

Specialty Pharmaceuticals

Price:	\$4.93
Fair Value Estimate:	\$17.00
52-Week Range:	\$3.81 - \$19.85
Market Cap (MM):	\$85
Shr.O/S-Diluted (mm):	17.3
Average Daily Volume:	12,698
Book Value:	\$(4.69)
Dividend:	NA
Cash/Share:	\$(0.73)
FCF Yield:	39.1%
Debt/Cap:	235%

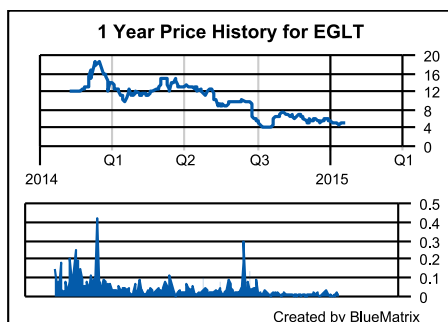
FYE: Dec	2013A	2014E	2015E
EPS:	\$(4.29)A	\$(3.12)E	\$(2.67)E
Prior EPS:		NC	NC
Consensus	NM	NM	-3.29
P/E Ratio:	NA	NA	NA

Quarterly EPS:

Q1	\$(3.40)A	\$(1.34)A	\$(0.83)E
Q2	\$(3.40)A	\$(0.73)A	\$(0.68)E
Q3	\$(3.40)A	\$(0.63)A	\$(0.61)E
Q4	\$(0.35)A	\$(0.65)E	\$(0.58)E

Quarterly Revenue (M):

Q1	\$0A	\$0A	--
Q2	\$0A	\$0A	--
Q3	\$0A	\$0A	--
Q4	\$0A	\$0E	--
Year:	\$0A	\$0E	\$0E



January 20, 2015

Egalet Ltd.

(EGLT) - BUY

EGLT: The Dark Horse of 2015, \$17 FV from \$14

PORTFOLIO MANAGER BRIEF

We come away from our recent management meeting incrementally more positive on the EGLT name. We believe that the risk/reward profile surrounding the name is attractive going into 2015 with the additional revenue via the two recently acquired assets and the initiation of the three Phase 3 trials. We feel investors will be slow to embrace the recent pivot to a fully commercial company, but that this move backstops the valuation and depending on execution, gives EGLT needed commercial insight before 001 & 002 are brought to the market.

ANALYST NOTES

- Getting behind the commercial pivot: We understand that it may be difficult for investors to get behind the commercial pivot with the recent acquisitions. That said, these products will bring in additional revenue and EGLT will gain commercial experience. The execution of the commercial strategy will be telling as to what EGLT ultimately comes away with. More details will be forthcoming in the quarter about the overall strategy, but we believe that the additional revenue will be meaningful in the short term.
- Products, pricing and potential: Though the products are complimentary to the portfolio that EGLT could potentially build, they aren't without caveats; Sprix with some serious dose-response side effects and Oxaydo which never really got off the ground commercially. That said, with no promotion, Sprix had ~\$5M in annual revenue last year. Given that EGLT has increased the price from \$185 to \$942, we believe that the short term revenue should be meaningful. Oxaydo, an abuse deterrent (AD) formulation of oxycodone, enters a market in need. Though not the most robust of technologies, we still expect some incremental revenue when priced at parity to other AD formulations.
- A more de-risked clinical program than initially thought: We came away from the management meeting, reevaluation their clinical pipeline, which we now feel is more de-risked. EGLT will basically be running a morphine trial and an oxycodone trial. Both formulations have shown that they have proper AUC data, which is directly correlated to efficacy. The trials are being run by an experienced contract research organization and are expect to initiate in 1Q15 with top-line data by 2Q16. We believe EGLT will have success in all three trials. Another potential value catalyst is the AD study for 002 which is expected in mid-2015.

- Maintain Buy rating, \$17FV up from \$14: We believe that EGLT could be the dark horse of our coverage universe, with the ability to do it and have it all. We are looking forward to some clarity around their commercial strategy, but we do model additional revenue into our model with 2020 US Sprix sales at ~\$25M, discounted at 15% adding \$2/share with 2020 US oxaydo sales at ~\$17M discounted at 15%, adding \$1.50/shares.

EXHIBIT 1:

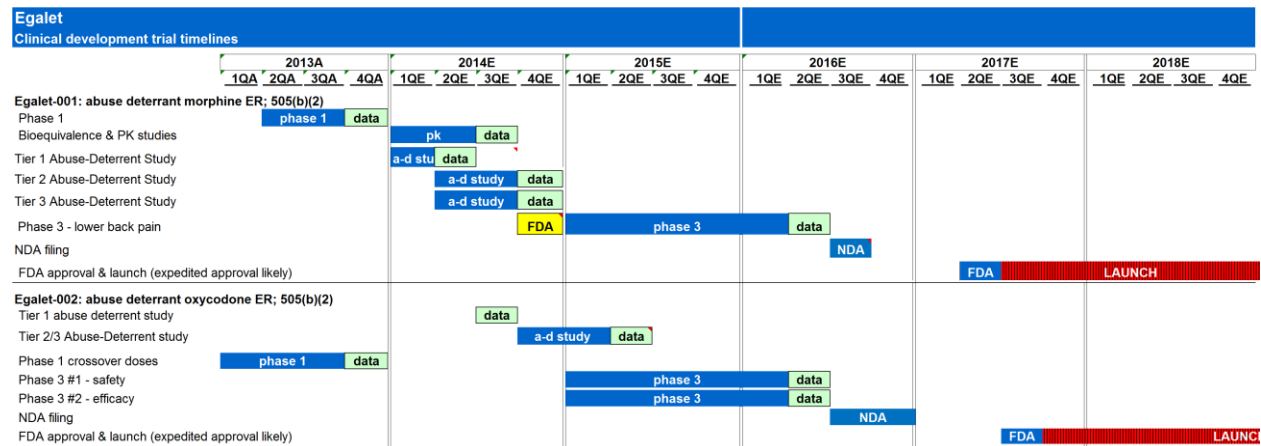


EXHIBIT 2:

Sum-of-the-parts value: EGLT		
Segment	Valuation (000's)	Per share value
Egalet-001 (Morphine)	\$74,886	\$4.0
Egalet-002 (Oxycodone)	\$166,984	\$9.0
Sprix (ketorolac tromethamine)	\$36,882	\$2.0
OXAYDO (oxycodone)	\$25,806	\$1.5
Cash & tech value	\$5,000	\$0.5
SUM	\$309,558	\$17
Shares out '15E (000)		18,807

Source: Janney estimates

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Chiara Russo, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Egalet Ltd. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Egalet Ltd. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Egalet Ltd. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Egalet Ltd. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 12/31/14

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	138	51.30	15	10.87
NEUTRAL [N]	131	48.70	5	3.82
SELL [S]	0	0.00	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

This report is for your information only and is not an offer to sell or a solicitation of an offer to buy the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal or the entity that provided this report to them, should they desire further information. The information in this report has been obtained or derived from sources believed by Janney Montgomery Scott LLC, to be reliable. Janney Montgomery Scott LLC, however, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Janney Montgomery Scott LLC at this time and are subject to change without notice.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however, our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views. Supporting information related to the recommendation, if any, made in the research report is available upon request.