

## Egalet Corp.

EGLT : NASDAQ : US\$13.92

BUY

Target: US\$20.00

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## COMPANY STATISTICS:

Market Cap (M): US\$193.5  
 52-week Range: 11.82 - 19.85  
 Avg. Daily Vol. (000s): 30,865

## EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
Revenue (M):	0.0	10.0	7.8
EPS:	(1.45)	(1.58)	(1.58)

Revenue (M):	Q1	0.0A	10.0E	0.0E
	Q2	0.0A	0.0E	0.0E
	Q3	0.0A	0.0E	2.5E
	Q4	0.0A	0.0E	5.2E
Total		0.0	10.0	7.8
EPS:	Q1	(2.12)A	0.27E	(0.49)E
	Q2	(2.28)A	(0.43)E	(0.50)E
	Q3	(4.34)A	(0.70)E	(0.36)E
	Q4	(0.67)A	(0.73)E	(0.10)E
Total		(1.45)	(1.58)	(1.58)

## SHARE PRICE PERFORMANCE:

Egalet Corporation (NASDAQ: EGLT)

Mar 31, 2014 Open: 12.770 High: 14.000 Vol: 26,851  
 Time: 11:49 Last: 14.000 Low: 12.610 Chg: 1.680 (+13.64%) ▲



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

## EGALET-001 INITIAL ABUSE DETERRENCE DATA POSITIVE; AWAIT ADDITIONAL DATA READOUTS DURING 2014

## Investment highlights

**Egalet-001 part 1 category 1 abuse deterrence data positive:** Physical manipulation abuse deterrence data for Egalet-001 (Morphine) vs. MS-Contin were positive, which bodes well for upcoming abuse deterrence results. Studies were conducted by an independent laboratory which tested a number of household tools, both electrical and non-electrical, to reduce the particle size of Egalet-001. Next, Egalet will test Egalet-001 for resistance to extraction via common household solvents (water, vinegar, ethanol, isopropanol, acetone, mineral spirits). We anticipate minimal drug API will be able to be extracted during this study.

**Expect positive category 2, 3 abuse deterrence data for Egalet-001:** We expect positive data for Egalet-001 in part 2 of category 1 abuse studies, involving extraction with household solvents in Q2. We also anticipate positive category 2 abuse deterrence studies for Egalet-001, testing changes in pK parameters of the physically manipulated formulation, IE, Cmax, Coverage and rate of onset in Q3. Most importantly, we expect positive category 3, or "likeability," studies for Egalet-001 where users are asked to rate the manipulated form of Egalet-001 vs. comparator in Q4.

**Multiple data readouts expected by YE14:** We expect a complete category 1 data readout for Egalet-001 and Egalet-002 in Q2, category 2 data in Q3 and category 3 data in Q4 for Egalet-001, and category 2 data in Q4 for Egalet-002. We anticipate this data will be positive, which we believe should push shares higher. Importantly, we expect pivotal bioequivalence data for Egalet-001 to be positive, and we also expect positive abuse deterrence data for Egalet-002 head to head with Purdue's Oxycontin OP, which should give an important early indication of commercial positioning.

**Valuation:** Our \$20 value is based on a \$6 value for Egalet-001, \$12 value for Egalet-002, and \$2 value for cash.

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**Valuation**

We value Egalet based on a probability-adjusted Net Present Value calculation for Egalet-001, Egalet-002 and cash. We model three possible scenarios for the company involving multiple partnership options for Egalet-002. We expect FDA approval for both Egalet-001 and 002. Our \$20 value is based on a \$6 value for Egalet-001, \$12 value for Egalet-002, and \$2 value for cash.

**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.

## APPENDIX: IMPORTANT DISCLOSURES

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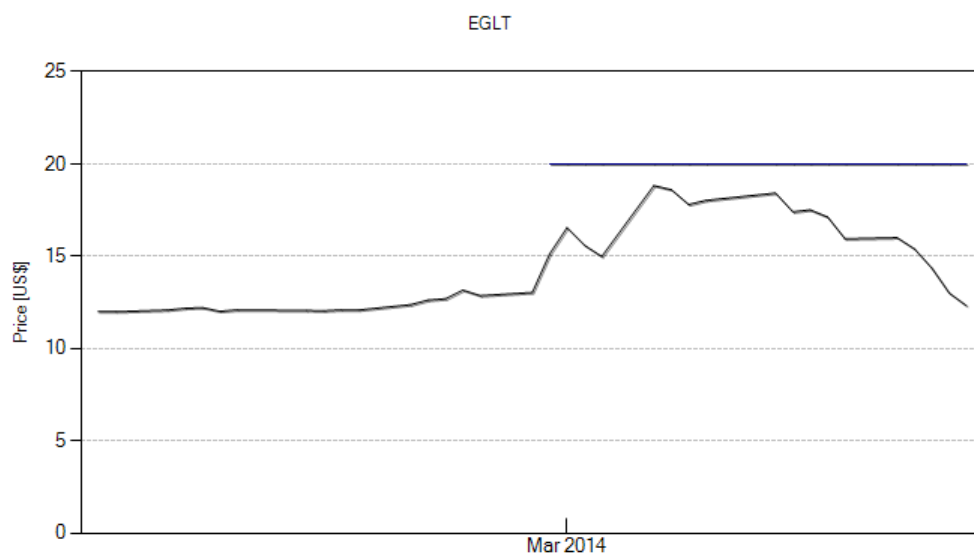
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**Site Visit:**

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

**Price Chart:\***

— Market Price  
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 03/04/2014	Newman	Buy	20.00				

\*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:**

Global Stock Ratings  
(as of 31 December 2013)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	564	57.0%	38.1%
Speculative Buy	47	4.7%	42.6%
Hold	325	32.8%	11.4%
Sell	50	5.1%	6.0%
	990*	100.0%	

\*Total includes stocks that are Under Review

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