

Today's Changes

Annual EPS

2015E (\$2.05) from (\$1.27)

Target

\$10.00 from \$20.00

Egalet Corp.

EGLT : NASDAQ : US\$9.31

BUY

Target: US\$10.00 ↓

John Newman, PhD - Canaccord Genuity Inc. (US)

JNewman@canaccordgenuity.com

212.389.8042

COMPANY STATISTICS:

Forecast Return: 7%
 Market Cap (M): US\$161
 52-week Range: 8.74 - 19.85
 Avg. Daily Vol. (000s): 33.1

EARNINGS SUMMARY:

FYE Dec		2013A	2014E	2015E
P/Sales:		NM	215.7x	NM
P/E:		NM	NM	NM
Revenue (M):				
	Q1	0.0	0.26A	0.0
	Q2	0.0	0.49A	0.0
	Q3	0.0	0.0	0.0
	Q4	0.0	0.0	0.0
Total		0.0	0.75	0.0
EPS:				
	Q1	(2.12)	(1.34)A	(0.53)
	Q2	(2.28)	(0.73)A	(0.55)
	Q3	(4.34)	(0.76)	(0.54)
	Q4	(0.67)	(0.78)	(0.44)
Total		(1.45)	(3.42)	(2.05)

SHARE PRICE PERFORMANCE:

Egalet Corporation (NASDAQ: EGLT)

Sep 23, 2014 Open: 9.690 High: 9.762 Vol: 13,018
 Time: 16:00 Last: 9.310 Low: 9.220 Chg: -0.370 (-3.82%) ▼



Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Egalet is a specialty pharma company focused on developing abuse-deterrent formulated drugs, including opioids. Egalet is utilizing the FDA's 505(b)(2) pathway with the intent of shortening development timelines and cost.

All amounts in US\$ unless otherwise noted.

Life Sciences -- Specialty Pharmaceuticals

15 MG BIOEQUIVALENCE MISS, EXPECT FULL PH 3 FOR MORPHINE, LOWERING TARGET TO \$10

Investment highlights

EGLT-001 15 mg misses Cmax bioequivalence

EGLT-001 15mg did not demonstrate bioequivalence to the 15mg MS Contin dose, with Cmax outside the 90% confidence interval with 78.99 to 88.47% (reference range 80 – 125%). Although AUC was within bioequivalence criteria, the miss on Cmax will likely delay the NDA filing for EGLT-001 until mid-2016.

FDA meeting 4Q14, expect full Phase 3 program for EGLT-001

EGLT will meet with the FDA during 4Q14 to discuss bioequivalence data for 15, 60, and 100mg EGLT-001 vs. MS Contin, and we expect a full Phase 3 program will be required. Egalet estimates n=300 patients in a back pain study, 15 months needed to complete, at a cost of ~\$8-10M.

EGLT-002 targets \$2-3B single player oxycodone market

We continue to estimate ~\$886M peak sales for EGLT-001, an abuse deterrent oxycodone. Importantly, head-to-head abuse deterrent data for EGLT-002 vs. Purdue's Oxycontin OP are expected 2Q15. EGLT-002 will involve a full Phase 3 program, as previously established. Company guidance remains on track for data readout by YE15.

Lowering price target to \$10 on longer timelines

We are lowering our price target to \$10 based on a longer timeline to potential EGLT-001 approval. We have lowered the probability of approval for EGLT-001 to 10% from 65%. We have also removed cash from our valuation. EGLT-001 is now worth <\$1 in our valuation, EGLT-002 makes up ~\$10 of our valuation.

Canaccord Genuity is the global capital markets group of Canaccord Genuity Group Inc. (CF : TSX | CF : LSE)

The recommendations and opinions expressed in this research report accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document.

23 September 2014

Figure 1: EGLT income statement

Income Statement (\$000's)	2013A	Mar-14A	Jun-14A	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Total revenues	0	256	490	-	-	746	-	-	65,494	151,515	321,547	470,416	632,611	697,844
Cost of goods sold									9,169	19,697	41,801	56,450	75,913	83,741
Gross profit	0	256	490	-	-	746	-	-	56,325	131,818	279,746	413,966	556,697	614,103
Operating expenses														
Research & development														
Egaleet-001	1,187	1,800	2,100	2,100	2,000	8,000	9,282	9,746	9,259	7,407	7,407	7,407	7,407	7,407
Egaleet-002	371	48	3,400	3,400	3,600	10,448	12,000	1,800	900	900	900	900	900	900
Other Clinical and Preclinical	1,288	567	1,489	1,250	1,250	4,556	5,000	5,500	(5,037)	7,376	36,926	63,361	88,592	98,166
Personnel Related	1,431	365	372	379	386	1,503	1,578	1,735	2,083	2,499	2,999	3,599	4,318	5,182
R&D	6,280	2,780	7,361	7,129	7,236	24,507	27,860	18,782	7,204	18,182	48,232	75,267	101,218	111,655
Egaleet-001							5,625	16,500	17,160	17,846	18,560	19,303	20,075	20,878
Egaleet-002									37,500	43,125	49,594	57,033	65,588	75,426
General & administrative	4,873	3,269	4,728	5,041	5,353	8,000	8,900	9,790	11,748	14,685	18,356	22,945	27,534	30,288
SG&A	4,873	3,269	4,728	5,041	5,353	8,000	14,525	26,290	66,408	75,656	86,510	99,281	113,197	126,591
Total expenses	11,153	6,049	12,089	12,170	12,590	32,507	42,385	45,072	73,612	93,838	134,742	174,547	214,415	238,247
Depreciation & amortization		242	336	430	524	1,532		5,309	6,874	7,674	7,420	8,571	9,000	9,450
EBITDA	(11,153)	(5,551)	(11,263)	(11,740)	(12,066)	(40,620)	(39,792)	(45,072)	(17,287)	37,980	145,003	239,419	342,283	375,856
Operating income	(11,153)	(5,793)	(11,599)	(12,170)	(12,590)	(42,152)	(39,792)	(50,380)	(24,162)	30,306	137,584	230,848	333,283	366,406
Interest income			4											
Interest expense	8,842	(7,092)	-	-	-	(7,092)	-	-	-	-	-	-	-	-
Other expense / (income), net	190			50	50	100	200	200	200	200	200	200	200	200
Interest & other	9,032	(7,092)	4	50	50	(6,992)	200	200	200	200	200	200	200	200
Gain on foreign currency ex change		4	(40)											
Pre-tax income		(12,881)	(11,635)	(12,120)	(12,540)	(49,176)	(39,592)	(50,180)	(23,962)	30,506	137,784	231,048	333,483	366,606
Taxes	22	35	16							11,139	50,832	85,340	123,241	135,496
Tax rate							37%	37%	37%	37%	37%	37%	37%	37%
Net income - GAAP	(20,207)	(12,916)	(11,651)	(12,120)	(12,540)	(49,227)	(39,592)	(50,180)	(23,962)	19,367	86,952	145,708	210,242	231,110
GAAP EPS	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.76)	(\$0.78)	(\$3.42)	(\$2.05)	(\$2.37)	(\$1.06)	\$0.83	\$3.56	\$5.74	\$7.97	\$8.42
Adjusted EPS excl. options expt	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.76)	(\$0.78)	(\$3.42)	(\$2.05)	(\$2.37)	(\$1.06)	\$0.83	\$3.56	\$5.74	\$7.97	\$8.42
Diluted shares outstanding - GAAP														
Diluted shares outstanding	13,902	9,638	15,888	15,967	16,047	14,385	19,271	21,206	22,555	23,457	24,395	25,371	26,386	27,441
Pro Forma Shares														

Source: Company reports, Canaccord Genuity estimates

23 September 2014

Figure 2: Egalet Valuation

Product	Peak Sales (\$MM)	Peak Year	Current Value (\$MM)	Probability Adjustment	Value / Share	Scenario probability	Adjusted Value
Non-Partnered							
Egalet-001 (morphine)	112	2025	6	10%	\$0	20%	\$0
Egalet-002 (oxy codone)	886	2027	228	35%	\$16	20%	\$3
Equity Value					\$17	20%	\$3
Partnered							
Egalet-001 (morphine)	112	2025	6	10%	\$0	55%	\$0
Egalet-002 (oxy codone)	1112	2027	126	35%	\$9	55%	\$5
Equity Value					\$10	55%	\$5
Royalty							
Egalet-001 (morphine)	112	2025	6	10%	\$0	25%	\$0
Egalet-002 (oxy codone)	200	2027	99	35%	\$7	25%	\$2
Equity Value					\$8	25%	\$2
Total Equity Value							\$10
Net Cash (50% adj)							\$0
Value per share							\$10
Shares Outstanding (MM)							13.9
Risk-Free Rate	2.00%						
Beta	1.30						
Risk Premium	8%						
Discount Rate	13%						

Source: Canaccord Genuity estimates

Investment risks

Risks to our rating and price target include the following:

Approval for Egalet-001 and Egalet-002 may be delayed or may never occur at all: If the FDA does not allow Egalet to pursue approval for Egalet-001 through the Section 505(b)(2) pathway via bioequivalence to MS-Contin, the company may be forced to conduct Phase III studies resulting in increased costs, delayed revenue generation, and more competition.

Total revenues, even with timely approvals, may be lower than our estimates: Egalet-001 and Egalet-002 face competition from currently marketed non-abuse-deterrent products, while the planned reintroduction of Embeda, another abuse-deterrent long-acting morphine drug (Pfizer) may have a negative impact on the market opportunity for Egalet-001. Also, legislation to remove non-abuse-deterrent opioid drugs from the market may never materialize, resulting in investor concern

Future litigation may delay or reduce total revenues. Several competitors currently in the space may undertake legal strategies to delay the launch of Egalet-001 and Egalet-002. These competitors have significantly greater resources at their disposal than Egalet and have more experience maneuvering the legal field.

From a financial standpoint, although Egalet currently has adequate cash on hand ~\$65, the company may require additional capital before the anticipated launch of Egalet-001 in the second half of 2015. An additional capital raise could pressure shares.

APPENDIX: IMPORTANT DISCLOSURES**Analyst Certification:**

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

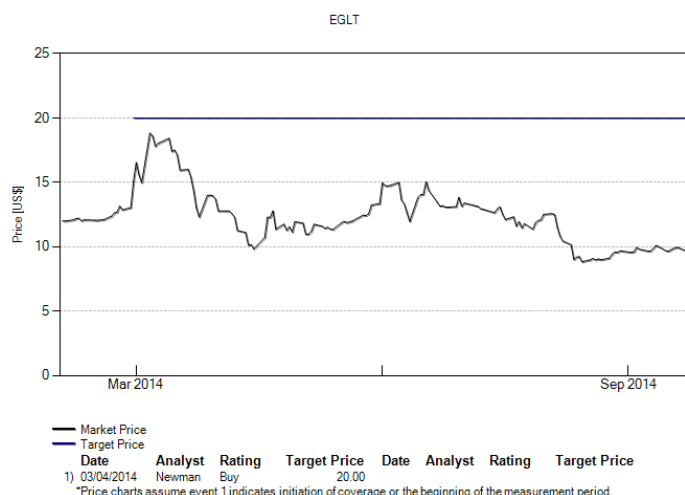
Analysts employed outside the US are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity Inc. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Compendium Report:

If this report covers six or more subject companies, it is a compendium report and Canaccord Genuity and its affiliated companies hereby direct the reader to the specific disclosures related to the subject companies discussed in this report, which may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx>; or by sending a request to Canaccord Genuity Corp. Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2; or by sending a request by email to disclosures@canaccordgenuity.com. The reader may also obtain a copy of Canaccord Genuity's policies and procedures regarding the dissemination of research by following the steps outlined above.

Site Visit:

An analyst has not visited the material operations of Egalet Corp.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 3 July 2014)

Rating	Coverage Universe		IB Clients %
	#	%	
Buy	602	61.2%	38.2%
Speculative Buy	49	5.0%	55.1%
Hold	290	29.5%	13.1%
Sell	41	4.2%	7.3%
	984	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the

designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Genuity Research Disclosures as of 23 September 2014

Company	Disclosure
Egalet Corp.	1A, 2, 3, 5, 7

- 1 The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided the following services to the relevant issuer:
 - A. investment banking services.
 - B. non-investment banking securities-related services.
 - C. non-securities related services.
- 2 In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
- 3 In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
- 4 Canaccord Genuity acts as corporate broker for the relevant issuer and/or Canaccord Genuity or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
- 5 Canaccord Genuity or one or more of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
- 6 In the past 12 months, Canaccord Genuity, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
- 7 Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
- 8 The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
- 9 The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
- 10 Those persons identified as the author(s) of this research, or any individual involved in the preparation of this research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
- 11 A partner, director, officer, employee or agent of Canaccord Genuity or its affiliated companies, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
- 12 As of the month end immediately preceding the date of publication of this research, or the prior month end if publication is within 10 days following a month end, Canaccord Genuity or its affiliated companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the research (as disclosed above).
- 13 As of the month end immediately preceding the date of publication of this research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Genuity or any of its affiliated companies.
- 14 Other specific disclosures as described above.

"Canaccord Genuity" is the business name used by certain wholly owned subsidiaries of Canaccord Genuity Group Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, Canaccord Genuity Corp., and Canaccord Genuity (Australia) Limited, an affiliated company that is 50%-owned by Canaccord Genuity Group Inc.

The authoring analysts who are responsible for the preparation of this research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in New York, Boston,

San Francisco and Houston, or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London (UK) and Dublin (Ireland), or Canaccord Genuity (Australia) Limited, an Australian broker-dealer with principal offices located in Sydney and Melbourne.

The authoring analysts who are responsible for the preparation of this research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the research.

Canaccord Genuity and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the issuer that is the subject of this research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of research. This research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request. The information contained in this research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this research constitute Canaccord Genuity's judgement as of the date of this research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

This research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this research may not be eligible for sale in some jurisdictions. This research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this research.

For Canadian Residents: This research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this research and its dissemination in Canada. Canadian clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular province or territory.

For United States Residents: Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this research and its dissemination in the United States. This research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analysts employed outside the US, as specifically indicated elsewhere in this report, are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity Inc. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

For United Kingdom and European Residents: This research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Conduct Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial

Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Conduct Authority.

**For Jersey, Guernsey
and Isle of Man
Residents:**

This research is sent to you by Canaccord Genuity Wealth (International) Limited (CGWI) for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by an affiliate of CGWI for circulation to its institutional clients and also CGWI. Its contents have been approved by CGWI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client agreement, CGWI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser.

CGWI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CGWI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Genuity Group Inc.

**For Australian
Residents:**

This research is distributed in Australia by Canaccord Genuity (Australia) Limited ABN 19 075 071 466 holder of AFS Licence No 234666. To the extent that this research contains any advice, this is limited to general advice only. Recipients should take into account their own personal circumstances before making an investment decision. Clients wishing to effect any transactions in any financial products discussed in the research should do so through a qualified representative of Canaccord Genuity (Australia) Limited. Canaccord Genuity Wealth Management is a division of Canaccord Genuity (Australia) Limited.

**For Singapore
Residents:**

This research is distributed pursuant to 32C of the Financial Advisers under an arrangement between each of the Canaccord Genuity entities that publish research and Canaccord Genuity Singapore Pte. Ltd who are an exempt financial adviser under section 23(1)(d) of the Financial Advisers Act. This research is only intended for persons who fall within the definition of accredited investor, expert investor or institutional investor as defined under section 4A of the Securities and Futures Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Recipients of this report can contact Canaccord Genuity Singapore Pte. Ltd. (Contact Person: [Tom Gunnensen's tel # is +852 3919 2561](#)) in respect of any matters arising from, or in connection with, the [analyses or report].

**For Hong Kong
Residents:**

This research is distributed in Hong Kong by Canaccord Genuity (Hong Kong) Limited who is licensed by the Securities and Futures Commission. This research is only intended for persons who fall within the definition of professional investor as defined in the Securities and Futures Ordinance. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Recipients of this report can contact Canaccord Genuity (Hong Kong). Ltd. (Contact Person: [Tom Gunnensen's tel # is +852 3919 2561](#)) in respect of any matters arising from, or in connection with, the research.

Additional information is available on request.

Copyright © Canaccord Genuity Corp. 2014. – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited 2014. – Member LSE, authorized and regulated by the Financial Conduct Authority.

Copyright © Canaccord Genuity Inc. 2014. – Member FINRA/SIPC

Copyright © Canaccord Genuity (Australia) Limited 2014. – Participant of ASX Group, Chi-x Australia and of the NSX. Authorized and regulated by ASIC.

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, Canaccord Genuity Inc. or Canaccord Genuity Group Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.