Company Update
January 22, 2015
SPECIALTY PHARMACEUTICALS

Equity Research

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Eagle Pharmaceuticals Inc. (EGRX-$16.73)

Rating: BUY

Target Price: $30.00

Additional Conviction Post-Management Meeting; Maintain BUY and $30 PT

REV	1Q	2Q	3Q	4Q
2014A	5.5A	5.0A	5.8A	2.8A
2015E	2.5E	3.3E	3.7E	4.2E
2016E	—	—	—	—

EPS	1Q	2Q	3Q	4Q
2014A	(1.44)A	(0.36)A	(0.21)A	(0.65)A
2015E	(0.60)E	(0.59)E	(0.65)E	(0.69)E
2016E	—	—	—	—

FY	2014A	2015E	2016E
REV	19.1A	13.7E	102.0E
P/S	12.3x	17.1x	2.3x
EPS	(1.97)A	(2.53)E	1.68E
P/E	(8.5)x	(6.6)x	10.0x

- **Positive catalyst flow on Treanda/Angiomax expected:** We met with management at a recent investor conference and learned about positive developments in the ongoing Treanda litigation with Teva as described below. Management also expects an update on MDCO's Angiomax appeal versus Hospira in 1Q:15, which we think could be a major catalyst to the stock. The Ryanodex launch has reportedly been strong since hospitals have been ordering larger quantities of product than originally contemplated. We have selected EGRX as our top pick for 2015 and reiterate our BUY rating and $30 PT.
- **'270 patent litigation update:** According to a legal brief filed by Eagle, Teva has maintained that the claims in the '270 patent are broad, covering compositions of bendamustine that have not been, and will never be lyophilized. However, Eagle's legal counsel identified language in this patent's prosecution history that insisted the claimed invention is directed to lyophilized bendamustine (suggesting much narrower patent coverage) and for this reason, management believes that it can prevail in the '270 litigation like it did in the earlier '524 patent case, which was dismissed by Teva. As a recap, Eagle's liquid form of Treanda has received tentative FDA approval for NHL. The Orphan exclusivity for NHL expires in September 2015, and if the company overcomes the ongoing '270 litigation it may be able to launch its rapid-infusion 50 mL liquid Treanda in late 2015, ahead of our 2016 estimates.
- **Angiomax RTU scenarios:** If The Medicines Company can prevail in its Hospira appeal and assure earliest generic entry in May 2019, then Eagle management indicated it can have its ready-to-use Angiomax out in the market in 2H:16 at the earliest (NDA submission in 2Q:15, with a 12-15 month litigation process), which could allow it to split the market with The Medicines Company for approximately 2.5 years, in our view. We currently model a launch in 1H:17. MDCO management expects a legal decision on the Hospira appeal in 2Q:15, and we believe that MDCO has a 50% chance of winning the appeal given that claims construction were part of its litigation.
- **Ryanodex launch update:** Management disclosed that Eagle has signed a 42-hospital group in the Carolinas to switch to Ryanodex. Additionally, we learned that some hospitals are ordering more than 3 vials to stock multiple operating rooms while surgicenters are carrying approximately 1-2 vials. We have been modeling $1.5M in 1Q:FY15 (now to be reported as 4Q:14) Ryanodex sales, which represents roughly 724 vials and think there could be upside to our estimates.

Current Statistics

Market Cap ($Mil)	**$234.8**	**Free Float (%):**	**14.400**
Avg. Daily Trading Volume (3 mo.):	**54,199**		
Shares Out (Mil):	**14.032**		

The Disclosure Section may be found on pages 3 - 4.

Valuation

We value Eagle Pharmaceuticals using a discounted cash flow analysis (DCF). We assume a weighted average cost of capital (WACC) of 13% given the risks associated with generic litigation. We assign a 1% terminal growth rate to the company since Eagle has patent estate around several other undisclosed product reformulations and generic applications. We arrive at a $30 price target using this methodology.

Risks

1. Launch delays associated with generic litigation are the chief risk for Eagle, in our view, since early launch timing is critical to the company's success. This risk is especially prominent for the launch of Eagle's RTD Treanda and Angiomax products.
2. Each of the company's reformulated injectable products needs to secure FDA regulatory approval, so there is some degree of clinical risk to the business (although this risk is significantly lower than that for new chemical entities).
3. Manufacturing issues or supply chain disruptions are another source of risk, and the company already dealt with a supply disruption for argatroban in 2012. We checked on recent FDA inspections of Eagle's manufacturing partners and note that we did not see anything worrisome.
4. Hospital decision makers may become less accessible to drug manufacturers, which could adversely impact Eagle's ability to educate hospitals about its products and build demand.

Company Description

Eagle Pharmaceuticals is a specialty pharmaceutical company focused on developing and commercializing reformulated versions of injectable products in the hospital market utilizing the 505(b)(2) pathway.

Companies Mentioned:

Hospira Inc. (HSP - NYSE): NC
Teva Pharmaceutical Industries Limited (TEVA - NYSE): NC
The Medicines Co. (MDCO - NASDAQ): NC

Disclosures Appendix

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BUY: We have a positive outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors add to their position.

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SELL - denotes stocks that we expect to provide a total negative return of more than 15% over a 12 month period. A SELL rated stock is expected to underperform the total average return of the analyst's industry coverage universe on a risk adjusted basis.

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Cantor

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	**92**	**61.33**	**23**	**25.00**
HOLD [H]	**49**	**32.67**	**10**	**20.41**
SELL [S]	**9**	**6.00**	**1**	**11.11**

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