

Today's Changes	Annual EPS	Annual Revenue	Rating/Target
	2014E \$(3.42) from \$(2.80)	2014E \$0.7M from \$0.3M	No changes
	2015E \$(1.27) from \$(1.20)	2015E \$7.8M, no change	

Egalet Corp.

EGLT : NASDAQ : US\$10.01

BUY

Target: US\$20.00

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COMPANY STATISTICS:

Forecast Return:	100%
Market Cap (M):	US\$147
52-week Range:	9.54 - 19.85
Avg. Daily Vol. (000s):	73.4

EARNINGS SUMMARY:

FYE Dec		2013A	2014E	2015E
P/Sales:		NM	196.7x	18.9x
P/E:		NM	NM	NM
Revenue (M):				
	Q1	0.0	0.3A	0.0
	Q2	0.0	0.5A	0.0
	Q3	0.0	0.0	2.5
	Q4	0.0	0.0	5.2
Total		0.0	0.7	7.8
EPS:				
	Q1	(2.12)	(1.34)A	(0.43)
	Q2	(2.28)	(0.73)A	(0.44)
	Q3	(4.34)	(0.76)	(0.32)
	Q4	(0.67)	(0.78)	(0.08)
Total		(1.45)	(3.42)	(1.27)

SHARE PRICE PERFORMANCE:



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

KEY 15MG BIOEQUIVALENCE STILL EXPECTED 3Q14, ABUSE DETERRENCE DATA YE14

Investment highlights

15mg bioequivalence data 3Q14, key to Egalet-001 filing

We expect positive 15mg bioequivalence data for Egalet-001 during 3Q, which should push shares higher after mixed 100mg data. Importantly, some evidence exists that morphine pK is less predictive at higher 100mg doses versus lower doses, suggesting a higher chance of success for 15mg Egalet-001 bioequivalence vs. MS Contin. Interestingly, the Cmax for MS Contin 100mg was slightly lower than expected in the recent bioequivalence readout, lending weight to lower predictability at higher doses.

Egalet-001 category 2/3 abuse deterrence data YE14

We expect Egalet-001 to be less likeable and show lower drug availability post-manipulation via pK versus MS Contin by YE14, supporting lower abuse potential for Egalet-001 morphine. Users should be less likely to extract morphine from Egalet-001 versus MS Contin, resulting in less likeability for Egalet-001.

Head-to-head likeability for Egalet-002 2Q15, major catalyst

Positive likeability data for Egalet-002 (oxycodone) versus Purdue's Oxycontin OP may surface by 2Q15, which we view as a major catalyst. Less abusability versus the market leader should position Egalet-002 well and result in a substantial move in the stock.

Adjusting estimates on spending

We are lowering our 2014 GAAP EPS estimate based on higher R&D spending. Our 2014E GAAP EPS falls to \$(3.42) from \$(2.80).

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VALUATION

Figure 1: Egalet valuation

Product	Peak Sales (\$MM)	Peak Year	Current Value (\$MM)	Probability Adjustment	Value / Share	Scenario probability	Adjusted Value
Non-Partnered							
Egalet-001 (morphine)	162	2025	90	65%	\$6	20%	\$1
Egalet-002 (oxycodone)	886	2027	255	35%	\$18	20%	\$4
Equity Value					\$25	20%	\$5
Partnered							
Egalet-001 (morphine)	162	2025	90	65%	\$6	55%	\$4
Egalet-002 (oxycodone)	1112	2027	144	35%	\$10	55%	\$6
Equity Value					\$17	55%	\$9
Royalty							
Egalet-001 (morphine)	162	2025	90	65%	\$6	25%	\$2
Egalet-002 (oxycodone)	200	2027	111	35%	\$8	25%	\$2
Equity Value					\$14	25%	\$4
Total Equity Value							\$18
Net Cash (50% adj)							\$2
Value per share							\$20
Shares Outstanding (MM)							13.9
Risk-Free Rate	2.00%						
Beta	1.30						
Risk Premium	7%						
Discount Rate	12%						

Source: Canaccord Genuity, Inc.

12 August 2014

Figure 2: Egalet Income Statement

Egalet Corporation

Income Statement (\$000's)	2013A	Mar-14A	Jun-14A	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E
Total revenues	0	256	490	-	-	746	7,770	35,593	96,632	184,580	356,641
Cost of goods sold							1,162	5,339	13,529	23,995	46,363
Gross profit	0	256	490	-	-	746	6,608	30,254	83,104	160,584	310,278
Operating expenses											
Research & development											
Egalet-001	1,187	1,800	2,100	2,100	2,000	8,000	800	840	798	638	638
Egalet-002	371	48	3,400	3,400	3,600	10,448	12,000	1,800	900	900	900
Other Clinical and Preclinical	1,288	567	1,489	1,250	1,250	4,556	5,000	5,500	6,849	18,112	48,959
Personnel Related	1,431	365	372	379	386	1,503	1,578	1,735	2,083	2,499	2,999
R&D	6,280	2,780	7,361	7,129	7,236	24,507	19,378	9,875	10,630	22,150	53,496
Egalet-001							5,625	16,500	17,160	17,846	18,560
Egalet-002									37,500	43,125	49,594
General & administrative	4,873	3,269	4,728	5,041	5,353	8,000	8,900	9,790	11,748	14,685	18,356
SG&A	4,873	3,269	4,728	5,041	5,353	8,000	14,525	26,290	66,408	75,656	86,510
						18,391			19,326	64,603	124,825
Total expenses	11,153	6,049	12,089	12,170	12,590	32,507	33,903	36,165	77,038	97,806	140,006
Depreciation & amortization		242	336	430	524	1,532		5,309	6,874	7,674	7,420
EBITDA	(11,153)	(5,551)	(11,263)	(11,740)	(12,066)	(40,620)	(24,725)	(5,911)	6,066	62,778	170,272
Operating income	(11,153)	(5,793)	(11,599)	(12,170)	(12,590)	(42,152)	(24,725)	(11,220)	(808)	55,104	162,852
Interest income			4								
Interest expense	8,842	(7,092)	-	-	-	(7,092)	-	-	-	-	-
Other expense / (income), net	190			50	50	100	200	200	200	200	200
Interest & other	9,032	(7,092)	4	50	50	(6,992)	200	200	200	200	200
Gain on foreign currency exchange		4	(40)								
Pre-tax income		(12,881)	(11,635)	(12,120)	(12,540)	(49,176)	(24,525)	(11,020)	(608)	55,304	163,052
Taxes	22	35	16				-	-	-	20,315	60,181
Tax rate							37%	37%	37%	37%	37%
Net income - GAAP	(20,207)	(12,916)	(11,651)	(12,120)	(12,540)	(49,227)	(24,525)	(11,020)	(608)	34,990	102,871
GAAP EPS	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.76)	(\$0.78)	(\$3.42)	(\$1.27)	(\$0.52)	(\$0.03)	\$1.49	\$4.22
Adjusted EPS excl. options expense	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.76)	(\$0.78)	(\$3.42)	(\$1.27)	(\$0.52)	(\$0.03)	\$1.49	\$4.22
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
Pro Forma Shares											

Source: Canaccord Genuity, Inc.

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.

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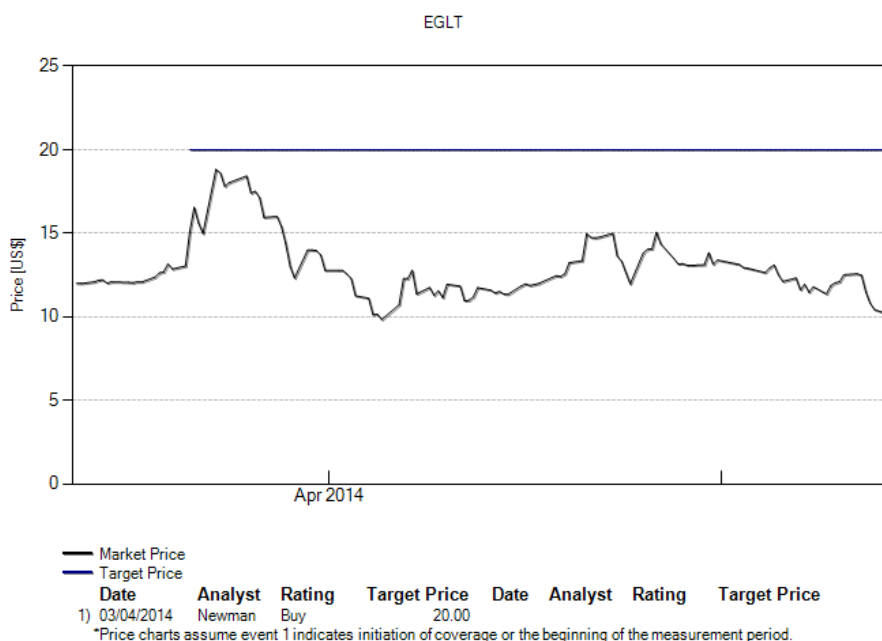
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Site Visit:

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

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