

## Eagle Pharmaceuticals, Inc.

### Updating Our Model to Reflect Accounting Changes to Fiscal Year

- After the markets closed Tuesday, February 17, Eagle Pharmaceuticals reported financial results for the three-month period ended December 31, 2014, as the company transitions to a 2015 fiscal year ending on December 31, 2015. Total revenue for this period was \$5.6 million, including roughly \$500,000 from Ryanodex for malignant hypothermia, which was launched in the United States in August 2014 and recorded about \$200,000 in revenue in the previous fiscal quarter. Operating costs amounted to \$12.2 million with a net loss of \$5.5 million or \$0.39 per share. We have adjusted our model to account for the stub period in 2014 and have moved our estimates up one quarter to reflect the fiscal year reflecting the calendar year starting in 2015. Exhibit 1 shows our old and new estimates, which only differ from our estimates published earlier Tuesday because of this accounting change.
- Before the markets opened on Tuesday, we published a note on an announcement by Eagle and Teva Pharmaceuticals (TEVA \$57.00) that the companies entered an exclusive licensing agreement for EP-3102, Eagle's bendamustine rapid infusion product for the treatment of chronic lymphocytic leukemia and B-cell non-Hodgkin's lymphoma that would have taken significant market share away from Teva's over \$700 million annualized product, Treanda.
- We maintain our Outperform rating on Eagle as management has executed on all of its stated goals since the company went public in 2014. We believe that Eagle is in a strong position and offers significant upside from current levels with little clinical risk as it transforms into a profitable specialty pharmaceuticals company with significant cash flow pending the approval of EP-3102. With what we believe are modest assumptions for the peak penetration and royalties from the bendamustine agreement and Ryanodex launch, we derive a net present value for the company's pipeline of \$43 per share.

*Eagle Pharmaceuticals is a developer of best-in-class injectable therapeutics. The company is using the 505(b)(2) pathway to enter the market before first-to-file generics.*

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February 17, 2015

Stock Rating: **Outperform**  
Company Profile: **Aggressive Growth**  
Price Target: **\$43.00**

Symbol: EGRX (NASDAQ)  
Price: \$26.10 (52-Wk.: \$9-\$22)  
Market Value (mil.): \$294  
Fiscal Year End: September  
Long-Term EPS Growth Rate:  
Dividend/Yield: None

	2013A	2014A	2015E
<b>Estimates</b>			
EPS Q1	NA	NA	\$1.85
Q2	NA	NA	\$-0.36
Q3	NA	NA	\$-0.52
Q4	NA	NA	\$0.45
FY	\$-1.16	\$-1.63	\$1.41
CY			
Sales (mil.)	NA	19	62
<b>Valuation</b>			
FY P/E	NM	NM	18.5x
CY P/E		NA	NA

<b>Trading Data (FactSet)</b>	
Shares Outstanding (mil.)	14
Float (mil.)	8
Average Daily Volume	67,786

<b>Financial Data (FactSet)</b>	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	2.4
Return on Equity (TTM)	-97.6

#### Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

**Exhibit 1**  
**Eagle Pharmaceuticals**  
**Revised and New Estimates**

	EGRX Old 2015E		EGRX New 2015E		EGRX Old 2016E		EGRX New 2016E		EGRX Old 2017E		EGRX New 2017E	
(\$ in millions except EPS)												
Product Sales	\$	10.5	\$	16.8	\$	27.2	\$	28.4	\$	120.0	\$	120.0
Royalty Income	\$	5.0	\$	5.0	\$	50.9	\$	74.4	\$	132.0	\$	145.5
Other Income	\$	30.0	\$	40.0	\$	10.0	\$	-	\$	5.0	\$	5.0
<b>Total Revenue</b>	<b>\$</b>	<b>45.5</b>	<b>\$</b>	<b>61.8</b>	<b>\$</b>	<b>88.1</b>	<b>\$</b>	<b>102.8</b>	<b>\$</b>	<b>257.0</b>	<b>\$</b>	<b>270.5</b>
COGS	\$	4.6	\$	4.8	\$	1.1	\$	1.2	\$	36.0	\$	36.0
R&D	\$	18.0	\$	18.0	\$	20.0	\$	20.0	\$	22.0	\$	22.0
SG&A	\$	17.3	\$	17.3	\$	26.0	\$	26.0	\$	28.6	\$	28.6
Operating Income	\$	3.3	\$	18.2	\$	34.8	\$	49.1	\$	119.1	\$	132.6
(Loss) Income Before Taxes	\$	5.6	\$	21.1	\$	40.8	\$	55.1	\$	127.1	\$	140.6
Net Income	\$	4.6	\$	20.1	\$	39.8	\$	54.1	\$	82.6	\$	91.4
<b>CY EPS</b>	<b>\$</b>	<b>1.18</b>	<b>\$</b>	<b>1.41</b>	<b>\$</b>	<b>3.39</b>	<b>\$</b>	<b>3.69</b>	<b>\$</b>	<b>7.97</b>	<b>\$</b>	<b>6.06</b>

Sources: Company reports, William Blair & Company, L.L.C. estimates

**Valuation:** We believe shares of Eagle continue to hold a strong risk/reward profile, given the potential for significant profitability. In our view, the company's pathway through a 505(b)(2) approval process holds a reduced development risk compared with many small-cap development-stage specialty pharmaceutical companies. Our price target for shares of Eagle is \$43, based on a net present value of the company's lead development programs, EP-3102/EP-3102 (bendamustine products) for CLL and NHL, Ryanodex for malignant hypothermia, and EP-6101 (RTU-bivalirudin). Our full model with additional details is available from a William Blair salesperson; a summary is shown on the following page.

**Risks:** An investment in Eagle involves regulatory, commercialization, and financial risk, common in development-stage specialty pharmaceutical companies. Eagle's pipeline is also focused on products near the end of their life cycles, and generic companies are traditionally strong competitors for market share, sometimes taking prices to unsustainable levels. We believe pricing and the resulting market share gains or losses will be a risk for Eagle as the company brings its therapies to the market.

# William Blair

## Eagle Pharmaceuticals

### Earnings Model

2/17/15

(\$ in thousands except EPS data)

Rating: Outperform  
Company Profile: Aggressive Growth

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	2014(A)	2015(E)	2016(E)	2017(E)
Product Revenue	3,827	16,750	28,413	120,040
Ryanodex (dantrolene)	700	11,200	23,600	27,200
Diclofenac/Misoprostol	-	2,300	2,813	3,090
EP-6101 (bivalirudin)	-	-	-	87,750
EP-5101 (pemtrexed)	-	-	-	-
EP-1101 (argatroban)	3,127	3,250	2,000	2,000
EP-2101 (topotecan)	-	-	-	-
EP-3102 Royalties	-	-	70,350	142,500
Other royaltiesRevenue	11,576	5,000	4,000	3,000
Other Revenue	3,765	40,000	-	5,000
<b>Total Revenue</b>	<b>19,168</b>	<b>61,750</b>	<b>102,763</b>	<b>270,540</b>
yr/yr growth	76.7%	222.2%	66.4%	163.3%
q/q growth				
incremental rev q/q				
<b>Cost of Goods Sold</b>	<b>11,578</b>	<b>4,780</b>	<b>1,180</b>	<b>36,021</b>
<i>Gross Profit</i>	<i>7,336</i>	<i>56,970</i>	<i>101,583</i>	<i>234,519</i>
<b>Royalty Expense</b>		<b>840</b>	<b>6,490</b>	<b>51,355</b>
<b>SG&amp;A</b>	<b>11,672</b>	<b>17,250</b>	<b>26,000</b>	<b>28,600</b>
<i>Growth</i>	<i>85%</i>	<i>48%</i>	<i>51%</i>	<i>10%</i>
<b>R&amp;D</b>	<b>18,213</b>	<b>18,000</b>	<b>20,000</b>	<b>22,000</b>
	<i>47%</i>	<i>-1%</i>	<i>11%</i>	<i>10%</i>
<b>Total Operating Expenses</b>	<b>29,885</b>	<b>37,890</b>	<b>52,490</b>	<b>101,955</b>
<i>growth</i>	<i>-3%</i>	<i>27%</i>	<i>39%</i>	<i>94%</i>
			<i>49%</i>	
Operating Income	(22,549.6)	18,240.1	49,093.4	132,564.2
EBIT Margin	NA	30%	48%	49%
growth y/y (%)	14%	-181%	169%	170%
Depreciation and Amortization	-	1,000	1,000	1,000
EBITDA	(22,295)	20,080	50,093	133,564
	NA	33%	49%	49%
Other income	804	2,000	6,000	8,000
Income Before Taxes	(22,621)	21,080	55,094	140,564
Income Tax Benefit (Provision)	2,353	1,000	1,000	49,197.51
Effective Tax Rate	NA	NA	NA	35%
<b>Net Income (GAAP)</b>	<b>\$ (20,268)</b>	<b>\$ 20,080.3</b>	<b>\$ 54,093.7</b>	<b>\$ 91,366.8</b>
Convertible preferred stock	\$ (534)	-	-	-
Net loss attributable to common stockholders	\$ (20,802)	\$ 20,080.3	\$ 54,093.7	\$ 91,367
Basic and diluted net loss per common share	\$ (1.63)	\$ 1.41	\$ 3.69	\$ 6.06
Basic and diluted weighted avg. shares of common out	12,734	14,271	14,671	15,071

### Key Ratios (GAAP unless noted)

Gross Margin	27%	71.5%	95.8%	70.0%
R&D (% Total Rev.)	NM	29.1%	19.5%	8.1%
SG&A (% Total Rev.)	NM	27.9%	25.3%	10.6%
Operating Margin	NM	NM	47.8%	49.0%
Net Income Margin	NM	32.5%	52.6%	33.8%
<b>Revenue Growth</b>				
Growth Yr/Yr	77%	222%	66%	163%
Growth Q/Q				
<b>SG&amp;A Growth</b>				
Growth Yr/Yr	85%	48%	51%	10%
Growth Q/Q				
<b>R&amp;D Growth</b>				
Growth Yr/Yr	47%	-1%	11%	10%
Growth Q/Q				

William Blair & Company, L.L.C.

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William Blair is a market maker in the security of Eagle Pharmaceuticals, Inc.

William Blair intends to seek investment banking compensation in the next three months from Eagle Pharmaceuticals, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with Eagle Pharmaceuticals, Inc.

Additional information is available upon request.

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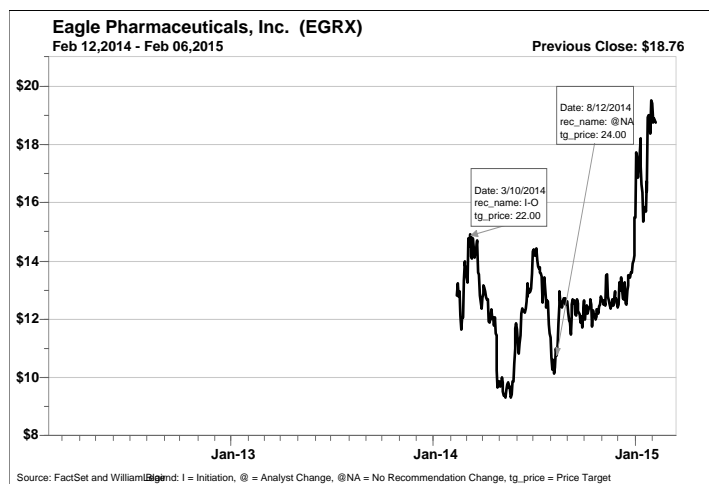
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DOW JONES: 18,019.35

S&P 500: 2,096.99

NASDAQ: 4,893.84



### **Current Rating Distribution (as of 01/31/15)**

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	64	Outperform (Buy)	16
Market Perform (Hold)	32	Market Perform (Hold)	2
Underperform (Sell)	2	Underperform (Sell)	0

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