Egalet Corporation (EGLT)

Egalet Begins Transformation to Commercial-Stage Specialty Pharma Business Through Low-Risk Acquisitions

MARKET OUTPERFORM | Price: $4.97 | Target Price: $13.00

MARKET DATA

Price	$4.97
52-Week Range:	$3.81 - $19.85
Shares Out. (M):	17.3
Market Cap ($M):	$86.0
Average Daily Vol. (000):	14.0
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)**
Previous FY		NC	NC	($2.87)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

INVESTMENT HIGHLIGHTS

Product acquisitions accelerate progression to a revenue-driven specialty pharma business and reinforce strategic focus on novel and differentiated therapies for the treatment of pain; reiterate our Market Outperform rating and $13 price target on Egalet (EGLT). This morning, Egalet announced two transactions that we believe accelerate the company's progression to a commercial-stage, revenue and growth-driven, specialty pharmaceutical company. The company in-licensed two FDA approved products that address important unmet needs in pain management. The first product, OXAYDO™, the first and only approved abuse-deterrent, immediate-release oxycodone product, and the second product, SPRIX®, a nasal spray formulation of the NSAID ketorolac. We look to gain additional details on the commercial roll-out plans for these products later in 1Q15. As such, we are not including revenue from the products in our model at this time; however, we believe that, together, they may have peak sales potential easily in excess of $100MM. Our $13 price target is derived through a sum-of-the-parts NPV analysis of Egalet-001 and Egalet-002 and we believe the new product acquisitions could represent meaningful upside to our current assumptions.

New products should drive revenue growth in 2015 and we look to additional details on the commercial plan later in 1Q15. Egalet plans to assemble a commercial infrastructure including sales, marketing, and medical affairs capabilities. This will include a sales force consisting of ~40-60 reps that will target pain specialists. The company plans to begin promotion of SPRIX later in 1Q15 (the product will remain commercially available through Luitpold until then) and aims to re-introduce OXAYDO to the market in 3Q15. Management guided that the cost of the commercial infrastructure will add ~$12-$15MM annually to SG&A expenses, offset by any revenue generated from these products. We look to gain further visibility on the commercial plan for the products, including price, and near-term and peak sales potential later in 1Q15.

OXAYDO is an abuse-deterrent IR oxycodone product whose previous commercial efforts were minimal. Egalet has acquired worldwide rights to OXAYDO from Acura Pharmaceuticals. The product is an immediate-release opioid developed using Acura's Aversion Technology to deter abuse by snorting. Egalet paid $5M upfront and will owe sales milestones of $2.5MM upon first commercial sale and $12.5MM when the product has achieved $150MM in net sales in a calendar year. Acura is also eligible to receive tiered royalties of single-digit to double-digit percentages. During the conference call, management highlighted synergies between the product and its core focus of bringing to the market novel, differentiated, abuse-deterrent opioids.

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SPRIX is a rapid-acting, nasal formulation of ketorolac. Egalet also announced that it has acquired SPRIX from Luitpold Pharmaceuticals for $7MM and has entered into a six-month transition services agreement with Luitpold to ensure that the product remains available while Egalet ramps its commercial operations. As with the acquisition of OXAYDO, we view this as an opportunity for Egalet to establish a commercial presence in the pain space ahead of the approvals of its lead development programs, which can then be leveraged following the approvals of Egalet-001 and Egalet-002, with a trained sales force and established channels.

Debt transaction provides financing for upfront payments and initial commercial costs. In conjunction with these acquisitions. Egalet announced a $15MM debt financing with Hercules Technology Growth Capital (HTGC, MO, $16.50 PT, York). Terms include an interest rate equal to the greater of either 9.4 percent or 9.4 percent plus the prime rate, as reported in the Wall Street Journal, minus 3.25 percent. Payments are interest only for 12 months, followed by 30 equal monthly payments of principal and interest through the scheduled maturity date of July 1, 2018. As part of the financing, Egalet issued Hercules a warrant to purchase $600,000 of its common stock. We have updated our model to include the updated expense guidance and debt repayments/interest. We look to the company's commercial update to include revenue for the newly acquired product, which we believe can drive meaningful upside to our valuation.

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 expects to receive OR intends to seek compensation for investment banking services from Egalet Corporation and Hercules Technology Growth Capital, Inc. in the next 3 months.

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

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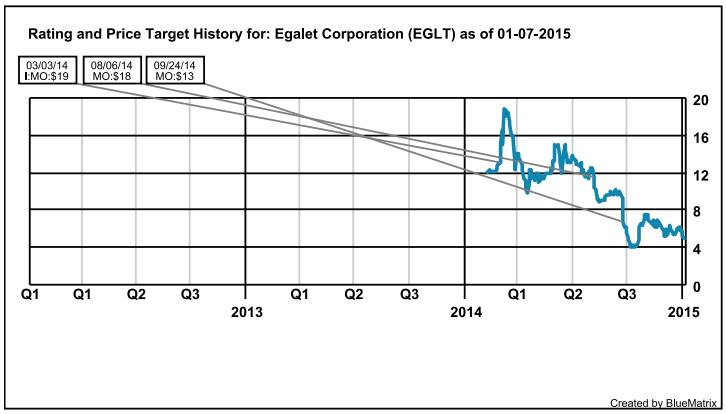
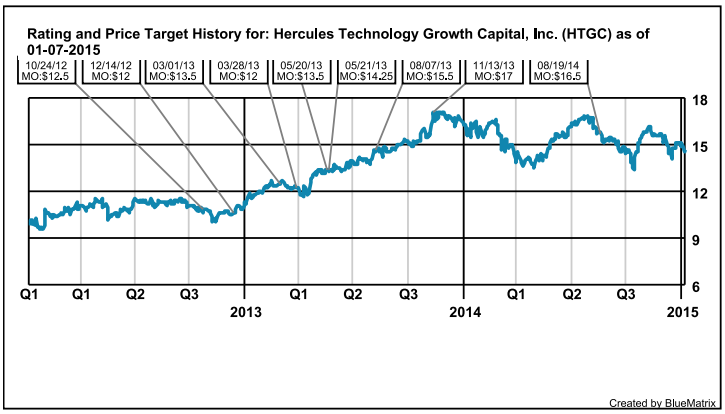
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	294	*65.19%*	Buy	294	*65.19%*	102	*34.69%*
MARKET PERFORM	Hold	151	*33.48%*	Hold	151	*33.48%*	17	*11.26%*
MARKET UNDERPERFORM	Sell	3	*0.67%*	Sell	3	*0.67%*	0	*0%*
COVERAGE IN TRANSITION		1	*0.22%*		1	*0.22%*	0	*0%*
TOTAL:		451	*100%*		451	*100%*	121	*26.83%*

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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