

	Annual EPS	Annual Revenue	Target
Today's Changes	2014E No change 2015E No change	2014E No change 2015E No change	\$12 from \$10

## Egalet Corp.

EGLT : NASDAQ : US\$6.45

**BUY**

**Target: US\$12.00↑**

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### COMPANY STATISTICS:

Forecast Return:	86%
Market Cap (M):	US\$111
52-week Range:	8.74 - 19.85
Avg. Daily Vol. (000s):	33.1

### EARNINGS SUMMARY:

FYE Dec		2013A	2014E	2015E
P/Sales:		NM	149.4x	NM
P/E:		NM	NM	NM
Revenue (M):	Q1	0.0	0.3A	0.0
	Q2	0.0	0.5A	0.0
	Q3	0.0	0.0	0.0
	Q4	0.0	0.0	0.0
Total		0.0	0.7	0.0
EPS:	Q1	(2.12)	(1.34)A	(0.53)
	Q2	(2.28)	(0.73)A	(0.55)
	Q3	(4.34)	2.05	(0.54)
	Q4	(0.67)	(0.78)	(0.44)
Total		(1.45)	(3.42)	(2.05)

### 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

## PFIZER REMOXY TERMINATION MAJOR PLUS FOR EGALET

### Investment highlights

#### Remoxy termination reduces competition for Egalet-002

Pfizer will no longer develop Remoxy, a long-acting abuse deterrent form of oxycodone, and will return all rights to Durect, which greatly reduces competitive risk for Egalet, in our view. Pfizer may have determined that an additional Phase 3 study would be needed due to a change in inactive excipients.

#### Expect head-to-head likeability data vs. Purdue 2Q15

Importantly, Egalet should have likeability data for Egalet-002, its long-acting abuse deterrent oxycodone head-to-head vs. Purdue's Oxycontin-OP in 2Q15, potentially showing superior abuse deterrence for Egalet. We believe this data readout will be key for Egalet, and could produce a major inflection in the share price, as it could differentiate Egalet-002 from Oxycontin-OP.

#### Higher confidence in full Phase 3 for Egalet-001

We now estimate an ~50% chance of success for Egalet-001, the company's abuse deterrent morphine in Phase 3. Egalet-001 has a nearly identical pK profile to morphine, and the randomized discontinuation design for Phase 3 should minimize placebo effect. Assuming a 1Q15 start, we expect data mid-2016.

#### Raising price target to \$12

We are raising our price target to \$12 from \$10 based on higher chance of success for Egalet-001 and lower competition for Egalet-002.

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## VALUATION

Figure 1: Egalet 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	30	50%	\$2	20%	\$0
Egalet-002 (oxycodone)	886	2027	228	35%	\$16	20%	\$3
Equity Value					\$19	20%	\$4
Partnered							
Egalet-001 (morphine)	112	2025	30	50%	\$2	55%	\$1
Egalet-002 (oxycodone)	1112	2027	126	35%	\$9	55%	\$5
Equity Value					\$11	55%	\$6
Royalty							
Egalet-001 (morphine)	112	2025	30	50%	\$2	25%	\$1
Egalet-002 (oxycodone)	200	2027	99	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		1.30					
Risk Premium		8%					
Discount Rate		13%					

Source: Canaccord Genuity, Inc. estimates

Figure 2: Egalet Income Statement

## Egalet Corporation

Income Statement (\$000's)	2013A	Mar-14A	Jun-14A	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Total revenues</b>	0	256	490	-	-	746	-	-	65,494	151,515	321,547	470,416
Cost of goods sold							-	-	9,169	19,697	41,801	56,450
<b>Gross profit</b>	0	256	490	-	-	746	-	-	56,325	131,818	279,746	413,966
<b>Operating expenses</b>												
Research & development												
Egalet-001	1,187	1,800	2,100	2,100	2,000	8,000	9,282	9,746	9,259	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
Other Clinical and Preclinical	1,288	567	1,489	1,250	1,250	4,556	5,000	5,500	(5,037)	7,376	36,926	63,361
Personnel Related	1,431	365	372	379	386	1,503	1,578	1,735	2,083	2,499	2,999	3,599
<b>R&amp;D</b>	6,280	2,780	7,361	7,129	7,236	24,507	27,860	18,782	7,204	18,182	48,232	75,267
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	4,728	5,041	5,353	8,000	8,900	9,790	11,748	14,685	18,356	22,945
<b>SG&amp;A</b>	4,873	3,269	4,728	5,041	5,353	8,000	14,525	26,290	66,408	75,656	86,510	99,281
<b>Total expenses</b>	11,153	6,049	12,089	12,170	12,590	32,507	42,385	45,072	73,612	93,838	134,742	174,547
Depreciation & amortization		242	336	430	524	1,532		5,309	6,874	7,674	7,420	8,571
<b>EBITDA</b>	(11,153)	(5,551)	(11,263)	(11,740)	(12,066)	(40,620)	(39,792)	(45,072)	(17,287)	37,980	145,003	239,419
<b>Operating income</b>	(11,153)	(5,793)	(11,599)	(12,170)	(12,590)	(42,152)	(39,792)	(50,380)	(24,162)	30,306	137,584	230,848
Interest income			4									
Interest expense	8,842	(7,092)	-	-	-	(7,092)	-	-	-	-	-	-
Other expense / (income), net	190			50	50	100	200	200	200	200	200	200
<b>Interest &amp; other</b>	9,032	(7,092)	4	50	50	(6,992)	200	200	200	200	200	200
Gain on foreign currency exchange		4	(40)									
<b>Pre-tax income</b>		(12,881)	(11,635)	(12,120)	(12,540)	(49,176)	(39,592)	(50,180)	(23,962)	30,506	137,784	231,048
Taxes	22	35	16				-	-	-	11,139	50,832	85,340
<b>Tax rate</b>							37%	37%	37%	37%	37%	37%
<b>Net income - GAAP</b>	(20,207)	(12,916)	(11,651)	(12,120)	(12,540)	(49,227)	(39,592)	(50,180)	(23,962)	19,367	86,952	145,708
<b>GAAP EPS</b>	(\$1.45)	(\$1.34)	(\$0.73)	\$2.05	(\$0.78)	(\$3.42)	(\$2.05)	(\$2.37)	(\$1.06)	\$0.83	\$3.56	\$5.74
<b>Adjusted EPS excl. options expense</b>	(\$1.45)	(\$1.34)	(\$0.73)	(\$0.76)	(\$0.78)	(\$3.42)	(\$2.05)	(\$2.37)	(\$1.06)	\$0.83	\$3.56	\$5.74
Diluted shares outstanding	13,902	9,638	15,888	15,967	16,047	14,385	19,271	21,206	22,555	23,457	24,395	25,371

Source: Company reports, Canaccord Genuity

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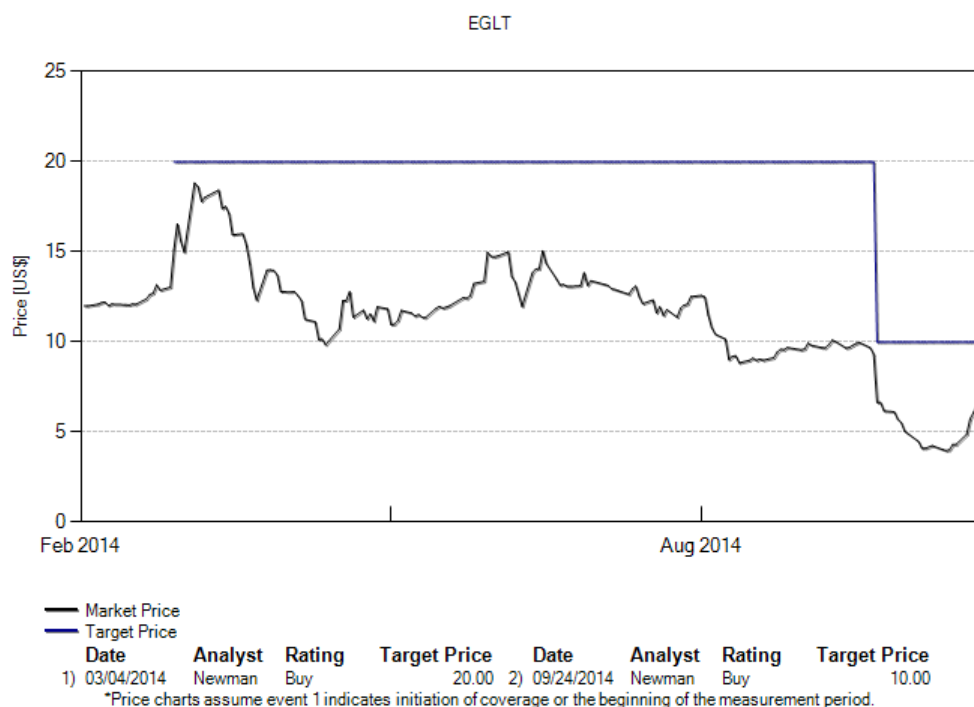
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An analyst has not visited the material operations of Egalet Corp.

**Price Chart:\*****Distribution of Ratings:**

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(as of 1 October 2014)

Rating	Coverage Universe		IB Clients
	#	%	%
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Speculative Buy	53	5.1%	54.7%
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Sell	43	4.1%	2.3%
	1041	100.0%	

\*Total includes stocks that are Under Review

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