

Today's Changes	Annual EPS	Annual Revenue	Rating/Target
	2014E \$(1.58) from \$(1.51)	2014E \$10.0M, no change	No changes
	2015E \$(1.58) from \$(1.53)	2015E \$7.8M, no change	

Egalet Corp.

EGLT : NASDAQ : US\$15.40

BUY**Target: US\$20.00**

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COMPANY STATISTICS:

Forecast Return:	29.9%
Market Cap (M):	US\$214.1
52-week Range:	11.82 - 19.85
Avg. Daily Vol. (000s):	114.0

EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
Revenue (M):	0.0	10.0	7.8
EPS:	(1.45)	(1.58)	(1.58)
Revenue (M):			
Q1	0.0	10.0	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	10.0	7.8
EPS:			
Q1	(2.13)	0.27	(0.49)
Q2	(2.29)	(0.43)	(0.50)
Q3	(4.28)	(0.70)	(0.36)
Q4	(0.68)	(0.73)	(0.10)
Total	(1.45)	(1.58)	(1.58)

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

CATALYST-RICH 2014 AHEAD, EXPECT MULTIPLE POSITIVE DATA READOUTS

Pivotal bioequivalence readout YE14 for morphine product

We expect positive pivotal bioequivalence data for Egalet-001 (abuse-deterrent morphine) by YE14, providing meaningful inflection for the stock. The bioequivalence package will consist of three studies: (1) fasted bioequivalence for 100 mg Egalet-001 vs. MS-Contin, (2) fed bioequivalence for 100 mg Egalet-001 vs. MS-Contin, and fasted bioequivalence for the lowest dose of Egalet-001, 15 mg vs. MS-Contin.

Expect positive abuse deterrence data 2Q14 for morphine product

Egalet will report category 1 (physical manipulation) abuse deterrence data for Egalet-001 during 2Q14, which we expect to be positive, and perhaps provide an early comparison to Pfizer's Embeda. Egalet will then conduct category 2 and 3 abuse deterrence studies for Egalet-001 during 2Q14, involving solvent extraction and "likeability" studies, respectively. We believe that Egalet-001 will show positive data from both studies, and that continuing data readouts could provide a positive comparison to Pfizer's Embeda.

Important abuse deterrence data readouts beginning 2Q for oxycodone product

Egalet-002 (abuse-deterrent oxycodone) is likely to show *better* abuse-deterrent properties head-to-head versus Purdue's Oxycontin OP, suggesting meaningful upside for Egalet's share price. Management expects data readouts to begin with the first phase of the category 1 abuse deterrence data, and continue throughout 2014. Head-to-head data versus Purdue's Oxycontin OP should be a major driver for the stock, in our view, suggesting meaningful differentiation versus the market leader.

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Continue to anticipate 2015, FDA approval for Egalet-001

We fully expect FDA approval for Egalet-001 in 2015, including abuse deterrence language, which should drive the stock higher. Importantly, we do not view potential re-introduction of Pfizer's Embeda in 2014 as a threat to Egalet-001 commercially, as multiple prior recalls and stability issues for Embeda are likely to dampen physician confidence. Also, we believe Egalet's commercial plans will be successful, based on extensive management experience in the commercial area and also a detailed understanding of prescribers by decile.

Updating EPS estimates based increased G&A spend.

We raised estimates for General and Administrative spend, based on increased costs pertaining to FDA filings and regulations. As a result, our EPS estimate for fiscal 2014 have been reduced from (\$1.51) to (\$1.58).

26 March 2014

Figure 1: Egalet income statement

Income Statement (\$000's)	2013A	Mar-14E	Jun-14E	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E
Total revenues	0	10,000	-	-	-	10,000	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	10,000	-	-	-	10,000	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	48	3,400	3,600	7,096	12,000	1,800	900	900	900
Other Clinical and Preclinical	1,288	1,250	1,250	1,250	1,250	5,000	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	3,463	3,770	7,129	7,236	21,599	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	1,531	1,844	2,156	2,469	8,000	8,900	9,790	11,748	14,685	18,356
SG&A	4,873	1,531	1,844	2,156	2,469	8,000	14,525	26,290	66,408	75,656	86,510
						8,000			19,326	64,603	124,825
Total expenses	11,153	4,994	5,614	9,286	9,705	29,599	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)	5,006	(5,614)	(9,286)	(9,705)	(19,599)	(27,295)	(5,911)	6,066	62,778	170,272
Operating income	(11,153)	4,764	(5,950)	(9,715)	(10,229)	(21,131)	(27,295)	(11,220)	(808)	55,104	162,852
						(21,131)					
Interest income											
Interest expense	8,842	-	-	-	-	-	-	-	-	-	-
Other expense / (income), net	190	1,000	50	50	50	1,150	200	200	200	200	200
Interest & other	9,032	1,000	50	50	50	1,150	200	200	200	200	200
Taxes	22						-	-	-	20,315	60,181
Tax rate							37%	37%	37%	37%	37%
Net income - GAAP	(20,207)	3,764	(6,000)	(9,765)	(10,279)	(22,281)	(27,495)	(11,420)	(1,008)	34,590	102,471
Net income - Adjusted	(20,207)	3,764	(6,000)	(9,765)	(10,279)	(22,281)	(27,495)	(11,420)	(1,008)	34,590	102,471
GAAP EPS	(\$1.45)	\$0.27	(\$0.43)	(\$0.70)	(\$0.73)	(\$1.58)	(\$1.58)	(\$0.59)	(\$0.05)	\$1.61	\$4.60
Adjusted EPS excl. options expense	(\$1.45)	\$0.27	(\$0.43)	(\$0.70)	(\$0.73)	(\$1.58)	(\$1.58)	(\$0.59)	(\$0.05)	\$1.61	\$4.60

Source: Canaccord Genuity estimates and company reports

Valuation

Our \$20 price target for Egalet shares is 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.

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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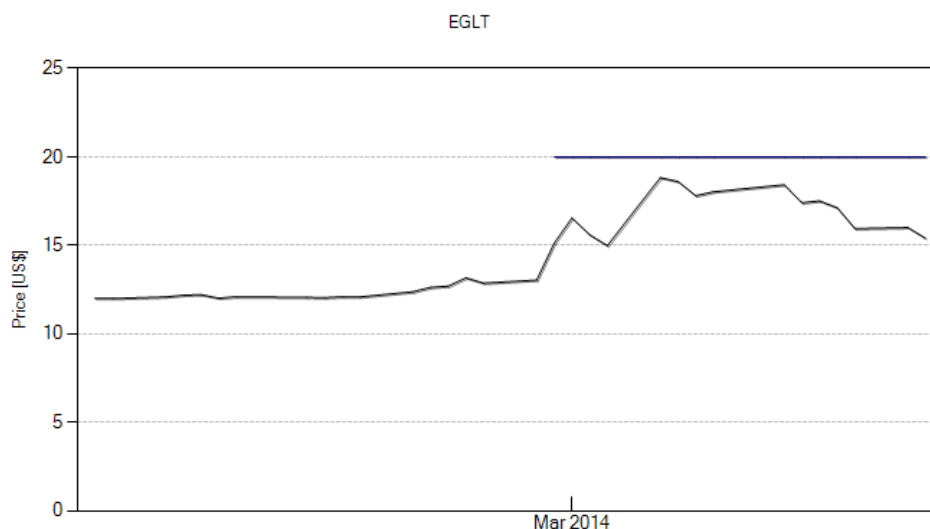
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Site Visit:

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

Price Chart:*

Date				Date			
Analyst				Analyst			
Rating				Rating			
Target Price				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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 Global Stock Ratings
 (as of 31 December 2013)

Rating	Coverage Universe		IB Clients
	#	%	
Buy	564	57.0%	38.1%
Speculative Buy	47	4.7%	42.6%
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Sell	50	5.1%	6.0%
	990*	100.0%	

*Total includes stocks that are Under Review

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