Egalet Corporation (EGLT)

Abuse-Deterrent Platform Validated by FDA Guided Liability Study

MARKET OUTPERFORM | Price: $6.11 | Target Price: $13.00

MARKET DATA

Price	$6.11
52-Week Range:	$3.81 - $19.85
Shares Out. (M):	17.3
Market Cap ($M):	$105.7
Average Daily Vol. (000):	20.0
Cash (M):	$60
Cash/Share:	$3.45
Enterprise Value (M):	$129
LT Debt (M):	$0

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2013A	2014E	2015E
Revenue ($M)	1Q	$0.0	$0.3A	--
	2Q	$0.0	$0.5A	--
	3Q	$0.0	$0.3A	--
	4Q	$0.0	$0.0	--
	FY	**$0.0**	**$1.1**	**$0.0**
EPS	1Q	($1.39)	($1.34)A	--
	2Q	($3.40)	($0.73)A	--
	3Q	($3.40)	($0.63)A	--
	4Q	($7.13)	($0.68)	--
	FY	**($15.64)**	**($3.38)**	**($3.75)**

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

INVESTMENT HIGHLIGHTS

Positive Egalet-001 abuse-liability results reinforce differentiated product profile; reiterate our Market Outperform rating and $13 price target on Egalet (EGLT). This morning, Egalet announced positive top-line results from a Category 3 abuse liability study for Egalet-001. Results from this trial demonstrated that the potential for abuse with Egalet-001 was significantly reduced vs. MS Contin, the currently available non-abuse deterrent, extended release morphine product. In our view, these results support the abuse-deterrent properties (and likely representation thereof in a potential product label) of Egalet-001 and, more broadly, for Egalet's Guardian technology. We look to further visibility on the path to approval for Egalet-001 in 1Q15 as a key near-term, value-driving catalyst. Our $13 price target is derived through a sum-of-the-parts NPV analysis of Egalet-001 and Egalet-002, with recent product acquisitions that represent potential upside to our current assumptions.

Category 3 studies show that when physically manipulated, Egalet-001 retains its abuse-deterrent characteristics. The Category 3 study was a single-center, randomized, double-blind, four-way crossover study evaluating the abuse potential of oral Egalet-001 versus MS Contin in 38 non-dependent, recreational opioid users. The study compared the relative abuse potential of intact and manipulated formulations of Egalet-001 versus manipulated MS Contin. On the primary endpoint of drug liking as measured by Emax, the score for manipulated Egalet-001 was significantly lower than the Emax for manipulated MS Contin ($p < 0.007$). Furthermore, there was no difference in preference for intact vs. manipulated Egalet-001, supporting that Egalet-001 retains its abuse-deterrent properties after extensive manipulation. We believe these results build upon the Category 1 studies and we look to additional detail on planned Phase 3 studies that are slated to begin in 1Q15 and additional abuse-deterrent studies in 2015.

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Company Description

Egalet Ltd. (Nasdaq: EGLT) is a specialty pharmaceutical company, headquartered in Malvern, PA., primarily focused on the development of novel, oral, abuse-deterrent, opioid pain products. These tamper-resistant opioid candidates are based on the company's proprietary, patented platform technology. Egalet has two lead clinical development programs; Egalet-001, an abuse-deterrent, extended-release, oral formulation of morphine for moderate-to-severe pain, and Egalet-002, an abuse-deterrent, extended-release, oral formulation of oxycodone, also for moderate-to-severe pain. Egalet also has a development collaboration and licensing agreement with Shionogi.

Investment Risks

Clinical risk. Egalet may not be successful in the full development and launch of its product candidates. There may be dosing, efficacy, or safety issues related to product candidates undergoing clinical trials that could preclude continued development. In addition, there may be manufacturing issues including challenges with the scale-up to commercial quantities. Any of these issues could pose a risk to success.

Regulatory risk. The company's potential regulatory filing for its NDA may not receive approval from the FDA or ex-U.S. agencies. If the FDA does not determine that a product candidate is sufficiently bioequivalent to approved drugs, or if the FDA does not allow Egalet to file under Section 505(b)(2), the approval pathway will likely take longer and cost significantly more. If approved, a mandatory REMS (Risk Evaluation and Mitigation Strategy) program may be required that may deter usage or slow the commercial launch trajectory, either of which would reduce the chances of reaching projected sales.

Competitive risk. Given the competitive landscape in the biotechnology space, another company may come out with a more efficacious, less expensive product that could take away significant market share from Egalet's products. This would challenge the company's ability to achieve the milestones contained in the collaboration agreement with Shionogi and sales sufficient to generate royalties under that agreement. There is a risk that the patent holder of the approved drugs that are included in Egalet's products may file a patent infringement suit against an Egalet product and the company would then need to spend money on defense fees. In addition, the 505(2)(b) regulatory pathway makes Egalet susceptible to a competitor filing an ANDA for a generic candidate with the FDA.

Financial risk. Egalet currently gets revenue from feasibility and collaboration agreements. It does not yet have product revenues and may not reach profitability if there are any issues commercializing its product candidates. The company has a history of operational losses due to research and development expenses as well as operational expenses. These expenses are expected to continue to incur in the near future. We anticipate that Egalet will likely need to raise funds in the future to continue operations.

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JMP Securities has received compensation for banking or other services rendered to Egalet Corporation in the past 12 months.

JMP Securities was manager or co-manager of a public offering of securities for Egalet Corporation (EGLT) in the past 12 months, and received compensation for doing so.

JMP Securities expects to receive OR intends to seek compensation for investment banking services from Egalet Corporation in the next 3 months.

JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

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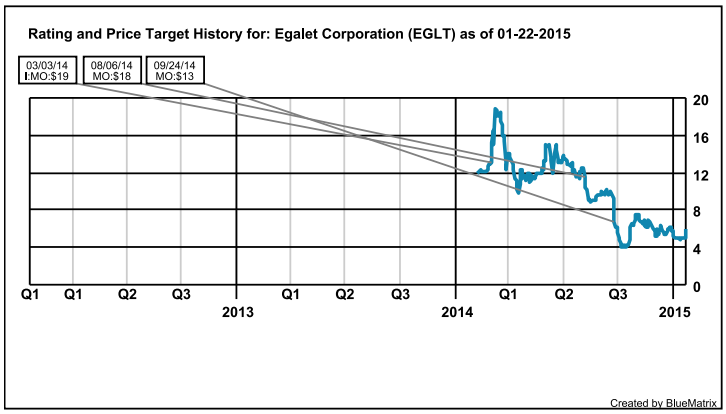
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	288	*64.14%*	Buy	288	*64.14%*	99	*34.38%*
MARKET PERFORM	Hold	151	*33.63%*	Hold	151	*33.63%*	20	*13.25%*
MARKET UNDERPERFORM	Sell	7	*1.56%*	Sell	7	*1.56%*	0	*0%*
COVERAGE IN TRANSITION		1	*0.22%*		1	*0.22%*	0	*0%*
TOTAL:		449	*100%*		449	*100%*	121	*26.95%*

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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