

## Specialty Pharmaceuticals

### Egalet Ltd.

#### (EGLT) - BUY

**Price:** **\$11.60**

Fair Value Estimate: \$30.00

52-Week Range: \$9.54-\$19.85

Market Cap (MM): \$197

Shr.O/S-Diluted (mm): 17.0

Average Daily Volume: 74,903

Dividend: NA

Book Value: \$(4.69)

FYE: Dec	2013A	2014E	2015E
EPS:	\$(4.29)A	\$(2.74)E	\$(2.07)E
Prior EPS:		\$(1.75)	\$(2.50)
P/E:	NA	NA	NA

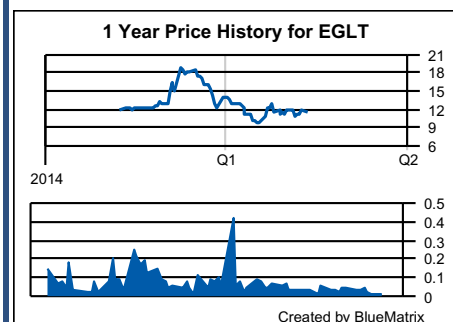
#### Quarterly EPS:

Q1	\$(3.40)A	\$(1.34)A	\$(0.60)E
Q2	\$(3.40)A	\$(0.54)E	\$(0.56)E
Q3	\$(3.40)A	\$(0.50)E	\$(0.63)E
Q4	\$(0.35)A	\$(0.63)E	\$(0.30)E

FYE: Dec	2013A	2014E	2015E
Revenue (M):	\$0.0A	\$0.0E	\$8.0E

#### Quarterly Revenue (M):

Q1	\$0.0A	\$0.0A	--
Q2	\$0.0A	\$0.0E	--
Q3	\$0.0A	\$0.0E	--
Q4	\$0.0A	\$0.0E	--



Equity Research  
**Note**

## EGLT: 1Q14 Building the case for EGLT-001

### INVESTMENT CONCLUSION:

EGLT reported 1Q14 earnings this morning before the open with an EPS of (\$1.34) compared to Janney estimate of (\$0.34), mainly due to \$7M in premium accretion from a convertible debt. EGLT is still a development stage company, but is looking forward to some important catalysts in late 2014, including a PK bioequivalence read-out, two abuse-deterrent study read-outs and a potential NDA filing for its lead product candidate EGLT-001, an abuse-deterrent, extended release oral morphine formulation for chronic pain. With the opioid abuse epidemic continuing to be a top priority not only in the physicians but also the regulators office, we continue to believe that EGLT has the potential to take significant market share in the \$4.1B long-lasting opioid market. Maintain Buy rating, \$30 fair value.

### KEY POINTS:

- **1Q14 financials miss on interest:** EGLT reported 1Q14 earnings before the open of the market this morning with an EPS of (\$1.34) compared to Janney estimates of (\$0.34). The miss was mainly attributed to a \$7M interest expense related to the premium accretion from an August 2013 convertible debt issuance as well as slightly higher share count projection. G&A was slightly higher than expected while R&D expenses was roughly in-line with estimates. Cash at the end of 1Q was \$77.5M which should fund operations through mid-2015 and commercial launch of EGLT-001.
- **Busy clinical program over the next 12-18 months:** On the call management tightened up some of the timelines for EGLT-001 with the majority of the studies reading out in late 3Q14/early 4Q14, the one exception is the second-half of the category 1 abuse-deterrent study which already had a first half positive read out. The second half is expected in 2Q14. The PK and bioequivalence studies (compared to MS Contin) are expected to read out in 4Q14 with the category 2 & 3 abuse-deterrent studies in late 3Q14/early 4Q14. Management believes they will file the NDA in 4Q14. EGLT-002, which is an abuse-deterrent, extended release oral oxycodone formulation should read out its category 2 & 3 abuse-deterrent study in 1Q15 and management plans to initiate the first of two pivotal Phase 3 trials 4Q14 and 1Q15, respectively.
- **The opioid abuse epidemic:** There can be no doubt that the topic of opioid abuse is a front and center priority for not just doctors, but also the regulators at the FDA who are feeling the pressure not just from local, but from the highest levels of government office. Long acting morphine had 7.1M RXs last year generating \$560M in sales (heavily generic) and oxycodone generated 6.2M with sales of \$2.8B. We believe that the current market environment is ripe for the introduction of EGLT-001 & 002 with potential market sales of \$225M and \$305M respectively by 2020, those these figures may be conservative.
- **Maintain Buy rating, \$30 fair value:** We value US sales of Egalet abuse-deterrent opioids at \$28/share based on a 4x multiple of 2019 US sales of \$475M discounted 5 years at 30%. Our remaining \$2/share value is based on cash (end of 2014) and technology value.

**Research Analyst Certifications and Important Disclosures are on pages 3 - 4 of this report**

## EXHIBIT 1:

Egalet

Quarterly income statement

	2012 Year	2013A				2013A Year	2014E				2014E Year
		1QA	2QA	3QA	4QA		1QE	2QE	3QE	4QE	
(\$000 except per share)											
Revenues											
Egalet-001: AD Morphine ER											
Egalet-002: AD Oxycodone ER											
Egalet-003: AD other opioid ER											
Collaborative R&D/Related Party	1,201						256				
Total Revenue	\$1,201	\$0	\$0	\$0	\$0	\$0	\$256	\$0	\$0	\$0	\$256
Expenses:											
Cost of Revenue (COGS)	-										
Gross Margin	1,201	-	-	-	-	0	256	-	-	-	256
Research and development	4,256	963	1,129	1,129	3,060	6,280	2,780	5,250	4,700	6,800	19,530
General and administrative	2,241	855	1,184	1,184	1,650	4,873	3,269	3,300	3,400	3,500	13,469
Total operating expenses	6,497	1,818	2,313	2,313	4,710	11,153	6,049	8,550	8,100	10,300	32,999
Income (loss) from Operations	(5,296)	(1,818)	(2,313)	(2,313)	(4,710)	(11,153)	(5,793)	(8,550)	(8,100)	(10,300)	(32,743)
Interest income (expense), net	(75)	-	(2,221)	(2,222)	(4,399)	(8,842)	(7,092)	(100)	(100)	(100)	(7,392)
FOREX loss	(27)	(22)	(46)	(46)	(77)	(190)	(4)	(10)	(10)	(10)	(34)
Income (loss) before taxes	(5,398)	(1,796)	(4,580)	(4,580)	(9,186)	(20,185)	(12,889)	(8,660)	(8,210)	(10,410)	(40,169)
Income tax exp (benefit)	-	-	-	-	-	22	35	30	30	30	125
Net Income (Loss)	(5,398)	(1,796)	(4,580)	(4,580)	(9,186)	(20,207)	(12,924)	(8,690)	(8,240)	(10,440)	(40,294)
Earning per Share (EPS)	(\$4.18)	(\$1.39)	(\$4.25)	(\$0.63)	(\$0.88)	(\$15.64)	(\$1.34)	(\$0.54)	(\$0.50)	(\$0.63)	(\$2.74)
Adj EPS ex-1x & non-cash items											
Weighted avg. shares (000)	1,292	1,292	1,077	7,319	10,458	1,292	9,638	16,120	16,370	16,620	14,687
Fully diluted shares (000)							9,638	17,870	18,120	18,370	16,000

Source: Company reports and Janney estimates

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## EXHIBIT 2:

Egalet																								
Clinical development trial timelines																								
	2013A				2014E				2015E				2016E				2017E				2018E			
	1QA	2QA	3QA	4QA	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
<b>Egalet-001: abuse deterrent morphine ER; 505(b)(2)</b>																								
Phase 1																								
Bioequivalence & PK studies																								
Tier 1 Abuse-Deterrent Study																								
Tier 2 Abuse-Deterrent Study																								
Tier 3 Abuse-Deterrent Study																								
NDA filing																								
FDA approval & launch (expedited approval likely)																								
<b>Egalet-002: abuse deterrent oxycodone ER; 505(b)(2)</b>																								
Tier 1 abuse deterrent study																								
Tier 2 & 3 abuse deterrent study																								
Phase 1 crossover doses																								
Phase 3 #1 - safety																								
Phase 3 #2 - efficacy																								
NDA filing																								
FDA approval & launch (expedited approval likely)																								
<b>Egalet-003: abuse deterrent opioid #3 ER; 505(b)(2)</b>																								
Phase 1																								
Phase 3 trials																								
NDA filing																								
FDA approval & launch (expedited approval likely)																								

Source: Company reports and Janney estimates

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## **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.

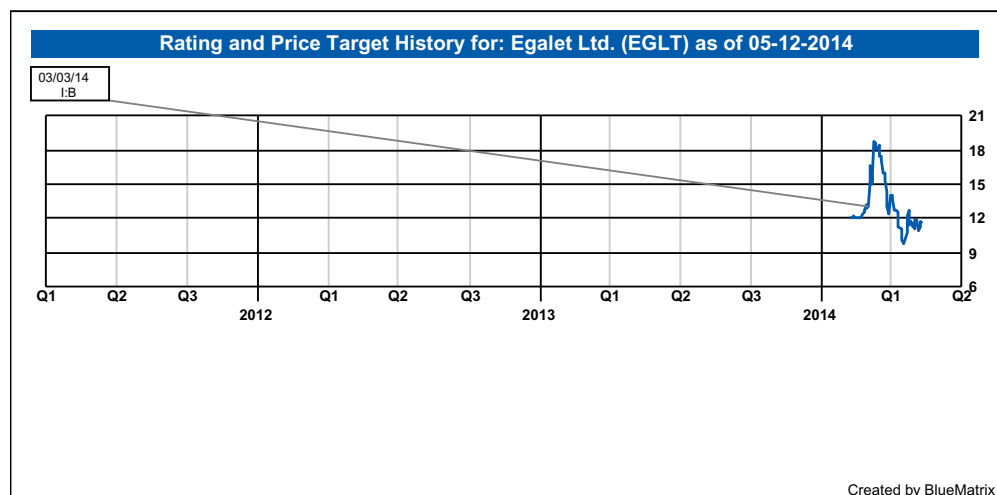
### **Definition of Ratings**

**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**



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### **Janney Montgomery Scott Ratings Distribution as of 3/31/14**

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B]	218	51.12	44	20.18
NEUTRAL [N]	205	48.12	21	10.24
SELL [S]	3	0.70	0	0.00

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

#### **Other Disclosures**

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