

US Equity Research

21 January 2015

BUY

unchanged

PRICE TARGET US\$12.00

unchanged

Price (20-Jan) US\$4.91

Ticker EGLT-NASDAQ

52-Week Range (US\$): 3.81 - 19.85
 Avg Daily Vol (M) : 53.1
 Shares Out. (M) : 17.3
 Market Cap (US\$M): 84.9

FYE Dec	2013A	2014E	2015E
Sales (US\$M)	0.0	1.1	21.2↑
previous	-	-	10.3
EPS Adj&Dil (US\$)	(1.45)	(3.18)	(0.81)↑
previous	-	-	(1.34)

Quarterly Sales	Q1	Q2	Q3	Q4
2013A	0.0	0.0	0.0	0.0
2014E	0.3A	0.5A	0.3A	0.0
2015E	0.0	6.8	7.0	7.4

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2013A	(2.12)	(2.28)	(4.34)	(0.67)
2014E	(1.34)A	(0.73)A	(0.63)A	(0.69)
2015E	(0.50)	(0.16)	(0.07)	(0.08)



Egalet is a specialty pharma company focused on developing abuse-deterrent formulated drugs, including opioids.

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Estimates Revised

Raising Sprix peak sales forecast to \$76M on 5x price increase

5x price increase on Sprix raises 2015, peak revenue ests.

EGLT reported a 5 times increase for Sprix to \$942 from \$185, and we have raised our peak revenue estimate to \$76M from \$43M. We conservatively decrease peak shares in both generic and branded Ketorolac group to 8% from 26-36% based on possible payor hesitation. Additionally, we conservatively estimate Sprix revenues beginning in Q2/15 versus guidance of Q1/15 to allow time for the sales-force build and new messaging.

Intranasal offers same benefit as intramuscular formulation, but convenience in outpatient setting

We believe outpatient pain specialists will find the Sprix intranasal formulation attractive based on rapid onset of action, encouraging uptake. PK studies demonstrated that Sprix is rapidly absorbed through the nasal mucosa and achieves peak blood levels just as fast as an IM injection of Ketorolac (30 minutes), while providing pain relief at the opioid level without the opioid side effects.

Prior Sprix revenues tied to different promotional message

Prior revenues for Sprix are likely low based on lack of focused promotion to outpatient pain specialists, who prescribe ~45% of all Ketorolac prescriptions. We expect improved demand based on detailing to this physician group by Egalet versus the initial hospital-based launch by Luitpold.

Maintain \$12 price target, BUY rating

We maintain our \$12 price target and BUY rating for EGLT as we see the price increase as a positive for better product sales margins and improved revenue ramp. Additionally, we look forward to the initiation of phase 3 EGLT-001 trial by Q1/15, and category 3 abuse deterrent results for EGLT-002 head to head vs Purdue by mid 2015, which we view as significant catalysts for the stock.

Figure 1: Oxaydo Revenue Build

Oxaydo revenue build (\$000's)	Mar-15E	Jun-15E	Sep-15E	Dec-15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Generic market															
Total Generic Retail Prescriptions 5 mg	5,750,826	5,808,334	5,866,417	5,925,081	5,837,664	5,896,041	5,955,002	6,014,552	6,074,697	6,135,444	6,196,798	6,258,766	6,321,354	6,384,568	6,448,413
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Generic Retail Prescriptions 10 mg	761,393	744,668	727,944	711,219	2,961,948	2,991,568	3,021,484	3,051,698	3,082,215	3,113,037	3,144,168	3,175,610	3,207,366	3,239,439	3,271,834
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Generic Retail Prescriptions 15 mg	936,245	945,607	955,063	964,614	3,651,740	3,688,257	3,725,140	3,762,391	3,800,015	3,838,015	3,876,395	3,915,159	3,954,311	3,993,854	4,033,793
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Generic Retail Prescriptions 20 mg	187,332	181,999	176,666	171,333	722,662	729,888	737,187	744,559	752,005	759,525	767,120	774,791	782,539	790,364	798,268
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Generic Retail Prescriptions 30 mg	1,033,799	1,033,728	1,033,657	1,033,586	4,134,841	4,176,190	4,217,952	4,260,131	4,302,733	4,345,760	4,389,217	4,433,110	4,477,441	4,522,215	4,567,437
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Market Generic - TRx	2,918,768	2,906,002	2,893,330	2,880,752	11,471,191	11,585,903	11,701,762	11,818,780	11,936,968	12,056,337	12,176,901	12,298,670	12,421,656	12,545,873	12,671,332
Branded market															
Total Branded Retail Prescriptions 5 mg	49	49	50	50	50	50	51	51	52	52	53	53	54	54	55
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Branded Retail Prescriptions 15 mg	1,316	1,329	1,342	1,356	5,432	5,486	5,541	5,596	5,652	5,709	5,766	5,823	5,882	5,941	6,000
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Branded Retail Prescriptions 30 mg	2,821	2,849	2,877	2,906	11,940	12,059	12,180	12,302	12,425	12,549	12,674	12,801	12,929	13,058	13,189
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Market Brand - TRx	4,185	4,227	4,270	4,312	17,421	17,595	17,771	17,949	18,129	18,310	18,493	18,678	18,865	19,053	19,244
% Oxaydo share Generics															
5 mg %			0.01%	0.03%	0.02%	0.23%	1.23%	1.93%	2.43%	2.63%	3.13%	3.33%	3.53%	3.00%	0.60%
10 mg %			0.01%	0.04%	0.03%	0.24%	1.94%	3.04%	3.74%	4.44%	5.14%	5.84%	6.54%	5.00%	1.00%
15 mg %			0.00%	0.00%	0.00%	1.00%	2.00%	2.20%	2.40%	2.90%	3.30%	3.50%	3.70%	3.00%	0.60%
20 mg %			0.00%	0.00%	0.00%	0.40%	1.40%	2.10%	7.10%	7.30%	7.50%	7.70%	7.90%	7.00%	1.40%
30 mg %			0.00%	0.00%	0.00%	0.20%	1.00%	1.20%	1.90%	2.60%	3.30%	4.00%	4.70%	4.00%	0.80%
Total Oxaydo prescriptions from generic TRx			659	2,062	2,721	68,895	258,866	358,382	489,235	579,319	685,869	767,886	851,475	709,539	143,327
% Oxaydo share Branded															
5 mg %			10%	12%	11%	11%	14%	14%	19%	19%	24%	24%	24%	24%	24%
15 mg %			10%	12%	11%	11%	14%	14%	17%	17%	20%	20%	20%	20%	20%
30 mg %			5%	7%	6%	6%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Total Oxaydo prescriptions from branded TRx			283	372	655	1,333	1,757	1,775	1,965	1,984	2,180	2,202	2,224	2,246	2,268
Total Oxaydo branded and generic prescriptions			943	2,434	3,377	70,228	260,623	360,157	491,199	581,303	688,049	770,088	853,699	711,785	145,595
Cost Per Oxaydo Prescription (100 tablets)			\$ 292	\$ 292	\$ 292	\$ 301	\$ 310	\$ 319	\$ 329	\$ 339	\$ 349	\$ 359	\$ 370	\$ 381	\$ 393
Adherence			65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Total Oxaydo Demand			\$ 179	\$ 462	\$ 641	\$ 13,738	\$ 52,515	\$ 74,748	\$ 105,003	\$ 127,992	\$ 156,040	\$ 179,885	\$ 205,398	\$ 176,391	\$ 37,163
Discounts and rebates			(27)	(69)	(96)	(2,061)	(7,877)	(11,212)	(15,750)	(19,199)	(23,406)	(26,983)	(30,810)	(26,459)	(5,574)
Inventory build / draw down															
Oxaydo total Revenue			\$ 152	\$ 393	\$ 545	\$ 11,678	\$ 44,638	\$ 63,535	\$ 89,252	\$ 108,793	\$ 132,634	\$ 152,902	\$ 174,588	\$ 149,933	\$ 31,589

Source: Canaccord Genuity Estimates

Figure 2: Sprix Revenue Build

Sprx revenue build (\$000's)	Mar-15E	Jun-15E	Sep-15E	Dec-15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Generic market																
Total Generic Retail Prescriptions 10 mg	1,383,279	1,397,112	1,411,083	1,425,194	1,404,167	1,418,209	1,432,391	1,446,715	1,461,182	1,475,794	1,490,552	1,505,457	1,520,512	1,535,717	1,551,074	1,566,585
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Generic Retail Prescriptions 15 mg	337	335	332	330	1,336	1,349	1,362	1,376	1,390	1,404	1,418	1,432	1,446	1,461	1,475	1,490
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Generic Retail Prescriptions 30 mg	10,558	10,664	10,770	10,878	40,871	41,280	41,693	42,110	42,531	42,956	43,386	43,819	44,258	44,700	45,147	45,599
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Generic Retail Prescriptions 60 mg	11,926	11,787	11,648	11,509	47,010	47,480	47,955	48,434	48,919	49,408	49,902	50,401	50,905	51,414	51,928	52,447
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Market - TRx	22,821	22,785	14,338,834	22,717	89,217	90,109	91,010	91,920	92,839	93,768	94,705	95,652	96,609	97,575	98,551	99,536
					1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Branded market																
Total Branded Retail Prescriptions 10 mg	28	28	28	28	28	28	29	29	29	29	30	30	30	31	31	31
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Branded Retail Prescriptions 15 mg	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Branded Retail Prescriptions 30 mg	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total Branded Retail Prescriptions 60 mg	2	4	6	8	17	17	18	18	18	18	18	18	19	19	19	19
% Growth QoQ	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
% Sprx share Generics																
10 mg %		1%	1.00%	1.00%	1.00%	4.00%	5.00%	7.00%	9.00%	1.80%	1.71%	1.62%	1.54%	1.47%	1.39%	1.32%
15 mg %		1%	1.00%	1.00%	1.00%	6.00%	7.00%	8.00%	9.00%	1.80%	1.71%	1.62%	1.54%	1.47%	1.39%	1.32%
30 mg %		1%	1.00%	1.00%	1.00%	6.00%	7.00%	8.00%	9.00%	1.80%	1.71%	1.62%	1.54%	1.47%	1.39%	1.32%
60 mg %		1%	1.00%	1.00%	1.00%	6.00%	7.00%	8.00%	9.00%	1.80%	1.71%	1.62%	1.54%	1.47%	1.39%	1.32%
Total Sprx prescriptions from generic TRx		14,199	14,338	14,479	14,934	62,135	77,990	108,624	139,862	28,252	27,108	26,010	24,957	23,946	22,976	22,046
% sprx share Branded																
5 mg %		1%	1%	1%	1%	7%	10%	12%	15%	3%	3%	3%	3%	2%	2%	2%
15 mg %		1%	2%	2%	2%	7%	10%	10%	15%	3%	3%	3%	3%	2%	2%	2%
30 mg %		1%	1%	1%	1%	5%	7%	10%	10%	2%	2%	2%	2%	2%	2%	1%
60 mg %		0%	0%	0%	0%	0%	3%	5%	10%	2%	2%	2%	2%	2%	2%	1%
Total Sprx Branded prescriptions		0.28	0.28	0	0	2	3	3	4	1	1	1	1	1	1	1
Total Sprx branded and generic prescriptions		14,199	14,339	14,479	14,934	62,137	77,993	108,627	139,866	28,253	27,109	26,011	24,957	23,947	22,977	22,046
Cost Per Sprx Prescription (1 pack)	\$ 942	\$ 942	\$ 942	\$ 942	\$ 942	\$ 970	\$ 999	\$ 1,029	\$ 1,060	\$ 1,092	\$ 1,125	\$ 1,159	\$ 1,193	\$ 1,229	\$ 1,266	\$ 1,304
Adherence	1	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Total sprx Demand	\$ 8,025	\$ 8,104	\$ 8,184	\$ 8,263	\$ 24,313	\$ 36,173	\$ 46,766	\$ 67,089	\$ 88,974	\$ 18,512	\$ 18,295	\$ 18,081	\$ 17,869	\$ 17,660	\$ 17,453	\$ 17,248
Discounts and rebates	(1,204)	(1,216)	(1,228)	(1,240)	(3,647)	(5,426)	(7,015)	(10,063)	(13,346)	(2,777)	(2,744)	(2,712)	(2,680)	(2,649)	(2,618)	(2,587)
Inventory build / draw down																
Sprx total Revenue	\$ 6,822	\$ 6,889	\$ 6,956	\$ 7,023	\$ 20,666	\$ 30,747	\$ 39,751	\$ 57,026	\$ 75,628	\$ 15,735	\$ 15,551	\$ 15,369	\$ 15,189	\$ 15,011	\$ 14,835	\$ 14,661

Source: Canaccord Genuity Estimates

Figure 3: EGLT income statement

Income Statement (\$000's)	2013A	Mar-14A	Jun-14A	Sep-14A	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Total revenues	0	256	490	346	-	1,092	21,211	42,425	149,883	272,076	486,427	594,945	780,796
Cost of goods sold								6,364	20,984	35,370	63,236	71,393	93,695
Gross profit	0	256	490	346	-	1,092	19,053	36,061	128,899	236,706	423,192	523,551	687,100
Operating expenses													
Research & development													
Egalet-001	1,187	1,800	2,100	1,696	2,000	7,596	9,282	9,746	9,259	7,407	7,407	7,407	7,407
Egalet-002	371	48	3,400	3,400	3,600	10,448	12,000	1,800	900	900	900	900	900
Other Clinical and Preclinical Milestones	1,288	567	1,489	1,250	1,250	4,556	5,000	5,500	7,494	34,010	60,803	74,368	97,599
Personnel Related	1,431	365	372		7	1,503	1,578	1,735	2,083	2,499	2,999	3,599	4,318
R&D	6,280	2,780	7,361	6,346	6,857	24,103	27,860	18,782	19,735	44,816	72,109	86,274	110,225
						23,344			16,487	32,649	72,964	95,191	124,927
Egalet-001							5,625	16,500	17,160	17,846	18,560	19,303	20,075
Egalet-002									37,500	43,125	49,594	57,033	65,588
Sales							16,500	17,325	18,191	20,465	28,651	32,233	36,262
General & administrative	4,873	3,269	4,728	4,194	4,507	8,000	8,900	9,790	11,748	14,685	18,356	22,945	27,534
SG&A	4,873	3,269	4,728	4,194	4,507	8,000	31,025	43,615	84,599	96,122	115,161	131,513	149,459
						16,698			29,977	95,227	170,250	208,231	124,927
Total expenses	11,153	6,049	12,089	10,540	11,364	32,103	58,885	62,397	104,335	140,937	187,271	217,787	259,683
Depreciation & amortization		242	336	430	524	1,532		5,309	6,874	7,674	7,420	8,571	9,000
EBITDA	(11,153)	(5,551)	(11,263)	(9,764)	(10,840)	(37,418)	(15,207)	(21,026)	31,439	103,443	243,341	314,336	436,417
Operating income	(11,153)	(5,793)	(11,599)	(10,194)	(11,364)	(38,950)	(15,207)	(26,335)	24,565	95,769	235,921	305,764	427,417
Interest income			4	5									
Interest expense	8,842	(7,092)	-	-	-	(7,092)	(735)	(588)	(294)	(74)	-	-	-
Other expense / (income), net	190			46	50	96	200	200	200	200	200	200	200
Interest & other	9,032	(7,092)	4	51	50	(6,996)	(535)	(388)	(94)	127	200	200	200
Gain on foreign currency exchange		4	(40)										
Pre-tax income		(12,881)	(11,635)	(10,143)	(11,314)	(45,973)	(15,742)	(26,723)	24,471	95,896	236,121	305,964	427,617
Taxes	22	35	16	35			-	-	9,124	35,388	87,217	113,059	158,070
Tax rate							37%	37%	37%	37%	37%	37%	37%
Net income - GAAP	(20,207)	(12,916)	(11,651)	(10,178)	(11,314)	(46,059)	(15,742)	(26,723)	15,347	60,508	148,904	192,905	269,547
GAAP EPS	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.63)	(\$0.69)	(\$3.18)	(\$0.81)	(\$1.22)	\$0.63	\$2.25	\$5.33	\$6.63	\$8.91
Adjusted EPS excl. options expt	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.63)	(\$0.69)	(\$3.18)	(\$0.81)	(\$1.22)	\$0.63	\$2.25	\$5.33	\$6.63	\$8.91
Diluted shares outstanding	13,902	9,638	15,888	16,207	16,288	14,505	19,515	21,972	24,411	26,888	27,963	29,082	30,245
Pro Forma Shares													

Source: Canaccord Genuity Estimates

Figure 4: EGLT Valuation

Product	Peak Sales (\$MM)	Peak Year	Current Value (\$MM)	Probability Adjustment	Value / Share	Scenario probability	Adjusted Value
Non-Partnered							
Egalet-001 (morphine)	112	2025	26	50%	\$2	20%	\$0
Egalet-002 (ox y codone)	886	2027	227	35%	\$16	20%	\$3
Equity Value					\$18	20%	\$4
Partnered							
Egalet-001 (morphine)	112	2025	26	50%	\$2	55%	\$1
Egalet-002 (ox y codone)	1112	2027	125	35%	\$9	55%	\$5
Equity Value					\$11	55%	\$6
Royalty							
Egalet-001 (morphine)	112	2025	26	50%	\$2	25%	\$0
Egalet-002 (ox y codone)	200	2027	103	35%	\$7	25%	\$2
Equity Value					\$9	25%	\$2
Total Equity Value							\$12
Net Cash (50% adj)							\$0
Value per share							\$12
Shares Outstanding (MM)							13.9
Risk-Free Rate	2.00%						
Beta	1.3						
Risk Premium	8%						
Discount Rate	12%						

Source: Canaccord Genuity Estimates

Appendix: Important Disclosures

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Target Price / Valuation Methodology:

Egalet Corp. - EGLT

Our \$12 price target is based on a probability adjusted NPV valuation.

Risks to achieving Target Price / Valuation:

Egalet Corp. - EGLT

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.

Distribution of Ratings:

Global Stock Ratings (as of 01/21/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	635	58.74%	31.02%
Hold	348	32.19%	13.51%
Sell	50	4.63%	2.00%
Speculative Buy	48	4.44%	60.42%
	1081*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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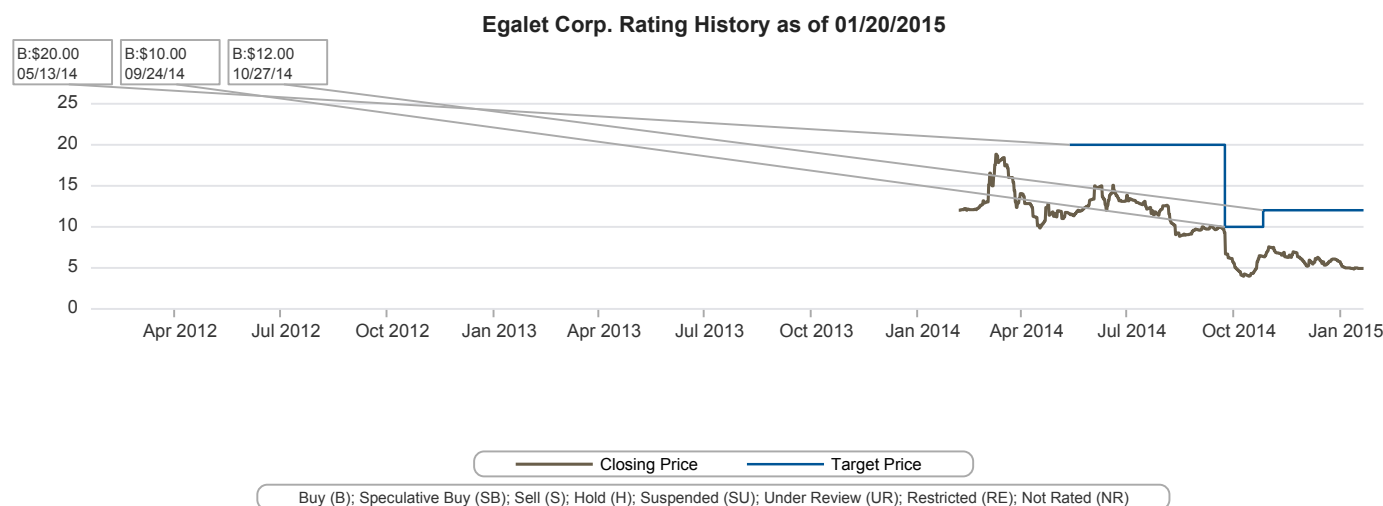
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