Company Update
September 18, 2014
SPECIALTY PHARMACEUTICALS

Equity Research

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Eagle Pharmaceuticals Inc. (EGRX-$12.67)

Rating: BUY

Target Price: $30.00

Directionally Favorable Treanda Patent Litigation Update; Maintain BUY and $30 PT

REV	1Q	2Q	3Q	4Q
2013A	1.5A	2.5A	5.1A	0.0A
2014E	5.5A	5.0A	5.8A	1.9E
2015E	—	—	—	—

EPS	1Q	2Q	3Q	4Q
2013A	(1.09)A	(1.84)A	(0.11)A	0.00A
2014E	(1.44)A	(0.36)A	(0.21)A	(0.57)E
2015E	—	—	—	—

FY	2013A	2014E	2015E
REV	13.7A	18.2E	14.2E
P/S	13.0x	9.8x	12.5x
EPS	(0.51)A	(1.31)E	(1.61)E
P/E	(24.8)x	(9.7)x	(7.9)x

- **Teva patent litigation evolves; new lawsuit filed:** Teva moved to dismiss its lawsuit that alleged Eagle's Bendamustine formulation infringed on its Treanda patent (8,445,524). However, Teva recently filed a second lawsuit alleging that Eagle's Bendamustine infringes U.S. Patent Number 8,791,270, and this case remains pending (resolution timing uncertain). We were initially anticipating a summary judgment for the first lawsuit along with additional delays by Teva, which now seem to be playing out. This news does not change our launch timing estimates for Eagle's liquid Bendamustine, and we reiterate our BUY rating and $30 PT, which are based on DCF analysis.
- **Read-throughs from the litigation:** Teva's first lawsuit focused on a patent for solid forms of Bendamustine, and Eagle management believed this lawsuit was frivolous given its product's liquid formulation. This lawsuit evoked a 30-month stay, ending in March 2016, which has been removed with the dismissal of the lawsuit. Teva's subsequent lawsuit is associated with a more recently issued patent (7/29/14) that focuses on pharmaceutical formulations of lyophilized Bendamustine, but as a "later listed" patent, should not burden Eagle with an additional 30-month stay. Therefore, we view the dismissal of the first lawsuit as directionally favorable for the company as it creates additional optionality for Eagle (or a potential partner) to launch its liquid version of Treanda upon expiration of Orphan Drug/pediatric exclusivity in September 2015 without a second launch barrier (Eagle's Treanda formulation is tentatively FDA approved, pending resolution of patent litigation).
- **Rapid infusion liquid Bendamustine launch still more likely, in our view:** We continue to believe that Eagle will launch its small, rapid dose (50 mL bag) Bendamustine formulation in 2016 rather than launch its ready-to-dilute (500 mL bag) formulation in late 2015. Management would need to have a high degree of conviction around hospital demand and pricing power for this product (that would be similar to Teva's liquid bendamustine, which we expect to be on the market by that time) to launch its first generation product prior to the resolution of Teva's second lawsuit. We think the rapid dose formulation would be commercially differentiated and better received.
- **Near-term focus on Eagle's Ryanodex launch for malignant hyperthermia:** Management indicated that the drug needs P&T review in a large number of hospitals, and we expect an update on this process on the next earnings call. We currently model $0.4M in sales for Ryanodex in 2014. We also expect an update on the launch of Eagle's generic version of Arthrotec, an arthritis pain medication (anticipated in October 2014).

Current Statistics

Market Cap ($Mil)	**$177.6**	**Free Float (%):**	**14.400**
Avg. Daily Trading Volume (3 mo.):	**74,425**		
Shares Out (Mil):	**14.020**		

The Disclosure Section may be found on pages 3 - 4.

Valuation

We value Eagle Pharmaceuticals using a discounted cash flow analysis (DCF). We assume a weighted average cost of capital (WACC) of 13% given the risks associated with generic litigation. We assign a 1% terminal growth rate to the company since Eagle has patent estate around several other undisclosed product reformulations and generic applications. We arrive at a $30 price target using this methodology. With regard to downside risk, we believe that later-than-expected launch of the Treanda RTD, or earlier-than-expected generic entry of Angiomax generics could result in ($16/share) and ($7/share) downside to our base case scenario, respectively.

Risks

1. Launch delays associated with generic litigation are the chief risk for Eagle, in our view, since early launch timing is critical to the company's success. This risk is especially prominent for the launch of Eagle's RTD Treanda and Angiomax products.
2. Each of the company's reformulated injectable products needs to secure FDA regulatory approval, so there is some degree of clinical risk to the business (although this risk is significantly lower than that for new chemical entities).
3. Manufacturing issues or supply chain disruptions are another source of risk, and the company already dealt with a supply disruption for argatroban in 2012. We checked on recent FDA inspections of Eagle's manufacturing partners and note that we did not see anything worrisome.
4. Hospital decision makers may become less accessible to drug manufacturers, which could adversely impact Eagle's ability to educate hospitals about its products and build demand.

Company Description

Eagle Pharmaceuticals is a specialty pharmaceutical company focused on developing and commercializing reformulated versions of injectable products in the hospital market utilizing the 505(b)(2) pathway. Eagle has several products in development that it expects to launch over 2015-2017.

Companies Mentioned:

Teva Pharmaceutical Industries Limited (TEVA - NYSE): NC

Disclosures Appendix

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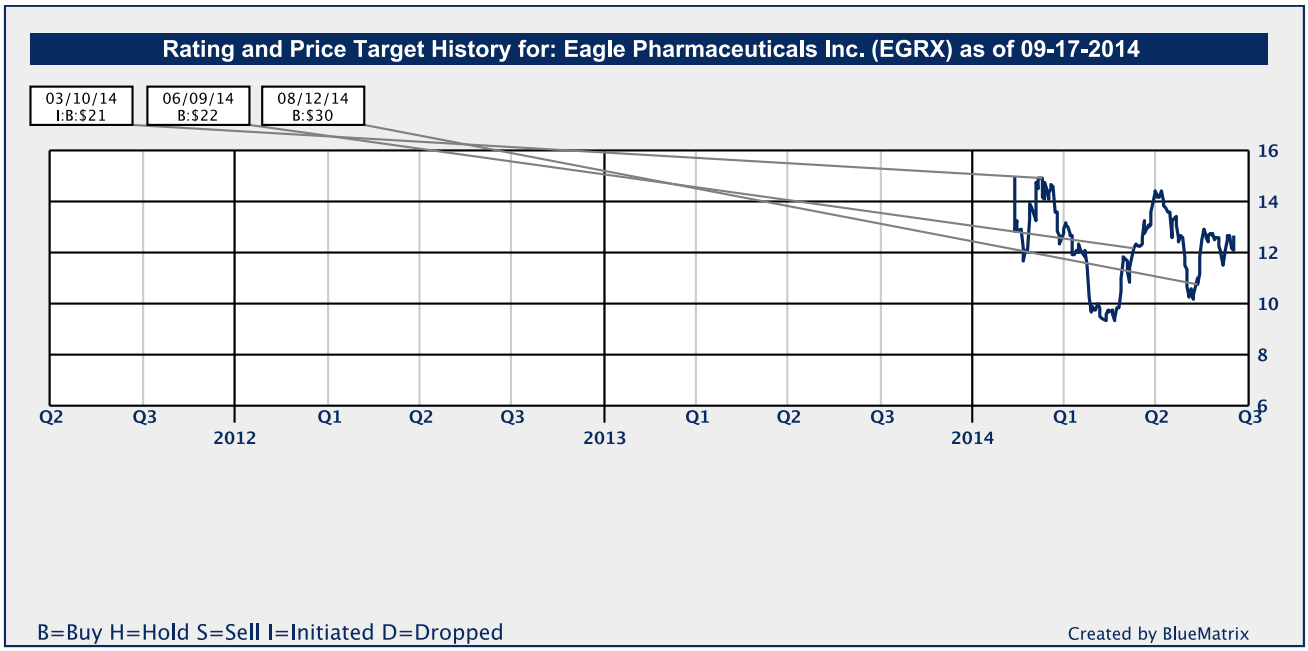

Distribution of Ratings/Investment Banking Services (IB) as of 09/18/14

Cantor

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	**88**	**61.97**	**22**	**25.00**
HOLD [H]	**44**	**30.99**	**7**	**15.91**
SELL [S]	**10**	**7.04**	**1**	**10.00**