

Today's Changes

Annual EPS

2014E (\$2.80) from (\$1.58)

2015E (\$1.20) from (\$1.58)

Egalet Corp.

EGLT : NASDAQ : US\$11.60

BUY

Target: US\$20.00

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COMPANY STATISTICS:

Forecast Return: 72%
 Market Cap (M): US\$170
 52-week Range: 9.54 - 19.85
 Avg. Daily Vol. (000s): 73.4

EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
P/Sales:	NM	664.2x	21.9x
P/E:	NM	NM	NM
Revenue			
(M):			
Q1	0.0	0.3A	0.0
Q2	0.0	0.0	0.0
Q3	0.0	0.0	2.5
Q4	0.0	0.0	5.2
Total	0.0	0.3	7.8
EPS:			
Q1	(2.12)	(1.34)A	(0.41)
Q2	(2.28)	(0.43)	(0.42)
Q3	(4.34)	(0.64)	(0.30)
Q4	(0.67)	(0.66)	(0.08)
Total	(1.45)	(2.80)	(1.20)

SHARE PRICE PERFORMANCE:



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

ABUSE-DETERRENT MORPHINE PROGRESSING; OXY ABUSE-DETERRENT DATA EARLY 2015E

Egalet-001 NDA on track for YE14 submission

We continue to expect a YE14 submission for Egalet-001, an abuse-deterrent morphine, and approval during 2015, which should push shares higher. Egalet-001 is resistant to crushing, grinding, cutting, and extraction based on part 1 results from category 1 abuse deterrence studies. FDA has emphasized the development of abuse-deterrent opioid products and we believe Egalet continues to have a leading product in the morphine and oxycontin space. Importantly, Pfizer's timing for re-launching Embeda has become murkier, now sometime in 2014 vs. earlier April 2014.

Expect additional category 1 abuse deterrence data for Egalet-001 morphine in 2Q14 and category 2 and 3 in 3Q or 4Q14

We expect positive data for Egalet-001 in part 2 of category 1 abuse studies, involving extraction with household solvents in Q2. We also anticipate positive category 2 abuse deterrence studies for Egalet-001, testing changes in pK parameters of the physically manipulated formulation, IE, Cmax, Coverage and rate of onset in Q3. Most importantly, we expect positive category 3, or "likeability" studies for Egalet-001 where users are asked to rate the manipulated form of Egalet-001 vs. comparator in Q4.

Head-to-head oxycontin abuse-deterrence data anticipated in 1Q15

We expect positive Tier 2, 3 and alcohol interaction data in 1Q15, comparing Egalet-002 with oxycontin. Oxycontin is a ~\$3B single-player market and positive abuse deterrence data, followed by positive Phase 3 data for safety and efficacy, should move EGLT's share prices significantly. Egalet-002 has the same API as oxycontin; however, the company's abuse deterrence technology enables a differentiated release rate, which actually results in an improved pK profile versus oxycontin based on peak to trough concentration variability.

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Adjusting estimates on share count, interest expense

We are adjusting EPS estimates to more accurately reflect share count and interest expense incurred in the 1Q14. Egalet reported a one-time interest expense charge of \$7M in 1Q14 related to the accretion of premium expense incurred with the issuance of convertible debt in August 2013, which was converted during the IPO.

Valuation

We estimate a \$20 price target for Egalet shares based on a sum-of-the-parts probability-adjusted NPV analysis by product. We assume 100% commercialization for Egalet-001 and model three possible scenarios for Egalet-002: (1) 100% Egalet commercialization, (2) partnership based on an operating profit split, and (3) partnership involving an 8-18% net sales royalty. We assume probabilities of 20%, 55%, and 25% for the scenarios, giving our \$20 price target.

13 May 2014

Figure 1: Income statement

Income Statement (\$000's)	2013A	Mar-14E	Jun-14E	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total revenues	0	256	-	-	-	10,000	7,770	35,593	96,632	184,580	356,641	507,696
Cost of goods sold							1,162	5,339	13,529	23,995	46,363	60,923
Gross profit	0	256	-	-	-	10,000	6,608	30,254	83,104	160,584	310,278	446,772
Operating expenses												
Research & development												
Egalet-001	1,187	1,800	2,100	2,100	2,000	8,000	800	840	798	638	638	638
Egalet-002	371	48	48	3,400	3,600	7,096	12,000	1,800	900	900	900	900
Other Clinical and Preclinical	1,288	567	1,250	1,250	1,250	4,317	5,000	5,500	6,849	18,112	48,959	76,094
Personnel Related	1,431	365	372	379	386	1,503	1,578	1,735	2,083	2,499	2,999	3,599
R&D	6,280	2,780	3,770	7,129	7,236	20,916	19,378	9,875	10,630	22,150	53,496	81,231
Egalet-001							5,625	16,500	17,160	17,846	18,560	19,303
Egalet-002									37,500	43,125	49,594	57,033
General & administrative	4,873	3,269	3,582	3,894	4,207	8,000	8,900	9,790	11,748	14,685	18,356	22,945
SG&A	4,873	3,269	3,582	3,894	4,207	8,000	14,525	26,290	66,408	75,656	86,510	99,281
Total expenses	11,153	6,049	7,352	11,024	11,443	28,916	33,903	36,165	77,038	97,806	140,006	180,512
Depreciation & amortization		242	336	430	524	1,532		5,309	6,874	7,674	7,420	8,571
EBITDA	(11,153)	(5,551)	(7,016)	(10,594)	(10,920)	(34,080)	(24,725)	(5,911)	6,066	62,778	170,272	266,260
Operating income	(11,153)	(5,793)	(7,352)	(11,024)	(11,443)	(35,612)	(24,725)	(11,220)	(808)	55,104	162,852	257,689
Interest income												
Interest expense	8,842	(7,092)	-	-	-	(7,092)	-	-	-	-	-	-
Other expense / (income), net	190		50	50	50	150	200	200	200	200	200	200
Interest & other	9,032	(7,092)	50	50	50	(6,942)	200	200	200	200	200	200
Gain on foreign currency exchange		4										
Pre-tax income		(12,881)	(7,302)	(10,974)	(11,393)	(42,550)	(24,525)	(11,020)	(608)	55,304	163,052	257,889
Taxes	22	35					-	-	-	20,315	60,181	95,271
Tax rate							37%	37%	37%	37%	37%	37%
Net income - GAAP	(20,207)	(12,916)	(7,302)	(10,974)	(11,393)	(42,585)	(24,525)	(11,020)	(608)	34,990	102,871	162,618
GAAP EPS	(\$1.45)	(\$1.34)	(\$0.43)	(\$0.64)	(\$0.66)	(\$2.80)	(\$1.20)	(\$0.49)	(\$0.03)	\$1.42	\$4.00	\$6.08

Source: Canaccord Genuity estimates, company reports

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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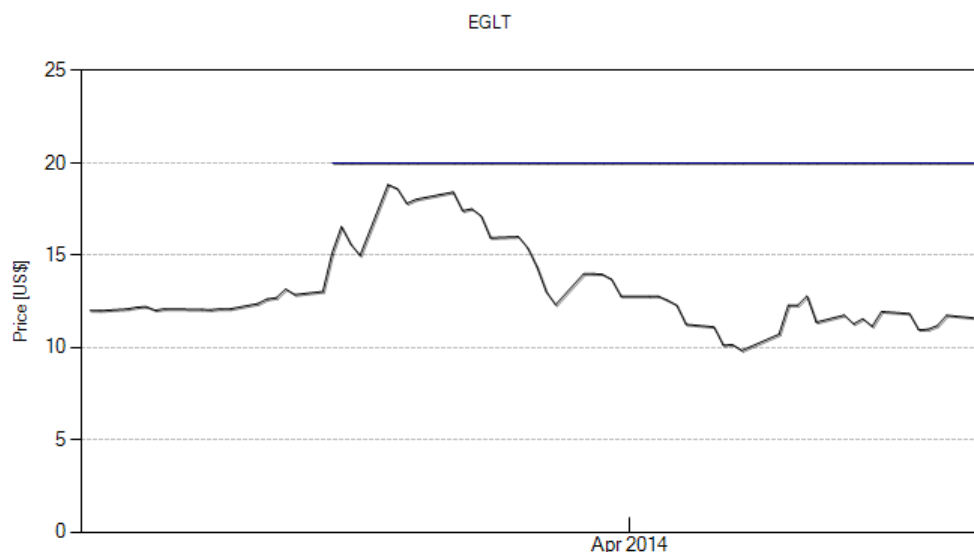
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Site Visit:

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

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 03/04/2014	Newman	Buy	20.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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(as of 31 March 2014)

Coverage Universe			IB Clients
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	988*	100.0%	

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