	-	-	-	-	-	-	-
Total investment income and other	(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)	-	-	-	-	-	-
Loss before provision for income taxes	(1,958)	(6,416)	(2,794)	(3,475)	(3,985)	(16,670)	(4,588)	(4,986)	(5,465)	(5,875)	(20,914)	(25,810)
Provision for income taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net loss/income	(2,398)	(6,416)	(2,794)	(3,475)	(3,985)	(16,670)	(4,588)	(4,986)	(5,465)	(5,875)	(20,914)	(25,810)
Net loss per share (basic)	(15.41)	(3.67)	(0.36)	(0.45)	(0.51)	(2.67)	(0.58)	(0.53)	(0.49)	(0.53)	(2.12)	(1.94)
Net loss per share (diluted)	(15.41)	(3.67)	(0.36)	(0.45)	(0.50)	(2.65)	(0.57)	(0.53)	(0.49)	(0.53)	(2.11)	(1.94)
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 \$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 \$34 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.

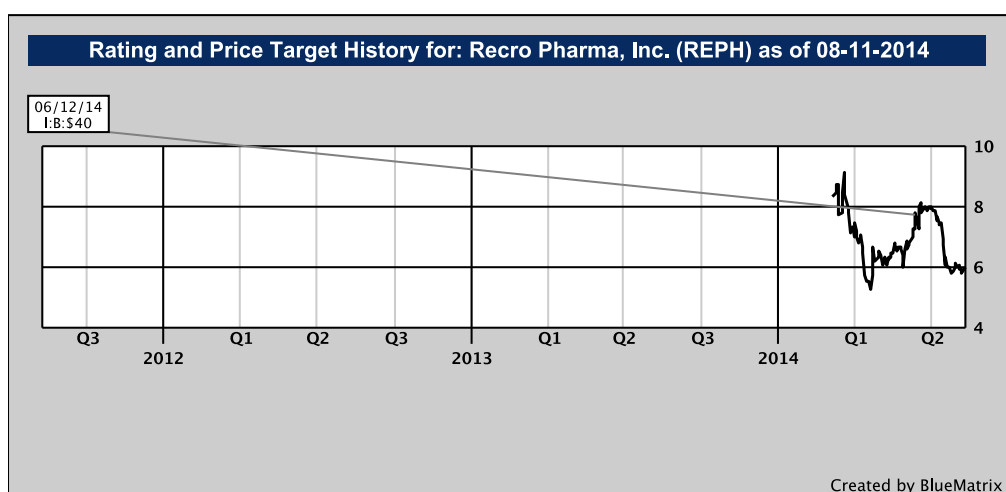
For important disclosures go to www.aegiscap.com.

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]	81.13	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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