

Specialty Pharmaceuticals

Price:	\$4.97
Fair Value Estimate:	\$14.00
52-Week Range:	\$3.81 - \$19.85
Market Cap (MM):	\$86
Shr.O/S-Diluted (mm):	17.3
Average Daily Volume:	16,386
Book Value:	\$(4.69)
Dividend:	NA
Cash/Share:	\$(0.73)
FCF Yield:	38.7%
Debt/Cap:	235%

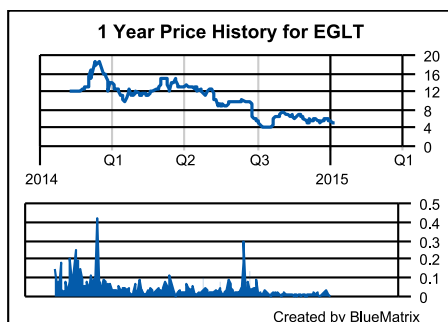
FYE: Dec	2013A	2014E	2015E
EPS:	\$(4.29)A	\$(3.12)E	\$(2.67)E
Prior EPS:		NC	NC
Consensus	NM	NM	-3.26
P/E Ratio:	NA	NA	NA

Quarterly EPS:

Q1	\$(3.40)A	\$(1.34)A	\$(0.83)E
Q2	\$(3.40)A	\$(0.73)A	\$(0.68)E
Q3	\$(3.40)A	\$(0.63)A	\$(0.61)E
Q4	\$(0.35)A	\$(0.65)E	\$(0.58)E

Quarterly Revenue (M):

Q1	\$0A	\$0A	--
Q2	\$0A	\$0A	--
Q3	\$0A	\$0A	--
Q4	\$0A	\$0E	--
Year:	\$0A	\$0E	\$0E



January 8, 2015

Egalet Ltd.

(EGLT) - BUY

EGLT: Acquisitions could pay off, but add to an already full plate.

PORTFOLIO MANAGER BRIEF

EGLT announced Thursday morning the acquisition of two complimentary products to their pain franchise. While we like the idea of EGLT commercially "cutting their teeth" before their proprietary programs, with much larger market potential, get into the market, there is risk as well; cash flow risk if revenues don't offset some expenses and considering that EGLT is planning on initiating several Phase 3 trials in 1Q15, this is another ball for management to keep in the air. EGLT should provide more details later in the quarter.

ANALYST NOTES

- Complimentary products to the pain franchise, but with hurdles: The two new products, though in the pain space come with caveats. Sprix, a very potent NSAID nasal spray has potential in a broad patient population from migraines, back pain or break-through pain for fibromyalgia. Yet, it has a checkered past of severe dose-response side-effects, thus its 5 day limit on treatment duration. Oxaydo is an abuse-deterrent formulation of IR oxycodone. It has a gelling effect to prohibit injection and a nasal irritant to discourage snorting. Though not the same caliber as the EGLT technology, the market is still in need. Though Pfizer couldn't do much with it, we are curious of the EGLT strategy. That aside, we believe that the experience alone could be priceless and give them advantages and insight with 001 & 002.
- Deal structure can work in their favor if revenues materialize: With upfront payments of \$7.5M and \$7M for the acquisitions, the cost is basically offset by the \$15M Hercules loan. We view this as a plus since it is ultimately non-dilutive. However, the soon-to-be increasing cost of SG&A could be a strain. Revenues from sales of these products should help offset these increases. As management has not yet given out details of pricing or internal vs. external sales force, it is difficult to handicap the impact.
- Another ball in the air for EGLT management: To point out the obvious, there may be some concern around the focus of EGLT management; having to run multiple Phase 3 trials is not an easy task and they have added in a new commercial business. In this case, depending on how EGLT moves forward, they may be able to reap the benefits of experience and grow a revenue and valuation backstop. That would be a positive in our book.

- A lot of unknowns still, with more clarity coming later in the Q: Ultimately, there are still a lot of unknowns surrounding the actual commercial execution strategy; message, price, sales force, targets, etc. Hopefully, EGLT management will clarify sooner rather than later in the quarter. We are looking forward to it.
- Maintain Buy rating, \$14 FV: We are maintaining our Buy rating. We value Egalet-001 at \$4/share and Egalet-002 at \$9/share based on a discounted sales multiple with cash ('15) and shares at \$1/share. We are not adding value in for the two new assets as there are still many unknowns which should be clarified later in 1Q15.

IMPORTANT DISCLOSURES

Research Analyst Certification

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Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Egalet Ltd. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Egalet Ltd. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Egalet Ltd. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

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BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	138	51.30	15	10.87
NEUTRAL [N]	131	48.70	5	3.82
SELL [S]	0	0.00	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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