

Egalet (EGLT : US\$5.56)

Egalet continues downtrend, now plummets 57.5% in third quarter ending

Egalet Corporation, NASDAQ's 60th largest medical company by market cap, plummeted US\$7.52 (or 57.5%) in the quarter ended September 30 to close at US\$5.56. This loss means the stock is amongst the bottom 2% of NASDAQ-listed stocks in quarter ended September 30. The volume in the quarter was 0.7 times the average trading of 49,348 shares. Compared with the NASDAQ-100 Index which rose 150.2 points (or 3.8%), this represents a relative price change of -61.3%. In the third quarter the market cap declined US\$131.2 million.

Introduction

We are currently bullish on this stock in the short-term based on technical indicators, but are more bearish in the long-term based on fundamental metrics

What makes us most bullish on the stock is the following:

- The price is below the lower Bollinger band of US\$5.69.
- The stock is oversold according to the Williams % R indicator of -97.1.

However, there are some reasons why we remain bearish on the stock for the long-term:

- The Q Ratio, defined by James Tobin as MCap divided by Total Assets, is 4.7. Compared with the rest of the market the stock is overvalued and ranks in the bottom 9% of stocks by value of Q Ratio.

Stock Summary

Sector	Medical
Market Cap	US\$96 million
Shares Outstanding	17,258,663
ISIN	US28226B1044
Relative Strength (3 mo)	1

Financial Summary

Year ended	Dec 2013	Dec 2012	Dec 2011
Sales (USD)	-	1.201M	630,000
Pretax (USD)	(20.185M)	(5.398M)	(6.46M)
Net (USD)	(20.207M)	(5.398M)	(6.46M)
EPS (USD)	(15.64)	(4.18)	-

MCap: A Historical Perspective

	Share Price (USD)	Market Cap (US\$)
Last	5.6	96 million

Analysis

Bearish Signals

- In the last 6 trading sessions there has been a net decline of 41.84%; the stock has retreated twelve times and the biggest one day decline was 28.6% on Sep 24.
- In the NASDAQ market of 2,413 stocks traded today, the stock has a 6-month relative strength of 2 indicating it is trailing 98.0% of the market.
- Also, the relative strength percentile is slipping at 2 for 6 months, 1 for 3 months and 1 for 1 month.
- The Moving Average Convergence Divergence (MACD) indicator of 12-day Exponential Moving Average (EMA) of 7.69 minus the 26-day EMA of 8.72 is negative suggesting a bearish signal. Both the 12-day EMA as well as the 26-day EMA are falling, another bearish signal.
- The bears are maintaining control with price open, high, low and close being below yesterday's levels.
- The current short volume is 1.6 times its own historical average of 0.1%.

Overvaluation:

- The Q Ratio, defined by James Tobin as MCap divided by Total Assets, is 4.7. Compared with the rest of the market the stock is overvalued and ranks in the bottom 9% of stocks by value of Q Ratio.

Other Bearish Signals:

- Return on Assets has been negative in recent years.

Annual Trend:

[Year ended, all figures in %]:

Year	ROA	ROCE
Dec 13	-99.2	-
Dec 12	-96.5	-145.5

The stock has a score of merely 1 out of 9 set by Joseph Piotroski [pass mark >=5]:

Total shares on issue unchanged.

Bearish Indicators and Rank in Market:

Description	Value	Rank In Market
MCap	US\$96 million	In Bottom Quartile
Volatility %	12.3	In Bottom 3%
Relative Strength (6M)	2	In Bottom 1%
Price Change %	-9.2	In Bottom 1%
Price/MAP50	0.26	In Bottom 1%

Note

Neutral Indicators and Rank in Market:

Description	Value	Rank In Market
Turnover in Quarter	US\$21.6 million	In 3rd Quartile

Bullish Signals:

- The price is at a discount of 33.0% to the 1-month volume weighted average price of US\$8.29, which may appeal as a value proposition.
- The price is below the lower Bollinger band of US\$5.69; the stock is also oversold according to the Williams % R indicator of -97.1.

Undervaluation:

- The company is cash rich with Cash to Market Capitalisation at 16.4%.

Other Bullish Signals:

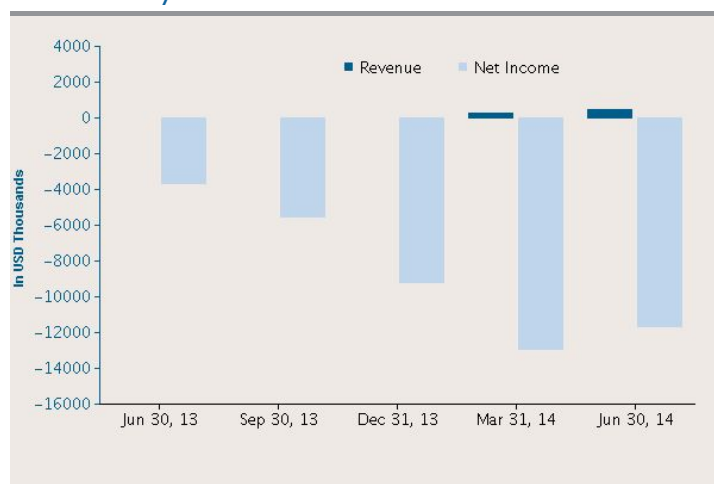
- Net Profit margin is negative but improving in recent quarters.

Quarterly Trend:

[Quarter ended, all figures in %]:

Qtr	Revenue Growth	Net Profit Margin
Jun 14	91.4	-2,379.2
Mar 14	-	-5,045.3

Quarterly Revenue & Net Income



Analysis (continued)

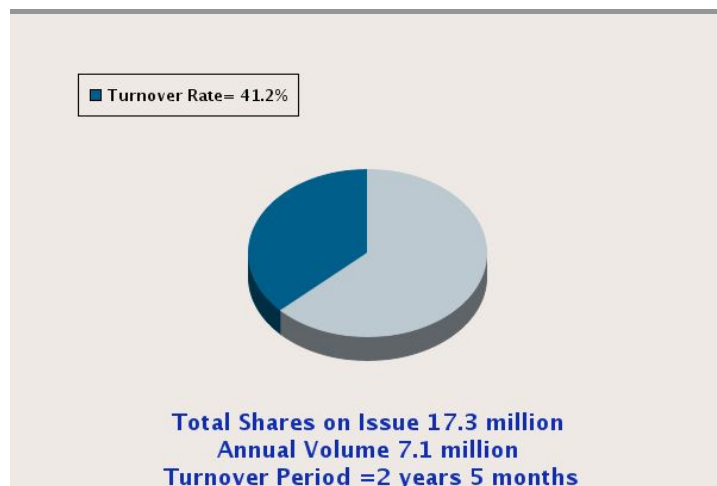
Bullish Indicators and Rank in Market:

Description	Value	Rank In Market
P/E * P/NTA	9.35	In Top Quartile

Insider Trades



Turnover Rate & Turnover Period



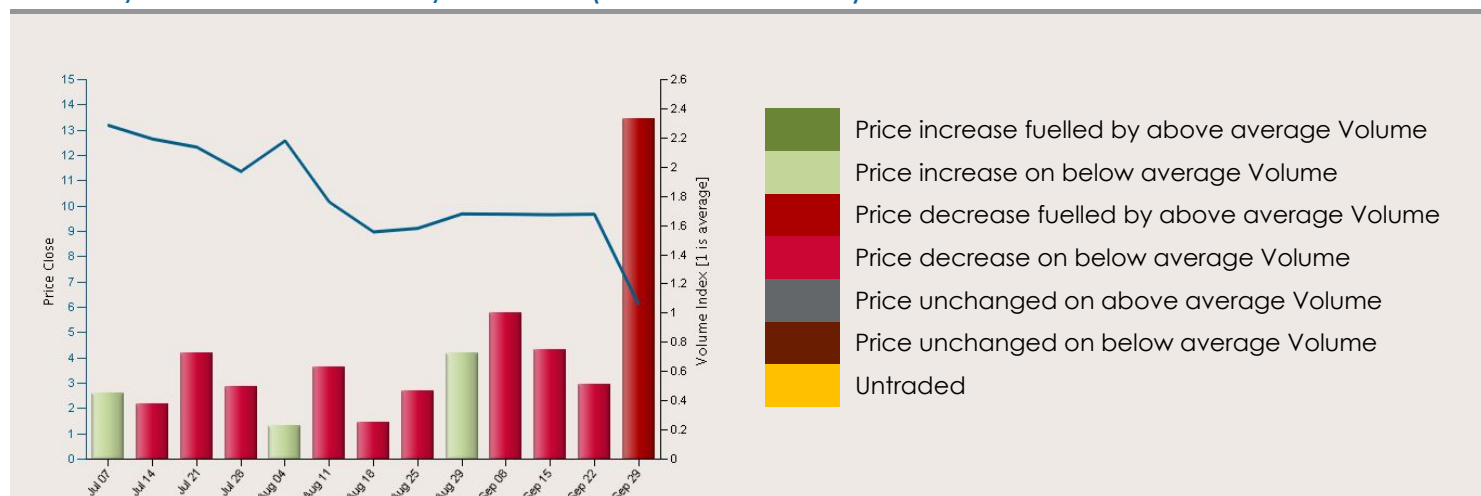
Trailing 3 months

Turnover	US\$21.6 million
Volume	2,243,977
Volume Index (1 is avg)	0.7

Price Volume Trend: Trailing Quarter



Weekly Price Volume Dynamics (Last 12 Weeks)



Reported Buying Selling by Insiders

Insider	Date	Transaction Type	No. of Shares	Price, US\$	Value, US\$
Radie Robert S	Sep 09, 2014	Sold	20,020	9.54	190,991
Radie Robert S	Sep 10, 2014	Sold	20,020	9.68	193,794
Radie Robert S	Sep 08, 2014	Sold	19,000	9.66	183,540
Radie Robert S	Sep 05, 2014	Sold	30,000	9.79	293,700
Strobeck Mark	Aug 12, 2014	Sold	2,500	9.26	23,150
Strobeck Mark	Aug 13, 2014	Sold	2,635	9.15	24,110
Strobeck Mark	Aug 11, 2014	Sold	3,300	10.16	33,528
Strobeck Mark	Aug 08, 2014	Sold	2,400	10.45	25,080
Strobeck Mark	Aug 07, 2014	Sold	1,200	10.9	13,080
Strobeck Mark	Aug 06, 2014	Sold	1,885	11.89	22,413

Company Overview

Regulatory Announcements

To view Recent Company Headlines, [click here](#)

September 23: Egalet Announces Update on Clinical Development Plan for Abuse-Deterrent Morphine Egalet-001
September 12: Egalet Announces Issuance of U.S. Patents Covering Guardian(TM) Technology and Product Candidates

September 11: Egalet insider sells; shares at a seven-day low

September 11: Egalet insider sells; shares at a five-day high

September 09: Egalet insider sells

September 04: Egalet to Present Data from Abuse-Deterrence Studies at PAINWeek 2014 in Las Vegas

August 18: Egalet Announces Successful End-of-Phase 2 Meeting with the FDA for Egalet-002

To view 8-K people news for Egalet, [click here](#)

February 11: Egalet appoints Gregory Weaver as director

To view 8-K other news for Egalet, [click here](#)

September 24: Egalet: Other Events

September 04: Egalet: Other Events

August 18: Egalet: Other Events

August 14: Egalet: Regulation FD Disclosure

August 12: Egalet: Results of Operations and Financial Condition

August 06: Egalet: Other Events

July 15: Egalet: Other Events

May 13: Egalet: Results of Operations and Financial Condition

March 31: Egalet: Other Events

March 26: Egalet: Results of Operations and Financial Condition

February 20: Egalet: Other Events

Conference Call-transcripts

To view Conference Call-transcripts, [click here](#)

13 Aug, 2014: Egalet's (EGLT) CEO Bob Radie on Q2 2014 Results - Earnings Call Transcript

Issued Capital

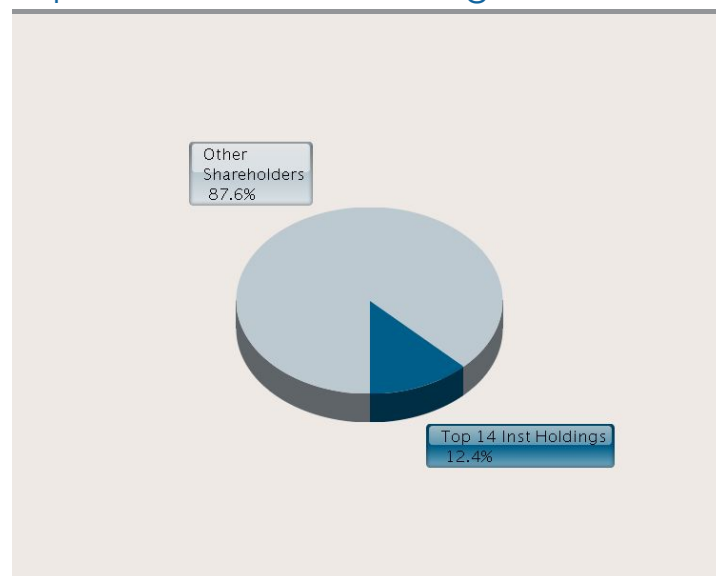
Based on 17,258,663 issued equity shares the market capitalisation is US\$96 million.

The top fourteen shareholders hold 12.4% of the issued capital leaving a float of 87.6%.

Top 10 Shareholders

Name of Shareholder	No. of Shares	% Held
Federated Investors Inc /Pa/	1,458,800	8.45
Jpmorgan Chase & Co	235,925	1.37
Tiverton Asset Management Llc	150,000	0.87
Iguana Healthcare Management Llc	100,000	0.58
Wells Fargo & Company/Mn	70,052	0.41
Sac Capital Advisors Lp	31,594	0.18
Northern Trust Corp	23,310	0.14
Geode Capital Management Llc	20,160	0.12
Vanguard Group Inc	19,756	0.11
Nationwide Fund Advisors	14,530	0.08
Total	2,124,127	12.31

Top 14 Institutional Holdings



Board and Management

Robert Radie CEO & President

Mr. Radie is our president and chief executive officer and a member of our board of directors, positions he has held since March 2012. From November 2010 to October 2011, Mr. Radie served as president and chief executive officer of Topaz Pharmaceuticals Inc., a specialty pharmaceutical company acquired by Sanofi Pasteur in the fourth quarter of 2011. From March 2009 to November 2010, Mr. Radie served as president and chief executive officer of Transmolecular, Inc., a biotechnology company developing cancer diagnostic and treatment products, after serving as a consultant to Transmolecular from December 2008 through March 2009. From September 2007 to September 2008, Mr. Radie served as the chief business officer of Prestwick Pharmaceuticals, Inc., a specialty pharmaceutical company. Before joining Prestwick, Mr. Radie served in senior management positions with a number of pharmaceutical and biotechnology companies, including Morphotek, Inc., Vicuron Pharmaceuticals, Inc. and Eli Lilly and Company. Mr. Radie has served as a director of Affinium Pharmaceuticals, Ltd., a specialty pharmaceutical company, since July 2012, and as a director of Horse Power For Life, a non-profit organization dedicated to improving the quality of life for individuals diagnosed with cancer, since 2007. Mr. Radie received his B.S. in chemistry from Boston College.

Stan Musial CFO

Mr. Musial has served as our chief financial officer since April 2013. From June 2011 to March 2013, Mr. Musial was self-employed, acting as an independent consultant in the fields of financial management and accounting services. From January 2005 to May 2011, Mr. Musial served as chief financial officer of Prism Pharmaceuticals, Inc., a specialty pharmaceutical and drug development company. Prior to joining Prism Pharmaceuticals, Mr. Musial was vice president, finance, and chief financial officer for Strategic Diagnostics, Inc., a publicly-held biotechnology company, from 2002 to 2004. Mr. Musial began his career with KPMG LLP, a professional services company. Mr. Musial received a B.S. in accounting from the Pennsylvania State University and an M.B.A. from Temple University. He is a certified public accountant in the Commonwealth of Pennsylvania.

Gregory Weaver Director

Timothy P. Walbert Director

Creation of shareholder value in Egalet:

Since appointment as Director: The present value of USD1,000 invested on the appointment date of March 11, 2014 at close price of US\$18.61 is US\$299, for a capital loss of US\$701.

Financial Results (Quarterly)

30 June, 2014

INCOME STATEMENT

Currency in USD	2014-06-30	2013-06-30	Change %
Related party revenues	490,000		
Operating Expenses:			
General and administrative	4,728,000	1,116,000	Up 323.7
Research and development	7,361,000	1,200,000	Up 513.4
Total operating expenses	12,089,000	2,316,000	Up 422.0
Loss from operations	-11,599,000	-2,316,000	Deterioration 400.8
Other income (expense):			
Interest expense (income)	4,000	1,367,000	Down 99.7
Loss (gain) on foreign currency exchange	47,000	11,000	Up 327.3
	43,000	1,378,000	Down 96.9
Loss before provision for income taxes	-11,642,000	-3,694,000	Deterioration 215.2
Provision for income taxes	16,000		
Net loss	-11,658,000	-3,694,000	Deterioration 215.6
Per share information:			
Net loss per share of common stock, basic and diluted	-73.0c	-286.0c	Reduced 74.5
Weighted average shares outstanding, basic and diluted	15,887,503	1,292,307	Up 1,129.4

BALANCE SHEET

Currency in USD	2014-06-30	2013-12-31	Change %
Assets			
Current assets:			
Cash and cash equivalents	69,259,000	15,700,000	Up 341.1
Related party receivable	345,000		
Prepaid expenses	526,000	1,774,000	Down 70.3
Other receivables	230,000	231,000	Down 0.4
Total current assets	70,360,000	17,705,000	Up 297.4
Property and equipment, net	2,476,000	2,378,000	Up 4.1
Intangible asset	208,000	209,000	Down 0.5
Deposits and other assets	2,087,000	71,000	Up 2,839.4
Total assets	75,131,000	20,363,000	Up 269.0
Liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity			

Financial Results (Quarterly) (continued)

30 June, 2014

Current liabilities:			
Related party senior convertible debt, net of discount		17,209,000	
Accounts payable	2,507,000	1,046,000	Up 139.7
Accrued expenses	1,551,000	1,755,000	Down 11.6
Deferred revenue	551,000		
Other current liabilities	74,000	55,000	Up 34.5
Total current liabilities	4,683,000	20,065,000	Down 76.7
Deferred income tax liability	22,000	22,000	Steady
Deferred revenue - non-current portion	9,188,000	10,149,000	Down 9.5
Total liabilities	13,893,000	30,236,000	Down 54.1
Commitments and contingencies			
Redeemable convertible preferred stock:			
Redeemable convertible Series A-1 preferred stock-0.01 par value; 1,406,894 shares and 0 shares issued and outstanding at December 31, 2013 and June 30, 2014, respectively		1,443,000	
Redeemable convertible Series A-2 preferred stock-0.01 par value; 593,106 shares and 0 shares issued and outstanding at December 31, 2013 and June 30, 2014, respectively		770,000	
Redeemable convertible Series B preferred stock-0.01 par value; 2,327,301 shares and 0 shares issued and outstanding at December 31, 2013 and June 30, 2014, respectively		12,628,000	
Redeemable convertible Series B-1 preferred stock-0.01 par value; 113,916 shares and 0 shares issued and outstanding at December 31, 2013 and June 30, 2014, respectively		116,000	
Total redeemable convertible preferred stock		14,957,000	
Stockholders' (deficit) equity:			
Common stock-0.01 par value and 0.001 par value at December 31, 2013 and June 30, 2014, respectively; 75,000,000 shares authorized at June 30, 2014; 1,292,307 and 17,258,663 shares issued and outstanding at December 31, 2013 and June 30, 2014, respectively	17,000	13,000	Up 30.8
Additional paid-in capital	118,017,000	7,431,000	Up 1,488.2
Accumulated other comprehensive income	1,176,000	1,125,000	Up 4.5
Accumulated deficit	-57,972,000	-33,399,000	Deterioration 73.6
Total stockholders' (deficit) equity	61,238,000	-24,830,000	Recovery
Total liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity	75,131,000	20,363,000	Up 269.0

PERFORMANCE RATIOS

	2014-06-30	2013-06-30	Change %
Return on Equity(%)	-40.13	22.11	Deterioration
Return on Assets(%)	-32.71	-26.96	Deterioration 21.3

PER SHARE FIGURES

	2014-06-30	2013-06-30	Change %
EPS	-192.0c	-425.0c	Reduced 54.8

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